

**REDSTAR GOLD CORP.**  
**(An Exploration Stage Company)**

**Consolidated Financial Statements**

**December 31, 2009**

### **NOTICE OF NO AUDITOR REVIEW**

The accompanying unaudited interim financial statements have been prepared by management and approved by the Audit Committee and Board of Directors.

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim statements by an entity's auditors.

**REDSTAR GOLD CORP.**  
**(An Exploration Stage Company)**  
**Consolidated Balance Sheets**  
**(Unaudited – Prepared by Management)**

|   | December 31,<br>2009<br>(Unaudited) | March 31,<br>2009<br>(Audited) |
|---|-------------------------------------|--------------------------------|
| <b>Assets</b>                                 |                                     |                                |
| <b>Current</b>                                |                                     |                                |
| Cash  | \$ 38,037                           | \$ 21,724                      |
| Marketable securities                         | 1,500,000                           | 15,750                         |
| Accounts receivable                           | 7,606                               | 8,133                          |
| Prepaid expenses and advances                 | 31,807                              | 17,729                         |
|   | 1,577,450                           | 63,336                         |
| <b>Deposit</b>                                | 7,428                               | 7,428                          |
| <b>Mineral Property Interests</b> (note 5)    | 2,846,002                           | 2,607,647                      |
| <b>Property and Equipment, net</b> (note 6)   | 61,625                              | 42,595                         |
|   | \$ 4,492,505                        | \$ 2,721,006                   |
| <b>Liabilities</b>                            |                                     |                                |
| <b>Current</b>                                |                                     |                                |
| Accounts payable and accrued liabilities      | \$ 69,800                           | \$ 92,346                      |
| Due to related parties (note 8)               | 779,776                             | 504,536                        |
|   | 849,576                             | 596,882                        |
| <b>Shareholders' Equity</b>                   |                                     |                                |
| <b>Capital Stock</b> (note 7)                 | 11,014,287                          | 10,805,626                     |
| <b>Contributed Surplus</b>                    | 1,065,796                           | 1,074,110                      |
| <b>Deficit</b>                                | (9,358,337)                         | (9,763,051)                    |
| <b>Accumulated Other Comprehensive Income</b> | 921,183                             | 7,439                          |
|   | 3,642,929                           | 2,124,124                      |
|   | \$ 4,492,505                        | \$ 2,721,006                   |

Nature of Operations and Going Concern (note 1)  
Commitment (note 12)  
Subsequent Event (note 13)

Approved by the Board:

*"J. Patrick Nicol"*  
..... Director  
J. Patrick Nicol

*"Douglas A. Fulcher"*  
..... Director  
Douglas A. Fulcher

**REDSTAR GOLD CORP.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Operations**  
**For the Nine Months Ended December 31**  
**(Unaudited – Prepared by Management)**

|   | For the Three Months ended |            | For the Nine Months ended |            |
|---|----------------------------|------------|---------------------------|------------|
|   | December 31,               |            | December 31,              |            |
|   | 2009                       | 2008       | 2009                      | 2008       |
| <b>Expenses</b>   |                            |            |                           |            |
| Contract wages  | \$ 43,848                  | \$ 39,648  | \$ 132,066                | \$ 124,029 |
| Investor relations  | 48,439                     | 24,479     | 100,244                   | 100,344    |
| Stock-based compensation<br>(note 7(f))                             | 0                          | 26,031     | 75,848                    | 123,187    |
| Rent  | 17,426                     | 17,657     | 61,096                    | 57,182     |
| Professional fees   | 0                          | 0          | 17,520                    | 2,840      |
| Office and miscellaneous  | 9,413                      | 6,260      | 28,920                    | 23,379     |
| Insurance   | 8,276                      | 8,415      | 25,065                    | 23,604     |
| Consulting  | 5,300                      | 11,300     | 15,900                    | 38,853     |
| Telephone   | 1,645                      | 1,775      | 4,605                     | 6,522      |
| Regulatory fees   | 2,700                      | 0          | 7,506                     | 4,976      |
| Transfer agent fees   | 1,732                      | 1,258      | 4,443                     | 5,707      |
| Amortization  | 5,121                      | 3,134      | 10,877                    | 9,224      |
|   | 143,900                    | 139,957    | 484,090                   | 519,847    |
| <b>Other Expenses (Income)</b>                                      |                            |            |                           |            |
| Gain on sale of marketable<br>securities                            | (11,350)                   | 0          | (21,819)                  | 0          |
| Gain on sale of mineral property<br>interests                       | (934,000)                  | 0          | (934,000)                 | 0          |
| Mineral property interests<br>(recovered)                           | (42,503)                   | 0          | (42,503)                  | 0          |
| Foreign exchange loss   | 2,049                      | (645)      | 3,223                     | 733        |
| Interest income   | 0                          | (65)       | 0                         | (859)      |
|   | (985,804)                  | (710)      | (995,099)                 | (126)      |
| <b>Loss Before Income Tax</b>                                       | (841,904)                  | 139,247    | (511,009)                 | 519,721    |
| Future income tax (recovery)  | 105,631                    | 0          | 106,294                   | 0          |
| <b>Net Loss</b>   | (736,273)                  | 139,247    | (404,715)                 | 519,721    |
| <b>Other Comprehensive Income</b>                                   |                            |            |                           |            |
| Unrealized gain on available-for-<br>sale securities                | 918,182                    | 0          | 921,183                   | 0          |
| <b>Comprehensive Loss (Income)<br/>for the Period</b>               | \$ (1,654,455)             | \$ 139,247 | \$ (1,325,898)            | \$ 519,721 |
| <b>Loss (Income) Per Share, Basic<br/>and Diluted</b>               | \$ (0.02)                  | \$ 0.00    | \$ (0.01)                 | \$ 0.01    |
| <b>Weighted Average Number of<br/>Common Shares<br/>Outstanding</b> | 49,605,844                 | 48,983,348 | 49,605,844                | 48,983,348 |

See notes to consolidated financial statements.

**REDSTAR GOLD CORP.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Shareholders' Equity**  
**For the Nine Months Ended December 31, 2009**  
**(Unaudited – Prepared by Management)**

|   | Number of<br>Shares | Capital<br>Stock | Contributed<br>Surplus | Deficit        | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Shareholders'<br>Equity |
|---|---------------------|------------------|------------------------|----------------|--|----------------------------------|
| Balance, March 31, 2008   | 48,198,348          | 10,622,046       | 1,016,198              | (9,207,250)    | 0  | 2,430,994                        |
| Net loss for year   | 0                   | 0                | 0                      | (555,801)      | 0  | (555,801)                        |
| Unrealized gain on available-for<br>sale securities, net of future<br>income taxes of \$1,111 | 0                   | 0                | 0                      | 0              | 7,439  | 7,439                            |
| Common shares issued for cash   |                     |                  |                        |                |  |                                  |
| Exercise of stock options   | 735,000             | 91,500           | 0                      | 0              | 0  | 91,500                           |
| Exercise of warrants  | 50,000              | 15,000           | 0                      | 0              | 0  | 15,000                           |
| Fair value of stock options<br>exercised  | 0                   | 77,080           | (77,080)               | 0              | 0  | 0                                |
| Stock-based compensation<br>expense (note 7(f))   | 0                   | 0                | 134,992                | 0              | 0  | 134,992                          |
| Balance, March 31, 2009   | 48,983,348          | \$ 10,805,626    | \$ 1,074,110           | \$ (9,763,051) | \$ 7,439   | \$ 2,124,124                     |
| Net loss for year   | 0                   | 0                | 0                      | 404,714        | 0  | 404,714                          |
| Gain on available-for-sale<br>securities, net of future income<br>taxes of \$106,295          | 0                   | 0                | 0                      | 0              | 913,744  | 913,744                          |
| Common shares issued for cash   |                     |                  |                        |                |  |                                  |
| Exercise of stock options   | 1,245,000           | 124,500          | 0                      | 0              | 0  | 124,500                          |
| Fair value of stock options<br>exercised  | 0                   | 84,162           | (84,162)               | 0              | 0  | 0                                |
| Fair value of shares returned to<br>treasury  | (7)                 | (1)              | 0                      | 0              | 0  | (1)                              |
| Stock-based compensation<br>Expense (note 7(f))   | 0                   | 0                | 75,848                 | 0              | 0  | 75,848                           |
| Balance, December 31, 2009  | 50,228,341          | \$ 11,014,287    | \$ 1,065,796           | \$ (9,358,337) | \$ 921,183   | \$ 3,642,929                     |

