

# Musgrove Minerals Corp.

(formerly Journey Resources Corp.)

February 28, 2011

## Consolidated Financial Statements

(Expressed in Canadian Dollars)

- Consolidated Balance Sheets
- Consolidated Statements of Shareholders' Equity
- Consolidated Statements of Operations and Comprehensive Loss
- Consolidated Statements of Cash Flows
- Notes to the Consolidated Financial Statement

**NOTICE OF NO AUDITOR REVIEW OF  
INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

# MUSGROVE MINERALS CORP.

(formerly Journey Resources Corp.)

## Consolidated Balance Sheets

As at February 28, 2011

	February 28, 2011 \$	November 30, 2010 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	445,384	2,418
Sales Tax Recoverable	95,869	79,880
Prepaid Expenses	25,637	21,362
	<hr/>	<hr/>
	566,890	103,660
Property and Equipment (Note 4)	10,422	11,330
Mineral Properties (Note 5)	3,578,873	3,381,598
Reclamation Bond (Note 5(a))	6,818	6,818
	<hr/>	<hr/>
	4,163,003	3,503,406
	<hr/>	<hr/>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts Payable and Accrued Liabilities	274,671	585,059
Due to Related Parties (Note 9(a))	343,798	358,815
Short-Term Loans (Note 6)	263,535	1,207,575
	<hr/>	<hr/>
	882,004	2,151,449
Deferred Gain on Contribution to Joint Venture (Note 5(b))	163,604	164,750
	<hr/>	<hr/>
	1,045,608	2,316,199
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 7)	14,228,486	13,210,762
Contributed Surplus – Share Purchase Warrants	2,926,658	1,448,746
Contributed Surplus – Stock Options and Other	1,672,846	1,517,900
Deficit	(15,710,595)	(14,990,201)
	<hr/>	<hr/>
	3,117,395	1,187,207
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	4,163,003	3,503,406
	<hr/>	<hr/>
Nature and Continuance of Business (Note 1)		
Commitments (Note 10)		

Approved by the Directors:

**“Jack Bal”**

Jatinder (Jack) Bal, Director

**“Lorne Torhjem”**

Lorne Torhjem, Director

# MUSGROVE MINERALS CORP.

(formerly Journey Resources Corp.)

## Consolidated Statements of Shareholders' Equity

For the Periods Ended February 28, 2011 and November 31, 2010

	Number of Common Shares	Share Capital \$	Share Subscription Advances \$	Contributed Surplus – Share Purchase Warrants \$	Contributed Surplus – Stock Options and Other \$	Deficit \$	Total Shareholders' Equity \$
<b>Balance, November 30, 2009</b>	9,242,345	11,924,219	134,010	557,583	1,517,900	(12,995,786)	1,137,926
Shares Issued During the Year							
For Cash							
Private Placement (Note 7(b)(i))	3,333,375	783,452	(134,010)	549,898	-	-	1,199,340
Private Placement (Note 7(b)(ii))	1,436,667	440,245	-	249,355	-	-	689,600
Exercise of Warrants (Note 7(b)(iv))	474,869	364,914	-	(60,998)	-	-	303,916
For Finder's Fee	104,375	50,100	-	-	-	-	50,100
Share Issue Costs (Notes 7(b)(iii))	-	(352,168)	-	152,908	-	-	(199,260)
Net Loss for the Year	-	-	-	-	-	(1,994,415)	(1,994,415)
<b>Balance, November 30, 2010</b>	14,591,631	13,210,762	-	1,448,746	1,517,900	(14,990,201)	1,187,207
Shares Issued During the Period							
For Cash							
Private Placement (Note 7(b)(v))	17,992,332	1,375,884	-	1,322,966	-	-	2,698,850
Share Issue Costs (Notes 7(b)(v))	-	(358,160)	-	154,946	-	-	(203,214)
Stock Based Compensation	-	-	-	-	154,946	-	154,946
Net Loss for the Period	-	-	-	-	-	(720,394)	(720,394)
<b>Balance February 28, 2011</b>	32,583,963	14,228,486	-	2,926,658	1,672,846	(15,710,55)	3,117,395

# MUSGROVE MINERALS CORP.

(formerly Journey Resources Corp.)

## Consolidated Statements of Operations and Comprehensive Loss

For the Three Months Ended February 28,

	2011 \$	2010 \$
<b>EXPENSES</b>		
Accounting and Audit	34,000	10,073
Amortization	908	-
Bad Debts	4,229	11,925
Consulting Fees	270,316	62,600
Filing and Transfer Agent Fees	40,666	10,911
Interest and Financing Fees on Short-Term Loans (Note 6)	115,160	54,992
Interest on Related Party Loan (Note 9(a))	5,754	19,901
Interest – Other	259	-
Investor Relations	9,190	73,750
Legal	9,432	2,324
Management Fees (Notes 9(b))	25,500	21,000
Office	41,693	36,978
Rent	30,475	6,397
Stock-Based Compensation (Note 7(f))	154,946	-
Travel	12,105	1,768
	<u>754,633</u>	<u>312,619</u>
<b>LOSS BEFORE OTHER ITEMS</b>	(754,633)	(312,619)
Administrative and Office Support Fee Income (Note 9(d))	30,000	30,000
Amortized Gain on Contribution to Joint Venture (Note 5(b))	1,146	1,146
Foreign Exchange (Loss) Gain	3,093	(840)
	<u>(720,394)</u>	<u>(282,313)</u>
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>		
	<u>(720,394)</u>	<u>(282,313)</u>
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	(0.03)	(0.03)
	<u>(0.03)</u>	<u>(0.03)</u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	22,188,393	10,451,233
	<u>22,188,393</u>	<u>10,451,233</u>

# MUSGROVE MINERALS CORP.

(formerly Journey Resources Corp.)

