

**PLAYFAIR MINING LTD.**

**FINANCIAL STATEMENTS**

**FEBRUARY 28, 2010**

## AUDITORS' REPORT

To the Shareholders of  
Playfair Mining Ltd.

We have audited the balance sheets of Playfair Mining Ltd. as at February 28, 2010 and 2009 and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

May 6, 2010



**PLAYFAIR MINING LTD.**  
**BALANCE SHEETS**  
**AS AT FEBRUARY 28**

	2010	2009
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 2,691	\$ 43,920
Receivables	<u>16,600</u>	<u>47,000</u>
	19,291	90,920
<b>Equipment</b> (Note 3)	2,389	3,090
<b>Mineral properties</b> (Note 4)	<u>9,932,193</u>	<u>9,808,102</u>
	<u>\$ 9,953,873</u>	<u>\$ 9,902,112</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 429,204	\$ 775,442
<b>Future income tax liability</b> (Note 7)	<u>48,209</u>	<u>161,295</u>
	<u>477,413</u>	<u>936,737</u>
<b>Shareholders' equity</b>		
Capital stock (Note 5)	20,934,638	20,197,940
Subscriptions received in advance	-	95,000
Contributed surplus (Note 5)	2,557,563	2,249,339
Deficit	<u>(14,015,741)</u>	<u>(13,576,904)</u>
	<u>9,476,460</u>	<u>8,965,375</u>
	<u>\$ 9,953,873</u>	<u>\$ 9,902,112</u>

**Nature and continuance of operations** (Note 1)

**Subsequent event** (Note 11)

**On behalf of the Board:**

"Donald G. Moore"

Director

"D. Neil Briggs"

Director

The accompanying notes are an integral part of these financial statements.

**PLAYFAIR MINING LTD.**  
**STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS, AND DEFICIT**  
**YEAR ENDED FEBRUARY 28**

	2010	2009
<b>EXPENSES</b>		
Amortization	\$ 701	\$ 919
Directors fees	30,000	-
Filing fees	16,146	13,055
Investor relations	-	52,560
Management fees	-	45,000
Office and miscellaneous	31,517	118,077
Professional fees	55,468	55,566
Rent	36,018	31,477
Shareholder communications	28,752	127,026
Stock-based compensation (Note 5)	308,224	6,090
Telephone	3,901	10,284
Transfer agent and regulatory fees	12,118	11,197
Travel and trade shows	<u>29,078</u>	<u>78,679</u>
<b>Loss before other items and income taxes</b>	<u>(551,923)</u>	<u>(549,930)</u>
<b>OTHER ITEMS</b>		
Interest income	-	6,656
Write-off of mineral properties (Note 4)	<u>-</u>	<u>(64,453)</u>
	<u>-</u>	<u>(57,797)</u>
<b>Loss before income taxes</b>	(551,923)	(607,727)
<b>Future income tax recovery (Note 7)</b>	<u>113,086</u>	<u>235,331</u>
<b>Loss and comprehensive loss for the year</b>	(438,837)	(372,396)
<b>Deficit, beginning of year</b>	<u>(13,576,904)</u>	<u>(13,204,508)</u>
<b>Deficit, end of year</b>	<u>\$ (14,015,741)</u>	<u>\$ (13,576,904)</u>
<b>Basic and diluted loss per share</b>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
<b>Weighted average number of shares outstanding</b>	<u>72,891,000</u>	<u>55,494,688</u>

The accompanying notes are an integral part of these financial statements.