**REDSTAR GOLD CORP.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Cash Flows**  
**For the Nine Months Ended December 31**  
**(Unaudited – Prepared by Management)**

|   | For the Three Months ended<br>December 31, |              | For the Nine Months ended<br>December 31, |              |
|---|--|--------------|---|--------------|
|   | 2009                                       | 2008         | 2009                                      | 2008         |
| <b>Operating Activities</b>                 |  |              |   |              |
| Net loss                                    | \$ 736,273                                 | \$ (139,247) | \$ 404,714                                | \$ (519,721) |
| Items not involving cash                    |  |              |   |              |
| Amortization                                | 5,121                                      | 3,134        | 10,877                                    | 9,224        |
| Stock-based compensation                    | 0  | 20,031       | 75,848                                    | 123,187      |
| Gain on sale of marketable securities       | (11,350)                                   | 0            | (21,819)                                  | 0            |
| Gain on sale of mineral property interests  | (726,503)                                  | 0            | (726,503)                                 | 0            |
| Future income tax (recovery)                | 105,631                                    | 0            | 106,294                                   | 0            |
|   | 109,172                                    | (110,082)    | (150,589)                                 | (387,310)    |
| Changes in non-cash working capital         |  |              |   |              |
| Accounts receivable                         | 1,782                                      | 2,282        | (20,041)                                  | 4,918        |
| Prepaid expenses and advances               | (12,027)                                   | (12,224)     | (14,078)                                  | (6,613)      |
| Accounts payable and accrued liabilities    | (31,712)                                   | 125,154      | (20,069)                                  | 256,110      |
| Due to related parties                      | (66,293)                                   | 0            | 272,874                                   | 0            |
| Due to/from joint venturer                  | (206)                                      | 1,594        | 2,307                                     | 122,562      |
|   | (108,456)                                  | 116,806      | 220,993                                   | 376,977      |
| <b>Cash Used in Operating Activities</b>    | 716  | 6,724        | 70,404                                    | (10,333)     |
| <b>Investing Activities</b>                 |  |              |   |              |
| Expenditures on mineral property            | (1,110,572)                                | (1,332,811)  | (1,516,859)                               | (2,682,264)  |
| Recoveries on mineral property              | 1,068,791                                  | 1,371,579    | 1,346,657                                 | 2,556,306    |
| Acquisition of mineral property             | (62,477)                                   | (48,969)     | (25,650)                                  | (55,379)     |
| Acquisition of property and equipment       | (29,908)                                   | (566)        | (29,908)                                  | (17,628)     |
| Proceeds from sale of marketable securities | 29,500                                     | 0            | 47,169                                    | 0            |
| <b>Cash Used in Investing Activities</b>    | (104,666)                                  | (10,767)     | (178,591)                                 | (198,965)    |
| <b>Financing Activity</b>                   |  |              |   |              |
| Issuance of capital stock for cash          | 109,500                                    | 0            | 124,500                                   | 106,500      |
| Marketable securities                       | 0  | (7,200)      | 0   | (7,200)      |
|   | 109,500                                    | (7,200)      | 124,500                                   | 99,300       |
| <b>Increase (Decrease) in Cash</b>          | 5,550                                      | (11,243)     | 16,313                                    | (109,998)    |
| <b>Cash, Beginning of Period</b>            | 32,487                                     | 61,069       | 21,724                                    | 159,824      |
| <b>Cash, End of Period</b>                  | \$ 38,037                                  | \$ 49,826    | \$ 38,037                                 | \$ 49,826    |

Supplemental Disclosure with Respect to Cash Flows (note 11)

See notes to consolidated financial statements.

**1. NATURE OF OPERATIONS AND GOING CONCERN**

Redstar Gold Corp. (the “Company”) is an exploration stage company engaged principally in the acquisition, exploration and development of mineral property interests.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Several adverse conditions cast substantial doubt on the validity of this assumption. The Company has incurred significant operating losses over the past several fiscal years, is currently unable to self-finance operations, has a working capital of \$727,874 (2008 - working capital deficit of \$485,349), an accumulated deficit of \$9,358,937 (2008 - \$9,726,971), limited resources, no source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its mineral property interests. The Company does not have sufficient working capital to meet its financial obligations, administrative overhead costs and to continue exploration work on its mineral property interests in 2010.

The application of the going concern concept is dependent upon the Company’s ability to receive continued financial support from its shareholders and generate future profitable operations. Management is actively seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost cutting measures. There can be no assurance that management’s plan will be successful.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead and maintain its mineral property interests. The recoverability of amounts shown for mineral property interests is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of mineral interests.

These consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and reflect the following policies.

(a) Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiary, Redstar Gold USA Inc. All intercompany balances and transactions have been eliminated.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(b) Mineral property interests

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and deferred exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse. All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property interest exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property interest for an amount exceeding the deferred costs, provision is made for the impairment in value.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the property interests are abandoned or the claims allowed to lapse.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded until the payments are made or received.

(c) Property and equipment

Equipment is recorded at cost and is amortized using a declining-balance method at an annual rate of 20% for office equipment and 30% for computer equipment and 30% for automobiles. Leasehold improvements are amortized on a straight-line basis over the term of the lease. Additions during the year are amortized at one-half the annual rates.

(d) Capital stock

Capital stock issued for non-monetary consideration is recorded at fair market value pursuant to the agreement to issue shares as determined by the board of directors of the Company based on the trading price of the shares on the TSX Venture Exchange.

(e) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings per share. Under this method, the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(f) Foreign currency translation

Amounts recorded in foreign currency are translated into Canadian dollars as follows: monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates; and revenues and expenses and exploration and development items, at the average rate of exchange on a quarterly basis. Gains and losses arising from this translation of foreign currency are included in operations.

(g) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of expenses during the reporting period. Significant areas requiring the use of estimates include the rates of amortization for property and equipment, the recoverability of mineral property interests, balances of accrued liabilities, determination of asset retirement and environmental obligations, the assumptions used in the determination of the fair value of stock-based compensation and the determination of the valuation allowance for future income tax assets. While management believes the estimates used are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(h) Asset retirement obligations (“ARO”)

The Company recognizes an estimate of the liability associated with an ARO in the consolidated financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material AROs to record in the consolidated financial statements.

(i) Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees, and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or mineral property interests, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(j) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the consolidated financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(k) Financial instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Financial instruments classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition. When a decline in the fair value of an available-for-sale financial asset has been recognized in comprehensive income, and there is objective evidence that the impairment is other than temporary, the cumulative loss that had been previously recognized in accumulated other comprehensive income is removed from accumulated other comprehensive income and recognized in net income even though the financial asset has not been de-recognized.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

The fair value of substantially all marketable securities is determined by quoted market prices.

(l) Comprehensive income

Comprehensive income or loss is defined as the change in equity from transactions and other events from sources other than the Company's shareholders that are excluded from the calculation of net income (loss) calculated in accordance with Canadian GAAP.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(m) Adoption of new accounting standards

Effective April 1, 2008, the Company adopted the following standards of the Canadian Institute of Chartered Accountants (“CICA”) Handbook.

(i) Capital Disclosures (Section 1535)

Section 1535 specifies the disclosure of: (i) an entity’s objectives, policies and procedures for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

As a result of the adoption of this standard, additional disclosure on the Company’s capital management strategy has been included in note 4.

(ii) Financial Instruments – Disclosures and Financial Instruments – Presentation

Sections 3862 and 3863 replace Handbook Section 3861, “Financial Instruments – Disclosures and Presentation”, revising its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity’s financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

As a result of the adoption of these standards, additional disclosures on the risks of certain financial instruments have been included in note 3.