## Consolidated Statements of Cash Flows

For the Three Months Ended February 28,

	2011 \$	2010 \$
<b>CASH PROVIDED FROM (UTILIZED FOR):</b>		
<b>OPERATING ACTIVITIES</b>		
Net Loss for the Period	(720,394)	(282,313)
Non-Cash Items		
Amortization	908	11,925
Bad Debts	4,229	-
Stock-Based Compensation	154,946	-
Amortized Gain on Contribution to Joint Venture	(1,146)	(1,146)
Accrued Interest and Financing Fees on Short-Term Loans	-	54,992
	(561,457)	(216,542)
Change in Non-Cash Working Capital Accounts (Note 8(a))	(349,898)	(163,564)
	(911,355)	(380,106)
<b>FINANCING ACTIVITIES</b>		
Shares Issued for Cash	2,698,850	1,519,350
Share Subscription Receivable	-	(190,000)
Share Subscription Advances	-	(134,010)
Share Issue Costs	(203,214)	(124,331)
Net (Repayments on) Advances from Short-Term Loans	(944,040)	(296,125)
Net Advances from Related Parties	-	(141,446)
	1,551,596	633,438
<b>INVESTING ACTIVITIES</b>		
Mineral Properties Costs	(197,275)	(204,230)
	(197,275)	(204,230)
<b>INCREASE (DECREASE) IN CASH</b>	442,966	49,102
Cash, Beginning of the Period	2,418	1,132
<b>CASH, END OF THE PERIOD</b>	445,384	50,234

Supplemental Cash Flow Information (Note 8)

# MUSGROVE MINERALS CORP.

(formerly Journey Resources Corp.)

## Notes to the Consolidated Financial Statements

February 28, 2011

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### NOTE 1 – NATURE AND CONTINUANCE OF BUSINESS

Musgrove Minerals Corp. (the “Company”) is a mineral exploration resource company incorporated under the laws of the Province of British Columbia, Canada on March 29, 2000 under the name Access West Capital Corporation. On June 12, 2002, the Company changed its name to Journey Unlimited Omni Brand Corporation, on November 04, 2005 to Journey Resources Corp, and on December 17, 2010 to Musgrove Minerals Corp.

The Company is presently in the business of the acquisition, exploration and development of mineral properties. It presently owns mining concessions in Mexico and mineral claims in Idaho, U.S.A.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which assumes the Company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future. The Company has not yet achieved profitable operations, and has a consolidated deficit of \$15,710,595 and a working capital deficiency of \$720,394 as at February 28, 2011.

The Company’s ability to continue operations is uncertain and is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete exploration and development, and upon future profitable production or proceeds from disposition of these properties. The outcome of these matters cannot be predicted at this time. There is no assurance that the Company will be successful with future financing ventures. Should the Company be unable to obtain additional financing, it intends to reduce its mineral property and administrative operations to the minimum required to maintain its mineral properties and its listing on the TSX Venture Exchange (the “Exchange”).

These financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared using Canadian generally accepted accounting principles (“GAAP”), as summarized below.

#### a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned Mexican subsidiary, Minerales Jazz S.A. de C.V. (Note 3(b)) and two wholly-owned inactive subsidiaries, Journey Unlimited Equipment Inc. (Canada) and Journey Unlimited Equipment Inc. (U.S.A.). The Company disposed of its wholly-owned Peruvian subsidiary, Minera Journey Resources Peru S.A.C. on July 28, 2010, and accordingly, these consolidated financial statements only include the accounts of the Peruvian subsidiary up to the date of disposal. All inter-company transactions and balances have been eliminated.

The Company’s 50% interest in the Vianey Property joint venture, which is subject to joint control, is consolidated on a proportionate basis, whereby the Company includes in these consolidated financial statement its proportionate share of the assets, liabilities, revenues and expenses of the joint venture. As at February 28, 2011, the Company included its 50% share of the capitalized mineral property costs of the joint venture in the consolidated financial statements. The joint venture has no other assets or liabilities, and has no revenues or expenses for the period from inception on December 18, 2006 to February 28, 2011.

# MUSGROVE MINERALS CORP.

(formerly Journey Resources Corp.)

## Notes to the Consolidated Financial Statements

February 28, 2011

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### b) Property and Equipment

Property and equipment are recorded at cost and amortized at the following rates, except in the year of acquisition, when one half of the rates are used:

Computer Equipment	30 – 55% Declining Balance
Furniture and Fixtures	20% Declining Balance
Leasehold Improvements	20% Straight Line
Vehicles	30% Declining Balance

#### c) Mineral Properties

The Company's mineral properties are in the exploration stage and therefore, the Company capitalizes all expenditures related to the acquisition, exploration and development of mineral properties until such time as the properties are placed into commercial production, abandoned, sold or considered to be impaired in value. Costs of producing properties are amortized on a unit-of-production basis based on proven and probable reserves.