**PLAYFAIR MINING LTD.**  
**STATEMENTS OF CASH FLOWS**  
**YEAR ENDED FEBRUARY 28**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (438,837)	\$ (372,396)
Items not affecting cash:		
Amortization	701	919
Stock-based compensation	308,224	6,090
Future income tax recovery	(113,086)	(235,331)
Write-off of mineral properties	-	64,453
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(1,600)	540,823
Increase (decrease) in accounts payable and accrued liabilities	<u>(2,080)</u>	<u>116,214</u>
Net cash provided by (used in) operating activities	<u>(246,678)</u>	<u>120,772</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mineral properties	(451,973)	(3,686,562)
Government rebates and recoveries	<u>14,490</u>	<u>-</u>
Net cash used in investing activities	<u>(437,483)</u>	<u>(3,686,562)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of common shares	737,195	1,073,670
Share issuance costs	(94,263)	(29,385)
Subscriptions received in advance	<u>-</u>	<u>95,000</u>
Net cash provided by financing activities	<u>642,932</u>	<u>1,139,285</u>
<b>Decrease in cash during the year</b>	(41,229)	(2,426,505)
<b>Cash, beginning of year</b>	<u>43,920</u>	<u>2,470,425</u>
<b>Cash, end of year</b>	<u>\$ 2,691</u>	<u>\$ 43,920</u>

**Supplemental disclosure with respect to cash flows** (Note 8)

The accompanying notes are an integral part of these financial statements.

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

Playfair Mining Ltd. (the “Company”) is an exploration stage company incorporated under the laws of the Province of British Columbia.

The Company is in the process of acquiring and exploring its mineral properties in Canada and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

Continued operations of the Company are dependent on the Company's ability to receive continued financial support, complete public equity financing, or generate profitable operations in the future. The Company is currently working on securing additional financing to meet its needs, however there is no guarantee that these efforts will be successful. In the event that additional financial support is not received or operating profits are not generated, the carrying values of the Company's assets may be adversely affected. The inability to raise additional financing may impact the future assessment of the Company as a going concern. See Note 9 for further disclosure regarding liquidity risk.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Estimates**

The preparation of financial statements in accordance with Canadian GAAP 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 amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. Significant accounts that require estimates relate to the impairment of mineral property interests, estimated useful lives for equipment, valuation of future income taxes, stock-based compensation and valuation of warrants in private placements.

### **Equipment**

Equipment is recorded at cost less accumulated amortization. Amortization is recorded on a declining balance basis at the following annual rates:

Office equipment	20%
Computer equipment	30%

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Mineral properties**

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable mineral reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

**Asset retirement obligations**

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company does not have any significant asset retirement obligations.

**Stock-based compensation**

The Company uses the fair value method whereby the Company recognizes the fair value of compensation costs for the granting of all stock options and direct awards of stock over the vesting period. Any consideration paid by the option holders to purchase shares is credited to capital stock. The Company uses the Black-Scholes option pricing model to determine the fair value of options granted.

**Income taxes**

Income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Flow-through common shares**

Resource expenditure deductions for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. The Company records a future income tax liability and a reduction in capital stock for the estimated tax benefits transferred to shareholders. When the Company renounces flow-through expenditures, a portion of the Company's future income tax assets not recognized in previous years, due to the recording of a valuation allowance, will be recognized as a recovery of future income taxes in the statement of operations.

**Government grants**

The Company periodically receives financial assistance under government incentive programs. Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss 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. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year and does not include outstanding options and warrants. Dilutive loss per share is not presented separately from loss per share as the conversion of outstanding stock options and warrants into common shares would be anti-dilutive.

**Financial instruments**

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial assets are measured at fair value and changes in fair value are recognized in other comprehensive income until the instrument is derecognized or impaired. There were no transitional adjustments as a result of the application of the financial instrument accounting policies. Company has implemented the following classifications for its financial instruments:

- a) Cash has been classified as held-for-trading.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Financial instruments (cont'd...)**

- b) Receivables have been classified as loans and receivables and measured at amortized cost.
- c) Accounts payable and accrued liabilities have been classified as other financial liabilities and are measured at amortized cost.

**New accounting standards**

*Amendment to financial instruments - disclosures*

CICA Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

See Note 9 for relevant disclosures.

*Business combinations, non-controlling interest and consolidated financial statements*

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests” which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of financial statements. Section 1601 is applicable for the Company’s interim and annual financial statements for its fiscal year beginning March 1, 2011. Early adoption of this Section is permitted and all three Sections must be adopted concurrently.