(iii) Amendments to Section 1400 – Going Concern

CICA Section 1400, “General Standards of Financial Statement Presentation”, was amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. When financial statements are not prepared on a going concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going concern. The Company’s accounting policies were already in accordance with the requirements of the amended section and there was no effect on the Company’s consolidated financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(m) Adoption of new accounting standards (Continued)

(iv) EIC-172, Income Statement Presentation of a Tax Loss Carryforward Recognized Following an Unrealized Gain Recorded in Other Comprehensive Income

In August 2008, the Emerging Issues Committee ("EIC") of the CICA issued EIC-172, "Income Statement Presentation of a Tax Loss Carryforward Recognized Following an Unrealized Gain Recorded in Other Comprehensive Income", which clarifies that this tax benefit should be recognized in net income. EIC-172 is to be applied retrospectively with restatement of prior periods from the date of adoption of Section 3855 in interim and annual financial statements ending on or after September 30, 2008. The Company has applied this standard in accounting for the recognition of tax loss carryforwards consequent to the recording of unrealized gains on its available-for-sale securities.

(n) Future accounting changes

(i) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The IFRS standards will be effective for the Company for interim and fiscal period reporting commencing April 1, 2011. The effective date will require the restatement for comparative purposes of amounts reported by the Company for interim periods and for the year ended March 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

(ii) Business Combinations

In January 2009, the CICA issued Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently.

**REDSTAR GOLD CORP.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**For the Nine Months Ended December 31, 2009**  
**(Unaudited – Prepared by Management)**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(n) Future accounting changes (Continued)

(iii) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets". Effective for fiscal years beginning on or after October 1, 2008, this section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior period financial statements will be required. The Company does not expect these changes to have an impact on its consolidated financial statements.

**3. FINANCIAL INSTRUMENTS**

The Company has designated its cash as held-for-trading; marketable securities as available for sale; accounts receivable as loans and receivables; deposit as held-to-maturity; and accounts payable and accrued liabilities and due to related parties as other financial liabilities.

(a) Fair value

The carrying values of cash, accounts receivable, marketable securities, deposit, accounts payable and accrued liabilities, and due to related parties approximate their fair values due to the short-term maturity of these financial instruments.

(b) Credit risk

The Company is exposed to credit risk with respect to its cash and accounts receivable. The credit risk associated with cash is minimal as cash has been placed with major financial institutions. The Company is not exposed to significant credit risk with respect to accounts receivable as the amount due is from a joint venture partner.

Concentration of credit risk exists with respect to the Company's cash as all amounts are held at a single major Canadian financial institution and a single major American financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows:

|                     | <b>2009</b>      | <b>2008</b>      |
|---------------------|------------------|------------------|
| Cash                | \$ 38,037        | \$ 49,826        |
| Accounts receivable | 7,606            | 6,145            |
|                     | <b>\$ 45,643</b> | <b>\$ 55,971</b> |

**3. FINANCIAL INSTRUMENTS (Continued)**

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet commitments. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At December 31, 2009, the cash balance of \$38,037 (2008 - \$49,826) is insufficient to meet the business requirements for the coming year. Therefore, the Company will be required to raise additional capital or sell one or more mineral property interest in order to fund its operations in 2010. At December 31, 2009, the Company had accounts payable and accrued liabilities and due to related parties of \$849,576 (2008 - \$581,253) which are due in the fourth quarter of fiscal 2010.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate, foreign currency and other price risk.

(i) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

(ii) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

(iii) Other price risk

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign exchange risk. The Company is exposed to other price risk on its marketable securities to the extent of fluctuations in the current market prices of those securities.

**4. CAPITAL MANAGEMENT**

The Company defines capital as all components of shareholders' equity. The Company has no debt obligations. The board of directors does not establish quantitative return on capital criteria for management due to the nature of the Company's business. The Company has in the past invested its capital in liquid investments to obtain adequate returns. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and returns of unused capital. The Company does not pay dividends and is not subject to any externally imposed capital requirements.

The Company raises capital through the sale of its common shares to fund its corporate and exploration costs. Although the Company has been successful at raising funds in the past through issuance of common shares, it is uncertain whether it will continue this financing due to current economic conditions.

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**5. MINERAL PROPERTY INTERESTS**

At December 31, 2009 and March 31, 2009, expenditures incurred on mineral property interests are as follows:

| <b>Red Lake, Ontario, Canada</b>           |                   | <b>Nevada, USA</b>                           |  |                                      |   |  |                                       |  |                             |                                    |                                       |  |             |              |
|--|-------------------|--|--|--------------------------------------|---|--|---------------------------------------|--|-----------------------------|------------------------------------|---------------------------------------|--|-------------|--------------|
| Newman<br>Todd<br>(note 5(a))              | Nevada<br>General | Dry<br>Gulch<br>(notes 5(c) (ii)<br>and (e)) | North<br>Bullfrog<br>(notes 5(c)<br>(iii) and (d)) | Eagle<br>Basin<br>(note<br>5(c)(iv)) | Painted<br>Hills<br>(notes 5(c)<br>(v) and (d)) | Richmond<br>Summit<br>(notes 5(c)<br>(vi) and (f)) | Root<br>Spring<br>(note<br>5(c)(vii)) | Cooks<br>Creek<br>(note<br>5(c)(viii)) | Oasis<br>(note<br>5(c)(ix)) | Rose-<br>Bush<br>(note<br>5(c)(x)) | Baker<br>Spring<br>(note<br>5(c)(xi)) | Seven<br>Devils<br>(note<br>5(c)(xii)) | Total       |              |
| Acquisition costs for the year             | \$ 0              | \$ 4,842                                     | \$ 0   | \$ 0                                 | \$ 0  | \$ 0   | \$ 0                                  | \$ 0                                   | \$ 31,270                   | \$ 0                               | \$ 5,492                              | \$29,096                               | \$ 70,700   |              |
| Acquisition costs recovered                | 0                 | 0  | 0  | (18,150)                             | 0   | (26,900)   | 0                                     | 0                                      | 0                           | 0                                  | 0                                     | 0                                      | (45,050)    |              |
|  | 0                 | 4,842  | 0  | (18,150)                             | 0   | (26,900)   | 0                                     | 0                                      | 31,270                      | 0                                  | 5,492                                 | 29,096                                 | 25,650      |              |
| Deferred exploration expenditures for year |                   |  |  |                                      |   |  |                                       |  |                             |                                    |                                       |  |             |              |
| Assaying                                   | 29,394            | 6,292  | 0  | 4,809                                | 0   | 75,897   | 0                                     | 0                                      | 364                         | 0                                  | 0                                     | 967                                    | 117,723     |              |
| Consultants                                |                   |  |  |                                      |   |  |                                       |  |                             |                                    |                                       |  |             |              |
| - geology                                  | 105,041           | 70,921                                       | 0  | 19,426                               | 0   | 38,694   | 2,420                                 | 3,290                                  | 5,264                       | 0                                  | 1,649                                 | 4,884                                  | 251,589     |              |
| - geophysical                              | 0                 | 0  | 0  | 0                                    | 0   | 0  | 0                                     | 0                                      | 0                           | 0                                  | 0                                     | 0                                      | 0           |              |
| Contract labour                            |                   | 0  | 0  | 0                                    | 0   | 10,572   | 0                                     | 0                                      | 0                           | 0                                  | 0                                     | 0                                      | 10,572      |              |
| Camp and exploration support               | 54,085            | 2,946  | 0  | 3,735                                | 0   | 11,785   | 0                                     | 0                                      | 28                          | 0                                  | 0                                     | 0                                      | 72,579      |              |
| Drilling                                   | 147,702           | 0  | 0  | 1,085                                | 0   | 8,012  | 599,309                               | 0                                      | 0                           | 0                                  | 0                                     | 0                                      | 756,108     |              |
| Land and tenure                            | 0                 | 0  | 20,015   | 107,561                              | 7,403   | 13,045   | 59,519                                | 8,883                                  | 24,618                      | 12,409                             | 2,635                                 | 0                                      | 256,088     |              |
| Travel and accommodation                   | 15,210            | 12,789                                       | 0  | 2,793                                | 0   | 400  | 0                                     | 196                                    | 652                         | 0                                  | 135                                   | 1,002                                  | 33,177      |              |
| Equipment rental                           | 18,865            | 0  | 0  | 0                                    | 0   | 0  | 0                                     | 0                                      | 0                           | 0                                  | 0                                     | 0                                      | 18,865      |              |
| Road access                                | 0                 | 0  | 0  | 0                                    | 0   | 0  | 0                                     | 0                                      | 0                           | 0                                  | 0                                     | 0                                      | 0           |              |
| Maps and reports                           | 0                 | 152  | 0  | 0                                    | 0   | 0  | 0                                     | 0                                      | 6                           | 0                                  | 0                                     | 0                                      | 158         |              |
|  | 370,297           | 93,100                                       | 20,015   | 139,409                              | 7,403   | 21,057   | 796,176                               | 11,303                                 | 28,104                      | 18,723                             | 2,635                                 | 1,784                                  | 6,853       | 1,516,859    |
| Exploration costs recovered                | (370,081)         | 0  | (11,688)   | (163,762)                            | 0   | (8,012)  | (793,114)                             | 0                                      | 0                           | 0                                  | 0                                     | 0                                      | (1,346,657) |              |
| Net exploration expenditures for year      | 216               | 93,100                                       | 8,327  | (24,353)                             | 7,403   | 13,045   | 3,062                                 | 11,303                                 | 28,104                      | 18,723                             | 2,635                                 | 1,784                                  | 6,853       | 170,202      |
| Total expenditures for year                | 216               | 97,942                                       | 8,327  | (42,503)                             | 7,403   | 13,045   | (23,838)                              | 11,303                                 | 28,104                      | 49,993                             | 2,635                                 | 7,276                                  | 35,949      | 195,851      |
| Mineral property recovery                  | 0                 | 0  | 0  | 42,503                               |   |  |                                       |  |                             |                                    |                                       |  | 42,503      |              |
| Balance, March 31, 2009                    | 1,721,208         | 493,727                                      | 104,591  | 0                                    | 52,407  | 0  | 34,131                                | 45,974                                 | 89,568                      | 57,704                             | 8,337                                 | 0                                      | 0           | 2,607,647    |
| Balance, Dec. 31, 2009                     | \$1,721,424       | \$591,669                                    | \$112,918  | \$ 0                                 | \$ 59,810                                       | \$13,045   | \$ 10,293                             | \$ 57,277                              | \$ 117,672                  | \$107,697                          | \$10,972                              | \$ 7,276                               | \$ 35,949   | \$ 2,846,002 |