Costs of abandoned properties are written off to operations. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Adjustments to carrying value due to impairment are charged to operations.

Property option payments received are credited against the cost of mineral properties. Where option payments received exceed the recorded acquisition costs of mineral claims, the amount in excess of the capitalized costs is credited to operations.

The Company has not yet determined the amount of reserves available on the properties owned. The recoverability of the capitalized costs for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties and on future production or proceeds of disposition. The Company assesses the impairment of a mineral property whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Recoverability of the capitalized costs is then determined by a comparison of the carrying amount of the property to future undiscounted net cash flows expected to be generated by the mineral property. If a mineral property is considered to be impaired, that property is written down to its estimated net realizable value.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest in accordance with general industry standards, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and therefore title may be affected.

#### d) Asset Retirement Obligation

The Company records the fair value of a liability for an asset retirement obligation, including site closure and reclamation costs associated with exploration activities on its mineral properties, in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company records the estimated present value of future cash flows associated with site closure and reclamation as a liability when the liability is incurred and increases the carrying value of the related assets by that amount. The liability is accreted over time for changes in the fair value through charges to accretion expense. The costs capitalized to the related assets are depleted to earnings in a manner consistent with the underlying assets.

As at February 28, 2011 and November 30, 2010, the Company has no material obligations for asset retirement obligations.



# MUSGROVE MINERALS CORP.

(formerly Journey Resources Corp.)

## Notes to the Consolidated Financial Statements

February 28, 2011

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### e) Impairment of Long-Lived Assets

Long-lived assets are reviewed by the Company for possible impairment whenever events or changes in circumstances indicate that carrying value of an asset may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flow expected to result from the use of the asset and its eventual disposition.

#### f) Loss Per Common Share

Basic loss per common share is calculated using the weighted average number of common shares issued and outstanding during the period. Diluted loss per share is the same as basic loss per share as the effect of issuance of shares on the exercise of stock options and warrants is anti-dilutive.

#### g) Share Capital and Stock-Based Compensation

The Company records proceeds from share issuances net of related share issue costs. A share purchase warrant attached to a unit issued in a private placement is valued based on the average of the pro-rata method and the Black-Scholes option pricing model.

Shares issued for other than cash consideration are valued at the quoted price on the TSX Venture Exchange based on the earliest of: (i) the date the shares are issued, and (ii) the date the agreement to issue the shares is reached.

The Company grants stock options to management, directors, employees and consultants. The Company recognizes compensation expense for options and broker warrants issued under the fair value based method using the Black-Scholes option pricing model. The fair value of each option grant is estimated on the date of the grant and recognized over the vesting period, with the offsetting amounts credited to contributed surplus.

Consideration received on the exercise of stock options and share purchase warrants is recorded as share capital and the related contributed surplus amount is transferred to share capital.

#### h) Revenue Recognition

The Company is the operator of the Vianey Property joint venture (Note 5(b)) and charges an operator management fee based on 5% of the joint venture partner's portion of the exploration and development expenditures. Operator management fee income is recognized when the related expenditures are incurred and collection is reasonably assured.

Interest income and administrative and office support fee income is recognized when earned and collection is reasonably assured.

#### i) Income Taxes

The Company accounts for income taxes using the asset and liability method, whereby future tax assets and liabilities are determined based on differences between the financial reporting and the tax bases of assets and liabilities. These differences are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Income tax assets, including the benefit of income tax losses available for carry-forward, are only recognized to the extent that it is more likely than not that the Company will ultimately realize those assets.

# MUSGROVE MINERALS CORP.

(formerly Journey Resources Corp.)

## Notes to the Consolidated Financial Statements

February 28, 2011

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### j) Comprehensive Income

Comprehensive income is the change in net assets from transactions related to non-shareholder sources. The Company presents gains and losses which would otherwise be recorded as part of net earnings in other comprehensive income until it is considered appropriate to recognize them into net earnings.

#### k) Financial Instruments

The Company's financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale assets or other financial liabilities.

Financial assets and liabilities held-for-trading are recorded at fair value with gains and losses recognized in net income. Financial assets and liabilities held-to-maturity, loans and receivables, and other financial liabilities are recorded at amortized cost using the effective interest method. Available-for-sale financial instruments are recorded at fair value with unrealized gains and losses recognized in other comprehensive income and reported in shareholders' equity.

Cash is classified as held-for-trading and accordingly carried at its fair value. Amounts due from joint venture partner and related party are classified as loans and receivables, and are carried at their amortized costs. Accounts payable and accrued liabilities, amounts due to related parties, and short-term loans are classified as other financial liabilities and are carried at their amortized cost.

#### l) Foreign Currency Translation

The Company's foreign operations are determined to be of an integrated nature and are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the rate of exchange in effect as at the balance sheet date and non-monetary assets and liabilities are translated at their applicable historical rates. Revenues and expenses are translated at the average rates prevailing for the period, except for amortization which is translated at the historical rates associated with the assets being amortized. Foreign exchange gains and losses from the translation of foreign operations are reflected in the statement of operations for the current period.

#### m) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the assessment of recoverability of mineral properties and property and equipment, the determination of the amortization period of property and equipment, the estimated amount of accrued liabilities and asset retirement obligations, the realization of future tax assets, and the determination of the fair value of stock-based compensation. Actual results may differ from these estimates.

