



**Colt Resources Inc.**  
(An Exploration Stage Company)

# Consolidated Financial Statements

Fiscal years ended March 31<sup>st</sup> 2010 and 2009

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# Schwartz Levitsky Feldman

CHARTERED ACCOUNTANTS  
LICENSED PUBLIC ACCOUNTANTS  
TORONTO • MONTREAL

## AUDITORS' REPORT

To the Shareholders of  
Colt Resources Inc.  
(An Exploration Stage Company)

We have audited the consolidated balance sheet of Colt Resources Inc. (an exploration stage company) as at March 31, 2010 and the consolidated statements of operations and comprehensive loss and consolidated statements of shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at March 31, 2009 and for the year then ended were audited by another firm of Chartered Accountants who issued an opinion without reservation on those statements in their report dated June 16, 2009.

## **"SCHWARTZ LEVITSKY FELDMAN LLP"**

Toronto, Ontario  
July 21, 2010

Chartered Accountants  
Licensed Public Accountants

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Toronto, Ontario

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**COLT RESOURCES INC.**  
(An Exploration Stage Company)  
For the years ended March 31, 2010 and 2009

**Consolidated Balance Sheets**

As at	March 31, 2010	March 31, 2009
<b>Assets</b>		
<b>Current</b>		
Cash and Cash Equivalents	\$ 484,445	\$ 19,818
Sales taxes receivable	21,429	43,846
Taxes receivable	-	22,611
Prepaid expenses	40,098	7,886
	545,972	94,161
<b>Equipment (note 7)</b>	6,144	11,464
<b>Performance Bonds</b>	123,300	133,600
<b>Mineral Property Interests (note 8)</b>	2,867,390	1,932,549
	\$ 3,542,806	\$ 2,171,774
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 414,622	\$ 227,577
Due to related parties (note 11)	49,670	130,543
Convertible debenture (note 9)	271,038	287,917
	735,330	646,037
<b>Shareholders' Equity</b>		
<b>Capital Stock (note 10)</b>	5,596,992	3,358,545
<b>Contributed Surplus (note 10)</b>	824,596	434,421
<b>Equity Portion of Convertible Debenture (note 9)</b>	128,458	214,097
<b>Deficit</b>	(3,742,570)	(2,481,326)
	2,807,476	1,525,737
	\$ 3,542,806	\$ 2,171,774

Going Concern (note 1)

Related Party Transactions (note 11)

Commitments and Subsequent Events (notes 14 and 16)

Approved on behalf of the Board:

"David Johnson"

..... Director  
David Johnson

"Aurelio Useche"

..... Director  
Aurelio Useche

**COLT RESOURCES INC.**

(An Exploration Stage Company)

For the years ended March 31, 2010 and 2009

**Consolidated Statement of Operations and Comprehensive Loss**

For the years ended March 31	2010	2009
<b>Revenue</b>	\$ -	\$ -
<b>Expenses</b>		
Directors' compensation (note 10e)	\$ 246,963	\$ 248,423
Interest on convertible debenture (note 9)	111,401	152,780
Consulting (note 10e)	390,064	176,470
Salaries	70,313	129,463
Shareholder communication	168,498	87,269
Accounting and audit	39,560	47,179
Rent	40,772	33,339
Office	45,674	22,591
Property investigation	3,450	21,626
Listing and transfer agent fees	21,295	10,522
Filing fees	4,215	6,978
Bank charges	3,766	4,724
Insurance	3,384	3,494
Legal	81,890	2,823
Interest expense	8,264	0
Amortization expense	940	4,250
<b>Loss Before Other Items and Income Tax</b>	<b>(1,240,449)</b>	<b>(951,931)</b>
<b>Other Items</b>		
Interest Income	622	5,666
Write-off of mineral property interest (Note 8)		(90,000)
Loss on disposal of equipment	(9,652)	
Foreign exchange Gain (Loss)	(8,425)	3,013
	(17,455)	(81,321)
<b>Loss Before Income Tax</b>	<b>(1,257,904)</b>	<b>(1,033,252)</b>
<b>Income Tax</b>		
Future income tax (recovery) (note 13)	3,340	(47,815)
<b>Net Loss and Comprehensive Loss for Year</b>	<b>\$ (1,261,244)</b>	<b>\$ (985,437)</b>
<b>Loss Per Share, basic and diluted</b>	<b>\$ (0.05)</b>	<b>\$ (0.07)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>23,717,819</b>	<b>14,866,814</b>