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**5. MINERAL PROPERTY INTERESTS (Continued)**

| Red Lake, Ontario, Canada                  |                               | Nevada, USA       |  |  |                                      |   |  |                                       |  |                             |                                    |             |
|--|-------------------------------|-------------------|--|--|--------------------------------------|---|--|---------------------------------------|--|-----------------------------|------------------------------------|-------------|
|  | Newman<br>Todd<br>(note 5(a)) | Nevada<br>General | Dry<br>Gulch<br>(notes 5(c) (ii)<br>and (e)) | North<br>Bullfrog<br>(notes 5(c)<br>(iii) and (d)) | Eagle<br>Basin<br>(note<br>5(c)(iv)) | Painted<br>Hills<br>(notes 5(c)<br>(v) and (d)) | Richmond<br>Summit<br>(notes 5(c)<br>(vi) and (f)) | Root<br>Spring<br>(note<br>5(c)(vii)) | Cooks<br>Creek<br>(note<br>5(c)(viii)) | Oasis<br>(note<br>5(c)(ix)) | Rose-<br>Bush<br>(note<br>5(c)(x)) | Total       |
| Acquisition costs for the year             | \$ 0                          | \$ 4,831          | \$ 0   | \$ 96,658  | \$ 0                                 | \$ 21,284                                       | \$ 0   | \$ 0                                  | \$ 2,637                               | \$ 0                        | \$ 5,961                           | \$ 131,371  |
| Acquisition costs recovered                | 0                             | (18,621)          | 0  | (95,984)   | 0                                    | (21,088)  | 0  | 0                                     | 0                                      | 0                           | 0                                  | (135,693)   |
|  | 0                             | (13,790)          | 0  | 674  | 0                                    | 196   | 0  | 0                                     | 2,637                                  | 0                           | 5,961                              | (4,322)     |
| Deferred exploration expenditures for year |                               |                   |  |  |                                      |   |  |                                       |  |                             |                                    |             |
| Assaying                                   | 44,785                        | 13,900            | 28,578                                       | 303,659  | 0                                    | 0   | 84,489   | 0                                     | 901                                    | 0                           | 0                                  | 476,312     |
| Consultants                                |                               |                   |  |  |                                      |   |  |                                       |  |                             |                                    |             |
| - geology                                  | 0                             | 108,683           | 22,155                                       | 70,432   | 528                                  | 2,428   | 75,500   | 0                                     | 4,940                                  | 6,863                       | 0                                  | 291,529     |
| - geophysical                              | 0                             | 0                 | 6,628  | 0  | 0                                    | 0   | 21,528   | 0                                     | 0                                      | 0                           | 0                                  | 28,156      |
| Contract labour                            | 3,900                         | 0                 | 11,042                                       | 2,496  | 0                                    | 0   | 44,296   | 0                                     | 0                                      | 0                           | 0                                  | 61,734      |
| Camp and exploration support               | 5,869                         | 4,391             | 8,592  | 34,140   | 0                                    | 343   | 24,025   | 0                                     | 425                                    | 0                           | 0                                  | 77,785      |
| Drilling                                   | 3,837                         | 0                 | 330,344                                      | 170,584  | 0                                    | 388   | 853,414  | 0                                     | 0                                      | 0                           | 0                                  | 1,358,567   |
| Land and tenure                            | 783                           | 2,485             | 30,523                                       | 179,267  | 10,674                               | 43,895  | 40,759   | 9,192                                 | 21,799                                 | 7,428                       | 2,376                              | 349,181     |
| Travel and accommodation                   | 12,494                        | 23,249            | 8,894  | 5,871  | 0                                    | 544   | 24,493   | 0                                     | 1,478                                  | 688                         | 0                                  | 77,711      |
| Equipment rental                           | 7,626                         | 0                 | 0  | 4,910  | 0                                    | 7,536   | 0  | 0                                     | 0                                      | 0                           | 0                                  | 20,072      |
| Road access                                | 0                             | 0                 | 2,672  | 0  | 0                                    | 0   | 50,711   | 0                                     | 0                                      | 0                           | 0                                  | 53,383      |
| Maps and reports                           | 0                             | 148               | 0  | 0  | 0                                    | 0   | 0  | 0                                     | 0                                      | 0                           | 0                                  | 148         |
|  | 79,294                        | 152,856           | 449,428                                      | 771,359  | 11,202                               | 55,134  | 1,219,215  | 9,192                                 | 29,543                                 | 14,979                      | 2,376                              | 2,794,578   |
| Exploration costs recovered                | 0                             | 0                 | (467,977)                                    | (860,607)  | 0                                    | (76,417)  | (1,216,292)  | 0                                     | 0                                      | 0                           | 0                                  | (2,621,293) |
| Net exploration expenditures for year      | 79,294                        | 152,856           | (18,549)                                     | (89,248)   | 11,202                               | (21,283)  | 2,923  | 9,192                                 | 29,543                                 | 14,979                      | 2,376                              | 173,285     |
| Total expenditures for year                | 79,294                        | 139,066           | (18,549)                                     | (88,574)   | 11,202                               | (21,087)  | 2,923  | 9,192                                 | 32,180                                 | 14,979                      | 8,337                              | 168,963     |
| Balance, March 31, 2008                    | 1,641,914                     | 354,661           | 123,140                                      | 61,845   | 41,205                               | 0   | 31,208   | 36,782                                | 57,388                                 | 42,725                      | 0                                  | 2,390,868   |
|  | 1,721,208                     | 493,727           | 104,591                                      | (26,729)   | 52,407                               | (21,087)  | 34,131   | 45,974                                | 89,568                                 | 57,704                      | 8,337                              | 2,559,831   |
| Mineral property interest recovery         | 0                             | 0                 | 0  | 26,729   | 0                                    | 21,087  | 0  | 0                                     | 0                                      | 0                           | 0                                  | 47,816      |
| Balance, March 31, 2009                    | \$1,721,208                   | \$493,727         | \$104,591                                    | \$ 0   | \$ 52,407                            | \$ 0  | \$ 34,131  | \$ 45,974                             | \$ 89,568                              | \$57,704                    | \$8,337                            | \$2,607,647 |

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**5. MINERAL PROPERTY INTERESTS (Continued)**

(a) Newman Todd Property, Red Lake District, Ontario

In 2007, the Company acquired a 100% interest in the Newman Todd area properties (comprised of several properties) by issuing 700,000 common shares to the vendor.