#### n) Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current period. These reclassifications have no effect on the consolidated net loss for the periods ended February 28, 2011 and November 30, 2010

# MUSGROVE MINERALS CORP.

(formerly Journey Resources Corp.)

## Notes to the Consolidated Financial Statements

February 28, 2011

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### o) Future Accounting Change – International Financial Reporting Standards (“IFRS”)

In February 2008, the Canadian Institute of Chartered Accountants (“CICA”) confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 01, 2011 with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company’s reporting no later than in the first quarter ended February 28, 2012, with restatement of comparative information presented. The conversion to IFRS will impact the Company’s accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency activities, certain contractual arrangements, capital requirements and compensation arrangements.

The Company is currently evaluating the future impact of IFRS on its financial statements and will continue to invest in training and additional resources to ensure a timely conversion. The financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### NOTE 3 – SALE OF SUBSIDIARIES

#### a) Sale of Peruvian Subsidiary

On July 28, 2010, the Company sold its wholly-owned Peruvian subsidiary, Minera Journey Resources SAC, which owned a 100% interest in the Silver Mountain Property in Peru (Note 5(d)) to an arm’s length party for \$25,000. Accordingly, the Company recorded a loss on sale of subsidiary of \$772,176.

	\$
Cash Consideration	25,000
Assets of Subsidiary:	
Cash	98
Capitalized Acquisition and Exploration Costs of Silver Mountain Property	<u>797,078</u>
<b>Loss on Sale of Subsidiary</b>	<b><u>(772,176)</u></b>

#### b) Proposed Sale of Mexican Subsidiary

On September 22, 2010, the Company entered into a share and loan agreement (the “Agreement”) with an arm’s length party (the “Purchaser”) who agreed to acquire up to a 76% interest in the Company’s wholly-owned Mexican subsidiary, Minerales Jazz SA de CV (“Minerales Jazz”). Minerales Jazz is in the business of acquiring and exploring mining concessions in Mexico, with a 100% interest in the Vianey Property (Note 5(b)) and a right to earn a 100% interest in the Charay Property (Note 5(c)).

Pursuant to the terms of the Agreement, the Purchaser agreed to pay \$65,000 to the Company and loan \$2,000,000 to Minerales Jazz in consideration for a 51% interest in Minerales Jazz and an assignment of the Company’s right and interest in the Charay Property. On completion of such acquisition, the Purchaser shall have 18 months to acquire an additional 25% interest in Minerales Jazz by paying \$250,000 to the Company and loaning an additional \$1,500,000 to Minerales Jazz.

# MUSGROVE MINERALS CORP.

(formerly Journey Resources Corp.)

## Notes to the Consolidated Financial Statements

February 28, 2011

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### NOTE 3 –SALE OF SUBSIDIARIES (Continued)

#### b) Proposed Sale of Mexican Subsidiary (Continued)

In addition, the Purchaser has the right to retain the Vianey Property as an asset of Minerales Jazz by paying the Company an additional \$250,000 in cash or with shares of the Purchaser within 18 months of the closing of the Agreement. If the purchaser does not exercise such right, the Company may acquire the Vianey Property for \$1 within 30 months of the closing of the Agreement.

In April 2011, this Agreement was terminated.

### NOTE 4 – PROPERTY AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	Net Book Value \$
<b>February 28, 2010</b>			
Computer Equipment	10,204	8,715	1,489
Furniture and Fixtures	7,291	4,217	3,074
Leasehold Improvements	6,547	3,928	2,619
Vehicle	5,887	2,647	3,240
	<u>29,929</u>	<u>19,507</u>	<u>10,422</u>
<b>November 30, 2010</b>			
Computer Equipment	10,204	8,559	1,645
Furniture and Fixtures	7,291	4,055	3,236
Leasehold Improvements	6,547	3,600	2,947
Vehicle	5,887	2,385	3,502
	<u>29,929</u>	<u>18,599</u>	<u>11,330</u>

# MUSGROVE MINERALS CORP.

(formerly Journey Resources Corp.)