*International financial reporting standards (“IFRS”)*

In February 2008 the Canadian Accounting Standards Board (“AcSB”) announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company will be March 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. The Company has begun assessing the adoption of IFRS for 2011, and is considering the accounting policy choices available under IFRS.

**PLAYFAIR MINING LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2010**

**3. EQUIPMENT**

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office	\$ 26,089	\$ 24,275	\$ 1,814	\$ 26,089	\$ 23,822	\$ 2,267
Computer	33,173	32,598	575	33,173	32,350	823
	<u>\$ 59,262</u>	<u>\$ 56,873</u>	<u>\$ 2,389</u>	<u>\$ 59,262</u>	<u>\$ 56,172</u>	<u>\$ 3,090</u>

**4. MINERAL PROPERTIES**

	Gregory River	Grey River	Granite Lake	Risby, Lened, Clea Properties	Red Wine	Seal Lake	February 28, 2010
<b>Acquisition costs:</b>							
Balance, beginning of year	\$ 61,000	\$ 313,330	\$ 153,240	\$ 1,939,377	\$ -	\$ -	\$ 2,466,947
Additions	-	-	-	5,509	18,780	40,380	64,669
Balance, end of year	<u>61,000</u>	<u>313,330</u>	<u>153,240</u>	<u>1,944,886</u>	<u>18,780</u>	<u>40,380</u>	<u>2,531,616</u>
<b>Exploration costs:</b>							
Balance, beginning of year	453,181	2,065,376	1,894,704	2,927,894	-	-	7,341,155
Advance royalty payment	-	-	-	50,000	-	-	50,000
Assaying	-	-	-	986	-	-	986
Fees & Licenses	-	-	-	10,769	-	-	10,769
Field expenditures	1,926	-	-	-	-	-	1,925
Geological consulting	-	-	-	10,233	-	-	10,232
	<u>1,926</u>	<u>-</u>	<u>-</u>	<u>71,988</u>	<u>-</u>	<u>-</u>	<u>73,912</u>
Government rebate and recoveries	-	(2,146)	(12,344)	-	-	-	(14,490)
Balance, end of year	<u>455,107</u>	<u>2,063,230</u>	<u>1,882,360</u>	<u>2,999,882</u>	<u>-</u>	<u>-</u>	<u>7,400,577</u>
<b>Balance, February 28, 2010</b>	<u>\$ 516,107</u>	<u>\$ 2,376,560</u>	<u>\$ 2,035,600</u>	<u>\$ 4,944,766</u>	<u>\$ 18,780</u>	<u>\$ 40,380</u>	<u>\$ 9,932,193</u>

**PLAYFAIR MINING LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2010**

**4. MINERAL PROPERTIES (cont'd...)**

	Gregory River	Grey River	Granite Lake	Risby, Lened, Clea Properties	February 28, 2009
<b>Acquisition costs:</b>					
Balance, beginning of year	\$ 61,000	\$ 313,330	\$ 172,740	\$ 1,939,377	\$ 2,486,447
Additions	-	-	4,860	-	4,860
Write-off	-	-	(24,360)	-	(24,360)
Balance, end of year	<u>61,000</u>	<u>313,330</u>	<u>153,240</u>	<u>1,939,377</u>	<u>2,466,947</u>
<b>Exploration costs:</b>					
Balance, beginning of year	<u>352,124</u>	<u>1,048,661</u>	<u>1,216,526</u>	<u>901,066</u>	<u>3,518,377</u>
Advance royalty payment	-	-	-	50,000	50,000
Assaying	3,176	26,705	887	14,972	45,740
Drilling	-	448,563	297,130	284,903	1,030,596
Field expenditures	80,382	445,056	305,100	1,627,065	2,457,603
Geological consulting	-	49,800	18,825	33,578	102,203
Metallurgy and geophysics	-	18,796	95,783	-	114,579
Reports	17,499	(17,159)	546	-	886
Travel	-	44,954	-	16,310	61,264
	<u>101,057</u>	<u>1,016,715</u>	<u>718,271</u>	<u>2,026,828</u>	<u>3,862,871</u>
Write-off	-	-	(40,093)	-	(40,093)
Balance, end of year	<u>453,181</u>	<u>2,065,376</u>	<u>1,894,704</u>	<u>2,927,894</u>	<u>7,341,155</u>
<b>Balance, February 28, 2009</b>	<b>\$ 514,181</b>	<b>\$ 2,378,706</b>	<b>\$ 2,047,944</b>	<b>\$ 4,867,271</b>	<b>\$ 9,808,102</b>