The property is subject to a commitment to issue additional common shares as follows:

- (i) Common shares with a deemed value of \$1,000,000 if a mine is placed into production; and
- (ii) Common shares with a deemed value of \$1,000,000 if production from the properties exceeds 250,000 ounces of gold; and
- (iii) Additional common shares with a deemed value of \$500,000 if production from the Newman Todd and Advance Red Lake properties exceeds 250,000 ounces of gold.

The mineral claims are subject to a 1% net smelter royalty provided that the total net smelter royalties payable on any claims within the property do not exceed 2.75%.

On October 5, 2009, the Company announced it had signed a letter of intent (LOI) setting forth the terms and conditions of a transaction whereby Central Resources Corp. ("Central") can earn up to a 60% undivided interest in the Company's 100% owned Newman Todd property in Red Lake, Ontario.

Under the terms of the LOI agreement Central can earn a 50% interest in the project over a four year period by funding \$4.5 million in exploration and development work and issuing 500,000 shares of Central to the Company.

Under the terms of the LOI agreement Central must spend \$1,000,000 on exploration expenses by September 30, 2010, and an additional \$500,000 by December 31, 2010, followed by \$1,000,000 per year for three years starting in 2011. Central can earn an additional 10% interest in the project by funding \$2,000,000 in exploration and development work and issuing 750,000 shares of Central to the Company by December 31, 2014.

On November 2, 2009, the above arrangements were formalized in an agreement between the Company and Central.

(b) Nevada Exploration Partnership, Nevada

During the year ended March 31, 2005, the Company entered into a letter of agreement (as amended) with AngloGold Ashanti North America Inc. ("AngloGold") for the exclusive right to acquire a copy of AngloGold's Great Basin database. In order to obtain this right, the Company was

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5. required to spend US \$3,000,000 on exploration expenses (incurred) on  
**MINERAL PROPERTY INTERESTS (Continued)**

(b) Nevada Exploration Partnership, Nevada (continued)

Nevada properties and issue to AngloGold 175,000 common shares (issued). Once the Company had spent US \$750,000 on exploration expenses on a property, AngloGold had a one-time right to earn a 60% interest in that property by spending 200% of the expenditures incurred

by the Company within three years after electing to back in.

The agreement was for a term of one-year (expiring March 9, 2006) and, with the consent of both parties and the Company issuing 175,000 common shares to AngloGold, could be renewed for a further one-year term. The Company renewed the agreement for one-year terms as follows:

- 175,000 common shares issued on August 11, 2006 to extend to March 9, 2007;
- 175,000 common shares issued on February 7, 2007 to extend to March 9, 2008; and
- 175,000 common shares issued on March 11, 2008 to extend to March 9, 2009.

In May 2008, the Company completed the acquisition of AngloGold's Great Basin database. As a result, the remaining back-in rights held by AngloGold on Nevada properties were removed unless otherwise noted below.

(c) Nevada Properties

As a result of the Nevada Exploration Partnership with AngloGold, the Company acquired three properties in Nevada.

(i) Pine Nut Property, Douglas County, Nevada

During 2006, the Company entered into two mining leases and four exploration and option agreements as follows:

- (a) The Company entered into a mining lease for a term of 11 years. The advance minimum rent is as follows:
- Upon execution of the agreement - US \$20 per acre (paid);
  - On or before each of the first to fourth anniversary dates - US \$20 per acre (first anniversary payment paid July 7, 2007); and
  - On or before the fifth anniversary date and each anniversary date thereafter - US \$30 per acre.

Half of all minimum rent paid during the first through fifth years shall be credited against and fully recoverable from production royalty in five equal annual amounts over the five-year period beginning on the commencement of production. Minimum rent shall be adjusted for inflation.

**5. MINERAL PROPERTY INTERESTS (Continued)**

(c) Nevada Properties (Continued)

(ii) Pine Nut Property, Douglas County, Nevada (continued)

The mineral properties are subject to a 3% net smelter return royalty if the monthly average gold price is less than or equal to \$300 per ounce, and a 4% net smelter return royalty if the monthly average gold price is greater than \$300 per ounce. The Company retains the right to

purchase back 1.5% of net smelter return royalty for US \$1,000,000.

(b) The Company entered into a mining lease for a term of 10 years. The advance minimum rent, subject to an adjustment for inflation, is as follows:

- Upon execution of the agreement - US \$10,000 (paid);
- Six months after execution of the agreement - US \$10,000 (paid);
- On or before each of the first to fourth anniversary dates - US \$10,000 (first anniversary payment paid July 14, 2006); and
- On or before the fifth anniversary date and each anniversary date thereafter - US \$10,000.

The mineral properties are subject to a 2% net smelter return royalty.

(c) The Company has the right to explore the property for a five-year period, and during the period it has the choice of either purchasing the property outright (subject to a 1% net smelter return royalty) or leasing it for a 10-year renewable term (subject to a 2% net smelter return royalty). For the right to explore, the Company must pay US \$6,200 (paid) and issue common shares having a value of US \$2,300 in year 1 (issued), US \$5,700 and issue common shares having a value of US \$2,300 at the time of issuance in year 2 (US \$8,000 paid including payment in lieu of common shares to be issued), and US \$4,500 in each of years 3, 4 and 5. To purchase the property, the Company must pay US \$150,000, subject on adjustment, and grant a 1% net smelter return royalty. To lease the property, the Company must make minimum advance royalty payments of US \$10,000 per year and grant a 2% net smelter return royalty.

(d) The Company has the right to explore the property for a five-year period, and during the period it has the choice

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- of either purchasing the property outright (subject to a
- 5. MINERAL PROPERTY INTERESTS (Continued)**
- (c) Nevada Properties (Continued)
- (i) Pine Nut Property, Douglas County, Nevada (continued)
- 1% net smelter return royalty) or leasing it for a 10-year renewable term (subject to a 2% net smelter return royalty). For the right to explore, the Company must pay US \$11,125 (paid) and issue common shares having a value of US \$2,000 in year 1 (issued), US \$10,625 (paid) and issue common shares having a value of US \$2,000 (issued) at the time of issuance in year 2, and
- US \$10,000 in each of years 3, 4 and 5. To purchase the property, the Company must pay US \$535,000, subject to an inflation adjustment, and grant a 1% net smelter return royalty. To lease the property, the Company must make minimum advance royalty payments of US \$20,000 per year and grant a 2% net smelter return royalty.
- (e) The Company has the right to explore the property for a five-year period, and during the period it has the choice of either purchasing the property outright (subject to a 1% net smelter return royalty) or leasing it for a 10-year renewable term (subject to a 2% net smelter return royalty). For the right to explore, the Company must pay US \$6,200 in year 1 (paid), US \$5,700 (paid) in year 2, and US \$4,500 in each of years 3, 4 and 5. To purchase the property, the Company must pay US \$310,000, subject to an inflation adjustment, and grant a 1% net smelter return royalty. To lease the property, the Company must make minimum advance royalty payments of US \$10,000 per year and grant a 2% net smelter return royalty.
- (f) The Company has the right to explore the property for a five-year period, and during the period it has the choice of either purchasing the property outright (subject to a 1% net smelter return royalty) or leasing it for a 10-year renewable term (subject to a 2% net smelter return royalty). For the right to explore, the Company must pay US \$6,200 in year 1 (paid), US \$5,700 (paid) in year 2, and US \$4,500 in each of years 3, 4 and 5. To purchase the property, the Company must pay US \$150,000, subject to an inflation adjustment, and grant a 1% net smelter return royalty. To lease the property, the Company must make minimum advance royalty payments of US \$10,000 per year and grant a 2% net smelter return royalty.