## Notes to the Consolidated Financial Statements

February 28, 2011

### NOTE 5 – MINERAL PROPERTIES

	November 30, 2009 \$	Additions \$	November 30, 2010 \$	Additions \$	February 28, 2011 \$
<b>Musgrove, U.S.A.</b>					
Acquisition and Lease Costs	544,827	50,388	595,215	-	595,215
Exploration Expenditures					
Administrative	70,169	15,250	85,419	2,354	87,773
Assay	79,244	-	79,244	-	79,244
Drilling	433,931	-	433,931	-	433,931
Field and Exploration	54,287	1,035	55,322	-	55,322
Geochemical Survey	201,249	-	201,249	-	201,249
Geological	160,044	16,067	176,111	-	176,111
Staking and Maintenance Fees	54,205	27,662	81,867	10,095	91,962
	<u>1,597,956</u>	<u>110,402</u>	<u>1,708,358</u>	<u>12,449</u>	<u>1,720,807</u>
<b>Vianey, Mexico</b>					
Acquisition Costs	223,818	-	223,818	25,511	248,329
Exploration Expenditures					
Administrative	16,530	6,282	22,812	6,00	28,812
Engineering	15,000	-	15,000	-	15,000
Fees and Permits	11,731	11,091	22,822	-	22,822
Field and Exploration	118,354	620	118,974	2,060	121,034
Geological	47,494	-	47,494	-	47,494
	<u>432,927</u>	<u>17,993</u>	<u>450,920</u>	<u>32,571</u>	<u>483,491</u>
<b>Charay, Mexico</b>					
Acquisition Costs	269,352	577,842	847,194	-	847,194
Exploration Expenditures					
Assays	-	13,140	13,140	-	13,140
Engineering	25,000	266,061	291,061	-	291,061
Fees and Permits	12,072	7,115	19,187	32,617	51,804
Field and Exploration	5,968	18,363	24,331	20,805	45,136
Geological	10,182	17,225	27,407	8,725	36,132
	<u>322,574</u>	<u>899,746</u>	<u>1,222,320</u>	<u>62,147</u>	<u>1,284,466</u>
<b>Empire Mine Property, U.S.A.</b>					
Acquisition Costs	-	-	-	61,055	61,055
Exploration Expenditures					
Administrative	-	-	-	1,177	1,177
Geological	-	-	-	27,876	27,876
	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,108</u>	<u>90,108</u>
<b>Silver Mountain, Peru</b>					
Acquisition Costs	758,632	(25,000)	733,632	-	-
Exploration Expenditures	31,193	7,253	38,446	-	-
Disposal of Subsidiary (Note 3(a))	-	(772,078)	(772,078)	-	-
	<u>789,825</u>	<u>(789,825)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>3,143,282</u>	<u>238,316</u>	<u>3,381,598</u>	<u>197,275</u>	<u>3,578,873</u>

# MUSGROVE MINERALS CORP.

(formerly Journey Resources Corp.)

## Notes to the Consolidated Financial Statements

February 28, 2011

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### NOTE 5 – MINERAL PROPERTIES (Continued)

#### a) Musgrove Property, U.S.A.

On June 13, 2007, the Company fulfilled all of its obligations under an option agreement and acquired all rights, title and interest to unpatented mining claims situated in the Cobalt Mining District, Lemhi County, Idaho, U.S.A.

Under the terms of the option agreement, the Company assumed the underlying lease agreement dated June 12, 2003 with respect to certain mineral claims that comprise the Musgrove Property. The underlying lease has a 10 years term and can be renewed for two successive terms of 10 year provided that the conditions of the lease are met. The Company is required to pay annual lease payments to the underlying lessor which progressively increase from US\$25,000 paid on the third anniversary of the lease to a maximum of US\$50,000 per year for the duration of the lease.

These claims are subject to an underlying 2% production royalty and a lump sum payment of US\$1,000,000 upon completion of a feasibility study. In addition, the Company is required to incur minimum annual exploration expenditures of US\$100,000 on the property during the term of the lease, provided in every period of five years the Company may omit to incur US\$100,000 of exploration expenditures for a of one year. Any exploration expenditures incurred in excess of any year may be carried forward and credited to the subsequent year.

As at February 28, 2011, 2010, the Company has paid a total of US\$184,500 in lease payments to the underlying lessor.

The Company deposited a reclamation bond of US\$5,800 (CDN\$6,818) with the United States Department of Agriculture Forest Service in April 2006 for future mineral claim site reclamation costs.

#### b) Vianey Property, Mexico – Joint Venture

The Company has a 100% interest in the Vianey mine concession located in the Guerrero State, Mexico. The Vianey Property is held pursuant to an exploitation concession issued on August 05, 1979 by the government of Mexico and will expire in 2029, unless renewed.

The Vianey Property is operated on a joint venture basis with the Company holding a 50% interest in the joint venture and acting as the operator of the project. The Company accounts for the joint venture using the proportionate consolidation method, which resulted in an initial deferred gain of \$183,182 in fiscal 2007 on the contribution of the Company's interest in the Vianey Property to the joint venture. The deferred gain is amortized on a straight line basis over a term of 40 years. For the ended February 28, 2011, the amortized gain recognized in the statement of operations was \$1,146 (2010 – \$1,146).

In connection to the Company's acquisition of the Vianey Property in April 2005, the Company agreed to issue 800,000 common shares on or after that date which is seven business days following the earlier of (i) the completion of an economically viable pre-feasibility study on the Vianey Property, and (ii) the commencement of commercial production. This conditional share issuance is considered contingent consideration, the outcome of which cannot be determined without reasonable doubt. Consequently, no amount is recognized for this portion of the acquisition until the contingency is resolved and the shares are issued or become issuable.

As at November 30, 2010, the amount due from the joint venture partner for its share of the exploration expenditures was \$186,260 and was written off due to the uncertainty of collection. Amounts subsequently collected by the Company will be recorded as a recovery in the statement of operations.