**Title to mineral properties**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

**Gregory River property, Canada**

The Company acquired a 100% interest in the Gregory River property located in Newfoundland, Canada in consideration for paying \$10,000 and issuing 1,700,000 common shares valued at \$51,000. The property is subject to a 4% net smelter returns royalty ("NSR"), 2% of which may be purchased by the Company for up to \$2,000,000.

**4. MINERAL PROPERTIES (cont'd...)**

**Grey River property, Canada**

The Company acquired a 100% interest in the Grey River property located in southern Newfoundland, Canada in consideration for paying \$10,000 and issuing 2,300,000 common shares valued at \$299,000. The property is subject to a 4% NSR of which up to 2% may be purchased by the Company for up to \$2,000,000. The Company also acquired a 100% interest in certain claims in the Grey River area via staking at a cost of \$4,330.

**Granite Lake property, Canada**

The Company acquired a 100% interest in certain claims in the Granite Lake area in Newfoundland, Canada, via staking at a cost of \$9,960 and a 100% interest in certain additional mineral claims during fiscal 2008 at a cost of \$63,780.

The Company also acquired a 100% interest in certain additional claims pursuant to which the Company issued 100,000 shares valued at \$99,000. To acquire its interest, the Company incurred exploration expenditures of \$50,000. The claim was acquired from a company with a common director. The property is subject to either a 3% NSR or 35% participating interest in the property which can be purchased back from the Company by paying 65% of the Company's expenditures.

During fiscal 2009 the Company also acquired a 100% interest in certain claims via staking at a cost of \$4,860. The Company also abandoned certain claims and wrote-off acquisition and exploration costs of \$64,453 to operations.

**Risby, Lened, Clea properties, Canada**

During fiscal 2007 the Company acquired a 100% interest in the Risby, Lened and Clea properties located in the Yukon and Northwest territories in consideration for \$125,000, issuing 1,500,000 common shares valued at \$1,530,000 to the vendor and issuing 161,363 common shares as a finder's fee valued at \$164,590.

During fiscal 2008 the Company also acquired a 100% interest in certain claims via staking at a cost of \$3,585.

The property is subject to a 3% NSR. Until such time as the royalty is paid, or the Company terminates the option agreement, the Company will pay an annual amount of \$50,000 toward the royalty. The Company may at any time purchase 0.5% of the NSR for \$500,000.

**Red Wine Rare Earth Element property, Canada**

During fiscal 2010 the Company acquired a 100% interest in the Red Wine – Letitia Lake Rare Earth Element claims area located in Southern Central Labrador, Canada via staking at a cost of \$18,780.

The Company entered into an agreement with Rare Earth Metals Inc (“REM”). REM can earn 51% of the Company's 100% owned Red Wine Property. To earn its interest REM is required to pay \$70,000 in cash, issue 150,000 common shares and incur \$500,000 cumulative work expenditures over three years, of which, subsequent to February 28, 2010 the Company received \$15,000 and 20,000 common shares.

**PLAYFAIR MINING LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2010**

**5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Red Wine Rare Earth Element property, Canada (cont'd...)**

Upon REM earning 51% the Companies shall enter into a joint venture agreement concerning the property. If any party fails to make its required contribution the Company's interest will be reduced pro-rata. In the event a party is diluted to a 10% interest the party's interest shall automatically convert to a 2.0% NSR and the joint venture will be terminated. The remaining party may acquire one-half of the NSR for \$1,000,000 at any time.

**Seal Lake property, Canada**

During fiscal 2010 the Company acquired a 100% interest in certain claims on the Seal Lake property located in Southern Central Labrador, Canada, via staking at a cost of \$40,380.