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**5. MINERAL PROPERTY INTERESTS (Continued)**

(c) Nevada Properties (Continued)

(i) Pine Nut Property, Douglas County, Nevada (continued)

During 2008, payments were not made and each of the two mining leases and four exploration and option agreements were terminated and, accordingly, interest in the Pine Nut Property was written off in 2008.

The Company no longer holds any claims (2008 – 21 claims) on the property.

(ii) Dry Gulch Property, Elko County, Nevada

The Dry Gulch Property consists of 209 staked claims near Elko County, Nevada. In 2008, AngloGold agreed to relinquish its

back-in right on the Dry Gulch Property in exchange for a 2% net smelter return royalty.

(iii) North Bullfrog Property, Nye County, Nevada

During the year ended March 31, 2007, the Company entered into five mining leases to purchase a 100% interest in mineral claims. The Company will grant a production royalty of 2% to 4% of net smelter returns to each vendor. To maintain the leases, the Company must make minimum advance royalty payments of US \$32,300 (paid for 2009 and 2008) per annum on each of the first three anniversaries and US \$37,700 per annum thereafter. The Company has the right at any time while the agreements are in effect to purchase the production royalty for US \$850,000 to US \$1,000,000 per 1% and may purchase the entire royalty.

The Company has also acquired the following property interests in Nevada:

(iv) Eagle Basin Property, Lander County, Nevada

The Eagle Basin Property consists of 72 claims acquired through staking near Lander County, Nevada. In 2009, AngloGold agreed to relinquish its back-in right on the Eagle Basin Property in exchange for a 2% net smelter return royalty.

(v) Painted Hills Property, Humboldt County, Nevada

The Painted Hills Property consists of 301 claims acquired through staking near Humboldt County, Nevada.

(vi) Richmond Summit Property, Eureka County, Nevada

The Richmond Hill Property consists of 72 claims acquired through staking in Eureka County, Nevada. In 2008, AngloGold agreed to relinquish its back-in right on the Richmond Summit Property in exchange for a 2% net smelter return royalty.

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**5. MINERAL PROPERTY INTERESTS (Continued)**

(c) Nevada Properties (Continued)

(vii) Root Spring Property, Pershing County, Nevada

The Root Spring Property consists of 62 claims acquired through staking near Winnemucca, Nevada. In 2009, AngloGold agreed to relinquish its back-in right on the Root Spring Property in exchange for a 2% net smelter return royalty.

(viii) Cooks Creek Property, Lander County, Nevada

The Cooks Creek Property consists of 148 (2008 – 168) claims acquired through staking near the town of Battle Mountain, Nevada. In 2009, AngloGold agreed to relinquish its back-in right on the Cooks Creek Property in exchange for a 2% net smelter return royalty.

(ix) Oasis Property, Esmeralda County, Nevada

The Oasis Property consists of 50 claims acquired through staking. In 2009, AngloGold agreed to relinquish its back-in right on the Oasis Property in exchange for a 2% net smelter return royalty.

(x) Rosebush Property, Lander County, Nevada

The Rosebush Property consists of 16 claims acquired by staking near the town of Goldfield, Nevada.

(xi) Seven Devils Property, Pershing County, Nevada

The Seven Devils Property consists of 54 claims acquired through staking and 16 leased claims.

(xii) Baker Spring Property, Elko County, Nevada

The Baker Spring Property consists of 22 claims acquired through staking.

(xiii) **Queens Property**

(xiv) **Opal Hill Property**

(d) Letter of Intent, North Bullfrog and Painted Hills Properties

In March 2007, the Company entered into a binding letter of intent (“LOI”) with International Tower Hills Mines Ltd. (“ITH”) to enter into a joint venture in the North Bullfrog and Painted Hills projects in Nevada. The terms of the LOI are as follows:

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**5. MINERAL PROPERTY INTERESTS (Continued)**

(d) Letter of Intent, North Bullfrog and Painted Hills Properties (continued)

(i) ITH will have the right to earn up to a 70% interest in the properties by making a series of payments and work commitments over four years.

(ii) Consideration for the North Bullfrog Property consists of cash payments totaling US \$190,000 and total expenditures of US \$4,000,000 over four years.

(a) Cash payments are due as follows:

- On signing (received April 18, 2007) - US \$20,000;
- On or before September 15, 2008 - US \$30,000 (received);
- On or before March 15, 2009 - US \$40,000 (received);
- On or before March 15, 2010 - US \$50,000; and
- On or before March 15, 2011 - US \$50,000.

(b) Total cumulative expenditures to be incurred are as follows:

- On or before March 15, 2008 - US \$500,000 (spent);
- On or before March 15, 2009 - US \$1,000,000 (spent);
- On or before March 15, 2010 - US \$2,000,000; and
- On or before March 15, 2011 - US \$4,000,000.

(iii) Consideration for the Painted Hills Property consists of total payments of US \$170,000 and total expenditures of US \$2,500,000 over four years.

(a) Cash payments are due as follows:

- On signing (received April 18, 2007) - US \$20,000;
- On or before September 15, 2008 - US \$20,000 (received);
- On or before March 15, 2009 - US \$30,000;
- On or before March 15, 2010 - US \$50,000; and
- On or before March 15, 2011 - US \$50,000.

(b) Total cumulative expenditures to be incurred are as follows:

- On or before March 15, 2008 - US \$250,000 (spent);
- On or before March 15, 2009 - US \$750,000 (spent);
- On or before March 15, 2010 - US \$1,500,000; and
- On or before March 15, 2011 - US \$2,500,000.

ITH notified the Company on March 9, 2009 that it withdrew from the Painted Hills property agreement.

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**5. MINERAL PROPERTY INTERESTS (Continued)**

- (d) Letter of Intent, North Bullfrog and Painted Hills Properties (Continued)
- (iv) ITH will provide the Company with 5,000 shares of its common stock on each anniversary the North Bullfrog agreement is in place (April 18, 2008 shares were received December 22, 2008 and April 18, 2009 shares were received May 12, 2009).
- (v) AngloGold had a one-time back-in right on the two projects to earn a 60% interest after the first US \$750,000 was spent. This was not exercised and has lapsed.
- (vi) During 2008, ITH entered into a binding LOI to lease the Mayflower property, which consists of 11 patented mining claims and is part of the North Bullfrog Property.
- (vii) During 2009, the Company entered into an agreement to lease the Connection property, which consists of 12 patented mining claims and is part of the North Bullfrog Property. Payments due are as follows:
- On signing - US \$10,800 (paid);
  - Per annum on each of the first three anniversaries - US \$10,800; and
  - Annually thereafter - US \$16,200.
- The Company has an option to purchase the property for US \$1,000,000 at any time during the life of the lease.
- The property is subject to a 4% NSR that may be purchased for US \$5,000,000.
- The Company also staked 15 additional claims in 2009.
- With the additions, the North Bullfrog Property now consists of 199 (2008 – 172) claims and 5 mining leases held by the Company and ITH under the joint venture.
- On July 30, 2009 the Company signed an agreement with International Tower Hill Mines Ltd. (“ITH”) for the sale of the North Bullfrog property in Nevada. Under the terms of the sale agreement, ITH will pay the Company \$934,000 in cash and shares to earn 100% of Company’s interest in the property. The payment includes \$250,000 in cash (received) and 200,000 ITH shares at a deemed value of \$3.42 (received).

- (e) Letter of Intent, Dry Gulch Property

In March 2008, the Company entered into a binding LOI with Gold Fields Netherlands Services BV (“Gold Fields”) to enter into a joint venture in the Dry Gulch Property in Nevada. The terms of the LOI are as follows:

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**5. MINERAL PROPERTY INTERESTS (Continued)**

- (e) Letter of Intent, Dry Gulch Property (continued)
- (i) Gold Fields will pay the Company US \$20,000 on signing of the agreement (received); and
  - (ii) Gold Fields will incur a minimum work commitment of US \$400,000 by December 21, 2008 (spent).
  - (iii) Once the above has been paid and spent, Gold Fields will have the option to enter into a joint venture agreement if certain conditions are met. The terms of the joint venture agreement are:
    - (a) Gold Fields will pay the Company a further US \$170,000 as follows:
      - (i) On or before December 21, 2008 - US \$30,000;
      - (ii) On or before December 21, 2009 - US \$45,000;
      - (iii) On or before December 21, 2010 - US \$70,000; and
      - (iv) On or before December 31, 2011 - US \$25,000.
    - (b) Gold Fields will incur a further work commitment of US \$1,600,000 by December 21, 2011.
  - (iv) After completion of the above, Gold Fields will have the option to earn a 60% interest in the joint venture for a nominal price and continue the joint venture for a second phase, comprised of Gold Fields spending an additional US \$5,000,000 and providing Gold Fields an option to earn an additional 10% interest in the joint venture, for a total of 70%. At the end of the second phase, the Company can elect to participate in the project going forward by contributing in proportion to its 30% interest.