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## Notes to the Consolidated Financial Statements

February 28, 2011

### NOTE 5 – MINERAL PROPERTIES (Continued)

#### c) Charay Property, Mexico

On October 15, 2008 (as amended on June 30, 2010), the Company entered into an option agreement to acquire a 100% interest in certain mining claims located in Sinaloa, Mexico. The Company issued 1,000,000 common shares valued at \$50,000 to the optionors and 300,000 common shares valued at \$15,000 to the finders, and paid a non-refundable fee of \$25,000 upon execution of the agreement. Under the terms of the amended agreement, the Company is required to make option payments plus applicable value-added tax and meet minimum exploration expenditure requirements as follows:

	Cash \$	Cash US\$	Exploration Expenditures US\$	
On or before October 15, 2008	-	5,000	-	(Paid)
On or before December 1, 2008	-	25,000	-	(Paid)
On or before April 1, 2009	-	50,000	-	(Paid)
On or before April 15, 2009	-	-	75,000	(Incurred)
On or before August 1, 2009	-	50,000	-	(Paid)
On or before January 1, 2010	-	120,000	-	(Paid)
On or before June 30, 2010	-	112,500	-	(Paid)
On or before July 15, 2010	25,000	-	-	(Note 6(b))
On or before September 1, 2010	5,000	-	50,000	(Note 6(b))
On or before October 1, 2010	-	160,000	-	(Paid)
On or before March 1, 2011	10,000	-	200,000	
On or before April 1, 2011	-	425,000	-	
On or before September 1, 2011	15,000	-	-	
On or before October 1, 2011	-	540,000	-	
On or before March 1, 2012	25,000	-	500,000	
On or before April 1, 2012	-	950,000	-	
On or before September 1, 2012	100,000	-	250,000	
On or before October 1, 2012	-	337,500	-	
	180,000	2,775,000	1,075,000	

The property is subject to a 2% net smelter royalty upon commencement of commercial production.

#### d) Empire Mine Property, U.S.A.

On December 3, 2010 and January 31, 2011, the Company entered into exploration and lease agreements with two arm's length parties to earn a 100% operating interest in certain mining claims at the Empire Mine Property in Idaho, U.S.A. The terms of the agreements require the Company to pay a total of US\$1,072,500 in cash or shares commencing from July 31, 2011 up to the completion of a permit to operate the property. Upon commencement of commercial property, the property is subject to a 2.5 % net smelter returns royalty which may be reduced to 1.5% for US\$2,400,000. The Company paid a fee of US\$60,000 upon signing of the agreements.

The agreements are subject to regulatory approval.

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## Notes to the Consolidated Financial Statements

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### NOTE 5 – MINERAL PROPERTIES (Continued)

#### e) Silver Mountain Property, Peru

On October 18, 2007, the Company acquired a 100% interest in the Silver Mountain Property located in Lima, Peru subject to a 1% net smelter royalty upon commencement of commercial production. The property was disposed of in July 2010 in connection with the sale of the Company's Peruvian subsidiary (Note 3(a)).

### NOTE 6 – SHORT-TERM LOANS

	February 28, 2011	November 30, 2010
	\$	\$
Promissory Note (a)	-	494,200
Promissory Note (b)	-	150,000
Promissory Note (c)	266,660	261,500
Other Short-Term Loans (d)	(3,125)	301,875
	<hr/>	<hr/>
	263,535	1,207,575

a) On June 30, 2008, the Company entered into a loan agreement for \$1,000,000 by way of a promissory note. The loan was payable on demand and bears interest at a rate of 3% per month until May 31, 2010, and 15% per year on the balance then outstanding. The loan was secured by a pledge of 722,000 common shares of the Company held by the President of the Company and a general security agreement against all assets of the Company. The loan was also guaranteed by the President of the Company.

In the period ended February 28, 2011, the Company recorded interest expense totalling \$105,800 (2010 - \$54,922). In December 2010, the loan was assigned to an arm's length party pursuant to a third party agreement, and repaid by the Company in full.

b) On September 11, 2010, the Company entered into a loan agreement for \$150,000 by way of a promissory note with the optionors of the Charay Property (Note 5(c)). The Company was in default of option payments totalling \$30,000 required on July 15, 2010 and September 1, 2010, and failed to incur the minimum exploration expenditure requirement of US\$50,000 by September 1, 2010. The optionors agreed not to terminate the option agreement by accepting a promissory note of \$150,000 issued in favour of the optionors. The non-interest bearing and unsecured loan was due on or before December 31, 2010. The Company repaid the loan in full in February 2011.

c) On September 29, 2010, the Company entered into a loan agreement for \$258,000 by way of a promissory note in connection with the proposed sale of Minerales Jazz (Note 3(b)). The loan is payable on demand, bears interest at a rate of 8% per annum, and is secured by all outstanding shares of Minerales Jazz held by the Company. The Company recorded interest expense of \$5,160 (2010 - \$3,500) which remained outstanding as at February 28, 2011.

d) These loans are unsecured and have no specified terms of repayment. The Company recorded interest and financing fees totalling \$4,200 (2010- \$19,901) as agreed with the various lenders.



# MUSGROVE MINERALS CORP.

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## Notes to the Consolidated Financial Statements

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### NOTE 7 – SHARE CAPITAL

#### a) Authorized Capital

The Company is authorized to issue an unlimited number of common shares without par value.

#### b) Issued and Outstanding Common Shares

Effective December 17, 2010, the Company consolidated its common shares on the basis of eight old common shares for one new common share. All share and per share amounts have been retroactively restated to reflect this stock consolidation. As at February 28, 2011 and November 30, 2010, the Company had 32,583,963 and 14,591,631 common shares issued and outstanding respectively as presented in the consolidated statement of shareholders' equity.