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued and outstanding			
As at February 29, 2008	49,931,915	\$ 19,495,117	\$ 2,243,249
Private placement	10,051,546	1,105,670	-
Share issue costs	-	(62,853)	-
Tax benefits renounced to flow through share subscribers	-	(339,994)	-
Stock-based compensation	-	-	6,090
As at February 28, 2009	59,983,461	20,197,940	2,249,339
Private placement	16,003,900	800,195	-
Share issue costs	-	(63,497)	-
Stock-based compensation	-	-	308,224
As at February 28, 2010	75,987,361	\$ 20,934,638	\$ 2,557,563

**Private placements**

During fiscal 2010, the Company:

- a) Issued 10,003,900 common shares at \$0.05 per share for proceeds of \$500,195. The Company paid finders' fees of \$35,520 and other share issuance costs of \$1,826.
- b) Issued 6,000,000 common shares at \$0.05 per share for proceeds of \$300,000. The Company paid finders' fees of \$20,840 and other share issuance costs of \$5,311.

During fiscal 2009, the Company issued 10,051,546 flow-through common shares at \$0.11 per share for proceeds of \$1,105,670. The Company paid finders' fees and other share issuance costs of \$62,853.

**PLAYFAIR MINING LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2010**

**5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock options and warrants**

Stock option and warrant transactions are summarized as follows:

	Warrants		Stock Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, February 29, 2008	491,666	\$ 0.60	4,990,000	\$ 0.44
Cancelled / expired	-	-	(300,000)	0.42
Outstanding, February 28, 2009	491,666	0.60	4,690,000	0.44
Granted	-	-	5,530,000	0.10
Amended	-	-	(980,000)	0.48
Amended	-	-	980,000	0.10
Cancelled / expired	(491,666)	0.60	(3,885,000)	0.42
Outstanding, February 28, 2010	-	\$ -	6,335,000	\$ 0.10
Number currently exercisable	-	\$ -	6,335,000	\$ 0.10

The following incentive stock options were outstanding at February 28, 2010:

	Number of Shares	Exercise Price	Expiry Date
Options	300,000	\$0.10	January 19, 2011
	250,000	0.10	August 11, 2011
	255,000	0.10	October 31, 2012
	2,250,000	0.10	April 28, 2014
	3,255,000	0.10	June 1, 2014
	25,000	0.10	June 24, 2014

**Stock-based compensation**

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan the exercise price of each option equals the market price of the Company's stock, less applicable discount, as calculated on the date of grant. The options can be granted for a maximum term of 5 years with vesting determined by the board of directors.

**PLAYFAIR MINING LTD.**  
NOTES TO THE FINANCIAL STATEMENTS  
FEBRUARY 28, 2010

---

**5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock-based compensation (cont'd...)**

During fiscal 2010, the Company granted 5,530,000 (2009 – Nil) options with a weighted-average fair value of \$0.05 per option (2009 - \$Nil) and amended 980,000 (2009 – Nil) with a weighted average fair value of \$0.03 (2009 – \$Nil) to directors and consultants. Accordingly, using the Black-Scholes option pricing model, the stock options are recorded at fair value in the statement of operations. Total stock-based compensation recognized in the statement of operations during fiscal 2010 was \$308,224 (2009 – \$6,090) for incentive options granted, vested and amended. This amount was also recorded as contributed surplus on the balance sheet.

The following weighted average assumptions were used for the valuation of stock options:

	2010	2009
Risk-free interest rate	2.15%	2.94%
Expected life of options	4.56 years	1.38 years
Annualized volatility	131.73%	100.98%
Dividend rate	0.00%	0.00%

**6. RELATED PARTY TRANSACTIONS**

During the year ended February 28, 2010, the Company entered into the following transactions with related parties not disclosed elsewhere in the financial statements:

- a) Paid or accrued management fees of \$Nil (2009 - \$45,000) to a company controlled by a former officer of the Company.
- b) Paid or accrued professional fees and share issuance costs of \$16,310 (2009 - \$17,214) to a law firm in which a director is a partner.
- c) Paid or accrued directors fees of \$30,000 (2009 - \$Nil) to a director of the Company.