On December 10, 2008, Gold Fields notified the Company that it would not exercise its option to enter into a joint venture agreement and it withdrew from the LOI and the Dry Gulch Property project having satisfied and fully discharged all of its commitments to December 21, 2008.

(f) Letter of Intent, Richmond Summit Property

In March 2008, the Company entered into a binding LOI with Gold Fields to enter into a joint venture in the Richmond Summit Property in Nevada. The terms of the LOI are as follows:

- (i) Gold Fields will pay the Company US \$35,000 on signing of the agreement (received).
- (ii) Gold Fields will incur a minimum work commitment of US \$1,000,000 by December 21, 2008 (spent).

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**5. MINERAL PROPERTY INTERESTS (Continued)**

- (f) Letter of Intent, Richmond Summit Property (continued)
- (iii) Once the above has been paid and spent, Gold Fields will have the option to enter into a joint venture agreement if certain conditions are met. The terms of the joint venture agreement are:
  - (a) Gold Fields will pay the Company a further US \$255,000 as follows:
    - (i) On or before December 21, 2008 - US \$55,000;
    - (ii) On or before December 21, 2009 - US \$75,000;
    - (iii) On or before December 21, 2010 - US \$95,000; and
    - (iv) On or before December 21, 2011 - US \$30,000.
  - (b) Gold Fields will incur a further work commitment of US \$2,500,000 by December 21, 2011.
- (iv) After completion of the above, Gold Fields will have the option to earn a 60% interest in the joint venture for a nominal price and continue the joint venture for a second phase, comprised of Gold Fields spending an additional US \$7,500,000 and providing Gold Fields an option to earn an additional 10% interest in the joint venture, for a total of 70%. At the end of the second phase, the Company can elect to participate in the project going forward by contributing in proportion to its 30% interest.

On December 11, 2008, Gold Fields notified the Company that it would not exercise its option to enter into a joint venture agreement and it withdraws from the LOI and the Richmond Summit Property project having satisfied and fully discharged all of its commitments to December 21, 2008.

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**5. MINERAL PROPERTY INTERESTS (Continued)**

(g) Term Sheet, Richmond Summit Property

On July 20, 2009 the Company signed a non-binding term sheet granting Fronteer Development Group Ltd. ("Fronteer") an option to earn a 70% interest in the Richmond Summit Property (the "Property"). In order to acquire the 70% interest, Fronteer must make the following cash payments and incur expenditures on the Property:

- (a) Cash payments to the Company:
  - US \$20,000 on signing of an agreement;
  - US \$50,000 in the second year;
  - US \$75,000 in the third year; and
  - US \$105,000 in the fourth year.
  
- (b) Incur expenditures on the Property:
  - US \$500,000 in the first year;
  - US \$750,000 in the second year;
  - US \$1,000,000 in the third year; and
  - US \$1,000,000 in the fourth year.

On August 25, 2009, the above arrangements were formalized in an agreement between the Company and Fronteer.

(h) Title to mineral property interests

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by an undetected defect.

(i) Realization of assets

The investment in and expenditures on mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Mineral exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

(j) Environmental

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

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**5. MINERAL PROPERTY INTERESTS (Continued)**

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

**6. PROPERTY AND EQUIPMENT**

| <b>2009</b>            |                   |                             |                  |
|------------------------|-------------------|-----------------------------|------------------|
|                        | Cost              | Accumulated<br>Amortization | Net              |
| Computer equipment     | \$ 60,781         | \$ 42,919                   | \$ 17,862        |
| Office equipment       | 25,433            | 13,004                      | 12,429           |
| Leasehold improvements | 9,814             | 5,398                       | 4,416            |
| Automobiles            | 29,101            | 2,183                       | 26,918           |
|                        | <b>\$ 125,129</b> | <b>\$ 63,504</b>            | <b>\$ 61,625</b> |
| <b>2008</b>            |                   |                             |                  |
|                        | Cost              | Accumulated<br>Amortization | Net              |
| Computer equipment     | \$ 61,335         | \$ 36,182                   | \$ 25,153        |
| Office equipment       | 25,202            | 10,057                      | 15,145           |
| Leasehold improvements | 9,814             | 3,435                       | 6,379            |
| Automobiles            | 0                 | 0                           | 0                |
|                        | <b>\$ 96,351</b>  | <b>\$ 49,674</b>            | <b>\$ 46,677</b> |

**7. CAPITAL STOCK**

(a) Authorized

Unlimited common shares without par value

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**7. CAPITAL STOCK (Continued)**

(b) Private placements

During the year ended March 31, 2008, the Company completed a brokered private placement for 12,500,000 units at \$0.20 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant exercisable at \$0.30 to May 30, 2009. Fees and disbursements were \$59,877. The agents received:

- A cash commission of \$26,250;
- 743,750 units with the same terms and conditions as the units described above; and
- 1,250,000 agent compensation options exercisable at \$0.20 to May 30, 2009. Each agent compensation option entitles the agents to purchase one unit with the same terms and conditions as the units described above. The 1,250,000 agent compensation options issued to the agents were fair valued at \$255,000 (note 7(e)).

During the year ended March 31, 2008, the Company issued 175,000 common shares valued at \$45,500 for acquisition of mineral properties.

(c) Share purchase warrants

A summary of the changes in the Company's share purchase warrants is presented below:

|                            | Number of Warrants | Weighted Average Exercise Price |
|----------------------------|--------------------|---------------------------------|
| Balance, March 31, 2007    | 2,085,000          | \$0.25                          |
| Issued                     | 6,626,187          | \$0.30                          |
| Expired                    | (2,085,000)        | \$0.25                          |
| Balance, March 31, 2008    | 6,626,187          | \$ 0.30                         |
| Exercised                  | (50,000)           | \$ 0.30                         |
| Balance, March 31, 2009    | 6,576,187          | \$ 0.30                         |
| Expired                    | (6,576,187)        | \$0.30                          |
| Balance, December 31, 2009 | 0                  |                                 |

The Company has no outstanding share purchase warrants at December 31, 2009.

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**7. CAPITAL STOCK (Continued)**

(d) Stock options

The Company has a 20% fixed stock option plan, which allows the board of directors to grant options to directors, officers, employees and consultants. Under the terms of the option plan, a maximum of 6,754,194 options may be granted.

As at December 31, 2009, the Company had stock options outstanding to directors, employees and consultants for the purchase of up to 4,350,000 common shares as follows:

| Outstanding Number of Options | Exercisable Number of Options | Expiry Date        | Exercise Price |
|-------------------------------|-------------------------------|--------------------|----------------|
| 500,000                       | 500,000                       | February 25, 2010  | \$ 0.20        |
| 840,000                       | 840,000                       | January 4, 2011    | \$ 0.18        |
| 1,025,000                     | 1,025,000                     | May 4, 2012        | \$ 0.25        |
| 485,000                       | 485,000                       | January 18, 2013   | \$ 0.20        |
| 1,500,000                     | 375,000                       | September 16, 2014 | \$ 0.15        |
| <b>5,445,000</b>              | <b>4,320,000</b>              |                    |                |

A summary of the status of the Company's stock options as at December 31, 2009 and changes during the period then ended follows:

|                                     | 2009              |                                 |
|-------------------------------------|-------------------|---------------------------------|
|                                     | Number of Options | Weighted Average Exercise Price |
| Outstanding at March 31, 2009       | 4,095,000         | \$ 0.18                         |
| Granted                             | 1,500,000         | \$ 0.15                         |
| Exercised                           | (1,245,000)       | \$ 0.10                         |
| Expired                             | 0                 | \$ 0.00                         |
| Forfeited                           | 0                 | \$ 0.00                         |
| <b>Outstanding at end of period</b> | <b>4,350,000</b>  | <b>\$ 0.19</b>                  |

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**7. CAPITAL STOCK (Continued)**

(e) Agent compensation options

As at December 31, 2009, the Company had no agent compensation options outstanding.