- (i) In January and February 2010, the Company completed a private placement of 3,333,375 units in two tranches at a price of \$0.40 per unit raising gross proceeds of \$1,333,350. Each unit consists of one common share and one share purchase warrant exercisable into one common share for a term of two years at an exercise price of \$0.80 per share in the first year and \$1.20 per share in the second year. A fair value of \$549,898 was assigned to these warrants based upon the average of the pro-rata method and the Black-Scholes option pricing model. The Company issued 305,338 finders' warrants with the same terms as the private placement warrants.
- (ii) In May 2010, the Company completed a private placement of 1,436,667 units at \$0.48 per unit for gross proceeds of \$689,600. Each unit consists of one common share and one share purchase warrant exercisable into one common share for a term of two years at an exercise price of \$0.96 per share in the first year and \$1.28 per share in the second year. A fair value of \$249,355 was assigned to these warrants based upon the average of the pro-rata method and the Black-Scholes option pricing model. The Company issued 120,938 finders' warrants with the same terms as the private placement warrants.
- (iii) In connection with the private placements completed during the year ended February 28, 2011, the Company incurred share issue costs totalling \$352,168 which included finders' fees of \$180,185, legal and filing fees of \$19,075 and a fair value of \$152,908 on the finders' warrants issued.
- (iv) During the year ending November 30, 2010, the Company issued 474,869 common shares upon the exercise of share purchase warrants for gross proceeds of \$303,916 at an exercise price of \$0.64 per share. The fair value of these warrants in the amount of \$60,998 was transferred from contributed surplus to share capital accordingly.
- (v) On January 21, 2011, the Company completed a private placement of 17,992,332 units at a price of \$0.15 per unit raising gross proceeds of \$2,698,850. Each unit consists of one common share and a one-half share purchase warrant exercisable into one common share at a price of \$0.20 for a term of one year. A fair value of \$1,322,966 was assigned to these warrants based upon the average of the pro-rata method and the Black-Scholes option pricing model. The Company incurred finders' fees of \$185,935 and issued 619,783 finders' warrants which have the same terms as the private placement warrants. A fair value of \$154,946 was assigned to these finders' warrants.

#### c) Stock Options

The Company has established a stock option plan which provides for the granting of incentive stock options up to a maximum of 10% of the Company's issued and outstanding common shares. Terms of the options granted are subject to determination and approval by the Board of Directors. All options granted are subject to a four-month hold period from the date of grant as imposed by the TSX Venture Exchange.

# MUSGROVE MINERALS CORP.

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## Notes to the Consolidated Financial Statements

February 28, 2011

### NOTE 7 – SHARE CAPITAL (Continued)

#### c) Stock Options (Continued)

	Number of Options	Weighted Average Exercise Price \$
<b>Balance, November 30, 2009</b>	712,500	1.08
Expired	(425,000)	(0.99)
<b>Balance, November 30, 2010</b>	287,500	1.20
<b>Granted</b>	1,800,000	0.20
<b>Balance, February 28, 2011</b>	<b>2,062,500</b>	<b>0.34</b>

As at February 28, 2011, the Company has the following options outstanding:

Range of Exercise Prices	Options Granted and Outstanding			Options Vested and Exercisable	
	Number of Options	Weighted Average Remaining Contractual life	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
\$0.20 to \$3.20	2,062,500	4.72 years	\$0.34	2,062,500	\$0.34

The options expire between April 3, 2011 and February 15, 2016.

#### d) Share Purchase Warrants

	Number of Warrants	Weighted Average Exercise Price \$
<b>Balance, November 30, 2009</b>	3,443,406	0.95
Issued	5,196,317	0.85
Exercised	(474,869)	(0.64)
Expired	(253,063)	(2.80)
<b>Balance, November 30, 2010</b>	7,911, 792	0.80
Issued	9,615,950	0.20
Expired	(1,057,375)	(0.80)
<b>Balance, February 28, 2011</b>	<b>16,470, 367</b>	<b>0.55</b>

# MUSGROVE MINERALS CORP.

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## Notes to the Consolidated Financial Statements

February 28, 2011

### NOTE 7 – SHARE CAPITAL (Continued)

#### d) Share Purchase Warrants (Continued)

As at February 28, 2011, the Company has the following warrants outstanding:

	Number of Warrants	Exercise Price (Year 1) \$	Exercise Price (Year 2) \$
May 13, 2011	1,658,100	0.64	0.80
January 21, 2012	2,467,500	0.80	1.20
February 11, 2012	1,171,213	0.80	1.20
May 21, 2012	1,557,604	0.96	1.44
January 28, 2012	9,615,950	0.20	-
	<u>16,470,367</u>		

#### e) Stock-Based Compensation

The fair value of stock options and finders' warrants granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2011	2010
Risk-Free Annual Interest Rate	1.67 – 2.61%	1.22 – 1.62%
Expected Annual Dividend Yield	0%	0%
Expected Stock Price Volatility	179 - 314%	147 – 160%
Expected Life of Option or Warrant	1 – 5 years	2 years

The weighted average fair value per option granted in the period ended February 28, 2010 was \$0.25 and a total stock-based compensation expense of \$154,946 (2010 - \$Nil) was recognized.

The Company recognized stock-based compensation costs of \$154,496 (November 30, 2010 – \$152,908) in share issue costs for finders' warrants granted in connection to the private placements completed.

Option pricing models require the input of highly subjective assumptions. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models may not necessarily provide a single reliable measure of the fair value of the Company's stock options and finders' warrants.