Included in accounts payable at February 28, 2010 is \$13,511 (2009 - \$9,620) due to a law firm in which a director is a partner, \$40,380 (2009 - \$Nil) due to directors of the Company for expense reimbursement, and \$142,769 (2009 - \$53,552) due to a company controlled by a former officer of the Company.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**PLAYFAIR MINING LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2010**

**7. INCOME TAXES**

A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

	2010	2009
Loss before income taxes	\$ (551,923)	\$ (607,727)
Expected income tax recovery	\$ 164,197	\$ 186,876
Stock-based compensation	(91,697)	(1,873)
Other items	31,453	9,782
Recognized benefits of non-capital losses	<u>9,133</u>	<u>40,546</u>
Total future income tax recovery	\$ 113,086	\$ 235,331

The significant components of the Company's future income tax assets (liabilities) are as follows:

	2010	2009
Future income tax assets (liabilities):		
Mineral property and related exploration expenditures	\$ (437,335)	\$ (473,622)
Non-capital losses available for future periods	325,442	238,086
Equipment	8,578	8,403
Share issue costs	<u>55,106</u>	<u>65,838</u>
Net future income tax liability	\$ (48,209)	\$ (161,295)

The Company has approximately \$1,302,000 in non-capital losses, which may be carried forward and applied against income in future years. These losses, if not utilized, expire through 2030. Subject to certain restrictions, the Company has resource exploration expenditures and other tax assets available to reduce taxable income of future years. Future tax benefits which may arise as a result of these losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

During fiscal 2009, the Company issued 10,051,046 common shares on a flow-through basis for gross proceeds of \$1,105,670. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. The Company renounced exploration expenditures resulting in a future income tax recovery and a charge to capital stock of \$339,994.

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

---

---

	2010	2009
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

---

---

The significant non-cash transactions for fiscal 2010 consisted of the Company:

- a) incurring mineral property exploration costs of \$97,741 through accounts payable;
- b) incurring finders' fees of \$2,702 through accounts payable.

The significant non-cash transactions for fiscal 2009 consisted of the Company:

- a) incurring mineral property exploration costs of \$411,133 through accounts payable;
- b) incurring finders' fees of \$33,468 through accounts payable.
- c) including \$32,000 in receivables relating to proceeds from a private placement.

**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Cash is carried at fair value using a level 1 fair value measurement. The carrying value of receivables and accounts payable and accrued liabilities approximated their fair value because of the short-term nature of these instruments.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

**Financial risk factors**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash equivalents and receivables. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote because these instruments are due primarily from government agencies.

**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)**

**Financial risk factors (cont'd...)**

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at February 28, 2010, the Company had a cash balance of \$2,691 to settle current liabilities of \$429,204. To maintain liquidity, the Company is currently investigating financing opportunities. Subsequent to February 28, 2010 the Company received proceeds of \$302,700 towards a private placement (Note 11). As disclosed in Note 1, current market conditions make the present environment for raising additional equity financing unfavorable and there can be no assurance these efforts will be successful in the future. All of the Company's financial liabilities are subject to normal trade terms.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(a) Interest rate risk

The Company has cash balances held with financial institutions. The Company's current policy is to invest excess cash in short-term treasury bills issued by the Government of Canada and its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency risk

The Company is not currently exposed to significant foreign currency risk as most transactions are denominated in Canadian dollars.

(c) Price risk

The company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of development of the Company's mineral properties. The Company closely monitors commodity prices to determine the appropriate course of action to be taken.

**10. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital and cash.

**10. CAPITAL MANAGEMENT** (cont'd...)

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. Current financial markets are very difficult and there is no certainty with the Company's ability to raise capital. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

**11. SUBSEQUENT EVENT**

Subsequent to February 28, 2010 the Company received subscription proceeds of \$302,700 towards a private placement of up to 7,500,000 common shares at \$0.10 per share, subject to regulatory approval.