A summary of the status of the Company's agent compensation options as at December 31, 2009 and changes during the period then ended follows:

|                               | <b>2009</b>       |                                 |
|-------------------------------|-------------------|---------------------------------|
|                               | Number of Options | Weighted Average Exercise Price |
| Outstanding at March 31, 2009 | 1,241,375         | \$ 0.20                         |
| Granted                       | 0                 | \$ 0.00                         |
| Exercised                     | 0                 | \$ 0.00                         |
| Expired                       | (1,241,375)       | \$0.20                          |
| Outstanding at end of period  | 0                 | \$ 0.00                         |

The fair value of the 1,250,000 common shares and 625,000 common share purchase warrants issuable upon the exercise of the agent compensation options have been valued at \$178,250 and \$76,750, respectively, for a total fair value of \$255,000 and included as a reduction to capital stock as a share issue cost. The fair values were estimated using the Black-Scholes option pricing model with the following assumptions:

|                                 | <b>2008</b> |
|---------------------------------|-------------|
| Risk-free interest rate         | 4.57%       |
| Expected dividend yield         | 0           |
| Expected stock price volatility | 112%        |
| Expected life in years          | 2           |

(f) Stock-based compensation

During the period ended December 31, 2009, 1,500,000 options were granted to directors, officer, employees and consultants. The fair value of these stock options is recognized as stock-based compensation expense over the vesting period of the options. The total fair value of these options was calculated at \$245,850, of which \$61,462 has been recognized in 2009; \$122,925 will be recognized in 2010 and \$61,462 in 2011. Also included in the 2009 stock-based compensation expense is \$14,385 relates to the a portion of the fair value of stock options granted in 2008 with vesting periods in 2009.

During the year ended March 31, 2008, 1,600,000 options were granted to directors, officers, employees and consultants. The fair value of these

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**7. CAPITAL STOCK (Continued)**

(f) Stock-based compensation (continued)

stock options is recognized as stock-based compensation expense over the vesting period of the options. The total fair value of these options was calculated at \$290,404, of which \$141,027 was recognized in 2008; \$134,992 was recognized in 2009 and \$14,385 will be recognized in 2010. Also included in the 2008 stock-based compensation expense is \$28,168 representing a portion of the fair value of stock options granted in 2006 with vesting periods in 2008.

Of the \$134,992 of stock-based compensation expense recognized in the year ended March 31, 2009 (2008 - \$169,195), \$19,526 relates to directors and officers (2008 - \$39,890), \$106,141 relates to employees (2008 - \$127,401), and \$9,325 relates to consultants (2008 - \$1,904).

The fair value of stock options granted in 2009 and 2008 is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

|                                 | 2009    | 2008    |
|---------------------------------|---------|---------|
| Risk-free interest rate         | 2.62%   | 3.96%   |
| Expected dividend yield         | 0       | 0       |
| Expected stock price volatility | 183.00% | 113.42% |
| Expected option life in years   | 5       | 5       |

**8. RELATED PARTY TRANSACTIONS**

- (a) The Company conducts the majority of its exploration activities through an exploration services contractor in which a director is a principal. The Company paid or accrued amounts payable to that contractor of \$33,534 (2008 - \$91,048) for exploration costs and, \$289,673 (2008 - \$282,235) to reimburse office and administrative costs. An operating loan was advanced to the Company by the contractor in the amount of \$132,057 (2008 - \$nil) which was repaid during the period. As at December 31, 2009, the Company owed \$773,264 (2008 - \$483,259) to that contractor.
- (b) As at December 31, 2009, the Company owed \$2,146 (2008 - \$2,146) to a company with two directors in common.

The amounts due to related parties are without interest and are due on demand.

These transactions were made in the normal course of operations and are recorded at the exchange amount, being the amount agreed upon by the related parties.

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**9. INCOME TAXES**

The Company has accumulated losses for Canadian income tax purposes of approximately \$2,470,000 that expire as follows:

|      |    |           |
|------|----|-----------|
| 2010 | \$ | 200,000   |
| 2014 |    | 252,000   |
| 2015 |    | 178,000   |
| 2026 |    | 354,000   |
| 2027 |    | 362,000   |
| 2028 |    | 676,000   |
| 2029 |    | 448,000   |
|      | \$ | 2,470,000 |

The Company has accumulated losses for USA income tax purposes of approximately US \$75,000 that expire as follows:

|      |    |        |
|------|----|--------|
| 2021 | \$ | 2,000  |
| 2022 |    | 21,000 |
| 2023 |    | 24,000 |
| 2024 |    | 28,000 |
|      | \$ | 75,000 |

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

|   | <b>2009</b>  | <b>2008</b>  |
|---|--------------|--------------|
|   | 30.88%       | 33.34%       |
| Income tax benefit computed at Canadian statutory rates                 | \$ (171,604) | \$ (328,425) |
| Other taxable items   | 24,705       | 95,068       |
| Other timing differences  | 34,228       | (64,274)     |
| Change in valuation allowance   | 111,356      | 246,256      |
| Change in future income taxes resulting from enacted tax rate reduction | 204          | 51,375       |
|   | \$ (1,111)   | \$ 0         |

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**9. INCOME TAXES (Continued)**

Significant components of the Company's future tax assets and liabilities are as follows:

|   | <b>2009</b> | <b>2008</b> |
|---|-------------|-------------|
| Future income tax assets  |             |             |
| Tax basis of mineral property interests in excess of carrying value | \$ 733,691  | \$ 733,691  |
| Tax basis of equipment in excess of carrying value                  | 13,682      | 10,516      |
| Marketable securities   | (1,111)     | 0           |
| Share issue costs   | 13,436      | 18,175      |
| Non-refundable mining income tax credit                             | 37,433      | 35,391      |
| Non-capital losses carried forward                                  | 661,675     | 567,258     |
| Capital losses carried forward                                      | 31,210      | 31,210      |
|   | 1,490,016   | 1,396,241   |
| Valuation allowance   | (1,490,016) | (1,396,241) |
| Future income tax assets, net                                       | \$ 0        | \$ 0        |

**10. SEGMENTED INFORMATION**

The Company has one operating segment, mineral exploration and development and operates in two geographical segments, Canada and the United States. The net loss and assets identifiable with these geographical areas are as follows:

|                 | <b>2009</b>  | <b>2008</b>  |
|-----------------|--------------|--------------|
| <b>Net Loss</b> |              |              |
| Canada          | \$ 527,751   | \$ 960,705   |
| United States   | 28,050       | 24,374       |
|                 | \$ 555,801   | \$ 985,079   |
| <b>Assets</b>   |              |              |
| Canada          | \$ 1,834,567 | \$ 2,007,183 |
| United States   | 886,439      | 748,954      |
|                 | \$ 2,721,006 | \$ 2,756,137 |

**11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

|   | <b>2009</b> |
|---|-------------|
| Accounts receivable included in mineral property interests  | \$ 5,826    |
| Fair value of shares received on mineral property interests | \$ 18,150   |
| Interest paid during the year                               | \$ 0        |
| Income taxes paid during the year                           | \$ 0        |

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**12. COMMITMENT**

During 2007, the Company and others entered into a lease agreement for the rental of office premises for a six-year period, expiring March 31, 2013. The cost of the entire premises is shared primarily between the Company and four other companies related by a common director. The Company's proportionate share of minimum annual rental payments under this arrangement is as follows:

|      |    |         |
|------|----|---------|
| 2010 | \$ | 48,594  |
| 2011 |    | 28,676  |
| 2012 |    | 26,597  |
| 2013 |    | 26,597  |
|      | \$ | 130,464 |

**13. SUBSEQUENT EVENT**

On October 23, 2009, the Company announced it had reached a settlement agreement with one creditor to re-structure \$400,000 in outstanding debt. The Company settled the outstanding amount through the issuance of 2,000,000 common shares of the Company at a price of \$0.20 per share on January 8, 2010.