### NOTE 8 – SUPPLEMENTAL CASH FLOW INFORMATION

#### a) Change in Non-Cash Working Capital Accounts

	For the Three Months Ended February 28,	
	2011	2010
	\$	\$
Sales Tax Recoverable	(15,988)	(7,004)
Prepaid Expenses	(4,274)	12,780
Due from Joint Venture Partner	(15,017)	-
Accounts Payable and Accrued Liabilities	(314,619)	(169,340)
	<u>(349,898)</u>	<u>(163,564)</u>

# MUSGROVE MINERALS CORP.

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## Notes to the Consolidated Financial Statements

February 28, 2011

### NOTE 8 – SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

#### b) Significant Non-Cash Financing Activities

Shares Issued for Settlement of Accounts Payable	-	18,000
	-	18,000

#### c) Other Items

Interest and Financing Fees Paid	110,000	19,901
Income Taxes Paid	-	-

### NOTE 9 – RELATED PARTY TRANSACTIONS

In addition to those transactions disclosed elsewhere in these consolidated financial statements, the Company had the following transactions with related parties:

- a) Balances due from and to related parties are unsecured and have no specified terms for repayment. They are non-interest bearing unless otherwise noted. The following related party balances were outstanding:

	February 28, 2011	November 30, 2010
Due to a company with a director in common for advances made, bearing interest at 10% per annum effective January 01, 2009. The Company recorded interest expense totalling \$5,754 (2009 – \$9,978).	53,270	68,287
Due to an Officer (also a Director) of the Company for net advances made to the Company.	290,528	290,528
<b>Due to Related Parties</b>	<b>343,798</b>	<b>358,815</b>

- b) During the period ended February 28, 2011, the Company paid management fees of \$21,000 (2010 – \$21,000) to companies controlled by the Officers (also Directors) of the Company for management and consulting services.
- c) During the period ended February 28, 2011, the Company paid management fees of \$4,500 (2010 – \$Nil) to a company controlled by the Officers (also Directors) of the Company.
- d) During the period ended February 28, 2011, the Company charged fees totalling \$30,000 (2010 – \$30,000) for administrative support provided to a company with a director and an officer in common.
- e) During the period ended February 28, 2011, the Company charged fees totalling \$2,000 (2010 – \$18,800) for rent and administrative support provided to a company controlled by a person related to an Officer (also a Director) of the Company. These fees have been recorded against rent expense.
- f) During the year ended November 30, 2010, the Company paid finders' fees of \$34,600 to a person related to an Officer (also a Director) of the Company.

All related party transactions were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

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## Notes to the Consolidated Financial Statements

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### NOTE 10 – COMMITMENTS

In addition to the mineral property option agreement commitments (Note 5), the Company entered into a five-year lease agreement for office premises effective April 1, 2008. The Company is committed to pay operating costs and property taxes of approximately \$3,000 per month. Minimum annual payments for basic rent, operating costs and property taxes are as follows:

	\$
2011	92,437
2012	94,725
2013	31,829
	<hr/>
	218,991
	<hr/>

### NOTE 11 – FINANCIAL INSTRUMENTS AND RELATED RISKS

The Company's financial instruments are exposed to certain financial risks:

**a) Liquidity Risk**

Liquidity risk refers to the risk that an entity will encounter difficulty meeting obligations associated with financial liabilities. The Company is dependent upon the availability of credit from its suppliers and its ability to generate sufficient funds from equity and debt financing to meet current and future obligations. There can be no assurance that such financing will be available on terms acceptable to the Company.

**b) Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management considers that risk related to interest is not significant to the Company at this time. Interest on short-term loans is based on fixed rates.

**c) Credit Risk**

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company is in the exploration stage and has not yet commenced commercial production or sales. Therefore, the Company is not exposed to significant credit risk.

**d) Foreign Exchange Risk**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company conducts a significant portion of its business activities in foreign currencies. The Company is exposed to foreign exchange risk to the extent it incurs mineral exploration expenditures and operating costs in foreign currencies including the U.S. Dollar, Mexican Peso, Peruvian New Sol, and the British Pound Sterling. The Company does not use derivatives to manage its exposure to foreign exchange risk.

**e) Commodity Price Risk**

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices. The ability of the Company to develop its mineral properties and the future profitability of the Company are directly related to the market price of gold and silver. The Company has not hedged any of its future gold sales. Management closely monitors commodity and fuel prices to determine the appropriate course of action to be taken by the Company.

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## Notes to the Consolidated Financial Statements

February 28, 2011

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### NOTE 11 – FINANCIAL INSTRUMENTS AND RELATED RISKS (Continued)

#### f) Fair Values

The carrying values of cash, accounts payable and accrued liabilities, amounts due to and from related parties, and short-term loans approximate their fair value based on their short-term nature.

### NOTE 12 – CAPITAL MANAGEMENT

The Company manages its share capital and short-term loans as capital, which as at February 28, 2011 totaled \$14,492,021 (November 30, 2010 – \$14,418,337) The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company may attempt to issue new shares or debt, or dispose assets to raise funds for operational and capital expenditure activities. There can be no assurance that the Company will be able to obtain debt or equity capital in the case of operating cash deficits.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Company does not pay out dividends in order to conserve cash reserves and to maximize ongoing development efforts. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.