**COLT RESOURCES INC.**  
(An Exploration Stage Company)  
For the years ended March 31, 2010 and 2009

**Consolidated Statements of Cash Flows**

For the years ended March 31	2010	2009
<b>Operating Activities</b>		
Net loss for year	\$ (1,261,244)	\$ (985,437)
Items not involving cash		
Accrued interest, accretion and financing fees on convertible debenture (note 9)	111,401	152,780
Future income tax (recovery)	3,340	(47,815)
Write-off of mineral property interest	-	90,000
Loss on disposal of equipment	9,652	-
Amortization	940	4,250
Stock-based compensation	374,086	36,650
Unrealized foreign exchange (gain) loss	23,704	(3,252)
	\$ (738,121)	\$ (752,824)
Changes in non-cash working capital		
Prepaid expenses	(32,212)	5,051
Sales taxes receivable	22,417	1,270
Taxes receivable	19,271	-
Accounts payable and accrued liabilities	249,545	3,431
Due to related parties	(80,873)	123,607
<b>Cash Used in Operating Activities</b>	<b>\$ (559,973)</b>	<b>\$ (619,465)</b>
<b>Investing Activities</b>		
Purchase of equipment	(5,272)	(1,691)
Performance bonds acquired	(13,737)	(19,893)
Expenditures on mineral property interests	(934,841)	(564,996)
<b>Cash Used in Investing Activities</b>	<b>\$ (953,850)</b>	<b>\$ (586,580)</b>
<b>Financing Activities</b>		
Proceeds from shares issued, net of issuance costs	1,976,676	596,700
<b>Cash Provided by Financing Activities</b>	<b>\$ 1,976,676</b>	<b>\$ 596,700</b>
Foreign Exchange Effect on Cash	1,774	3,252
<b>Inflow (Outflow) of Cash</b>	<b>\$ 464,627</b>	<b>\$ (606,093)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>\$ 19,818</b>	<b>\$ 625,911</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 484,445</b>	<b>\$ 19,818</b>
<b>Cash and Cash Equivalents Consist of:</b>		
Cash	\$ 484,445	\$ 19,818
Term deposits (note 5)	-	-
	\$ 484,445	\$ 19,818
<b>Non-Cash Operating, Investing and Financing Activities</b>		
Issuance of capital stock for settlement of liability	\$ 62,500	\$ 126,624
Issuance of capital stock for debt conversion	\$ 213,919	\$ 1,151,066
Issuance of capital stock for acquisition of mineral property interest	\$ -	\$ 90,000
Taxes receivable for exploration of mineral property interests	\$ -	\$ 22,611
Interest paid	\$ 8,264	\$ -
Income taxes paid	\$ -	\$ -

**COLT RESOURCES INC.**  
(An Exploration Stage Company)  
For the years ended March 31, 2010 and 2009

**Consolidated Statements of Changes in Shareholders' Equity**

	Number of Shares	Capital Stock	Equity Portion Convertible Debt	Contributed Surplus	Deficit	Shareholders' Equity
<b>Balance – March 31, 2008</b> , as restated	<b>10,028,056</b>	<b>\$1,573,182</b>	<b>\$807,860</b>	<b>\$393,183</b>	<b>(\$1,495,889)</b>	<b>\$1,278,336</b>
Common shares issued for cash (note 10(b))	1,739,000	\$434,750				\$434,750
Flow-through shares issued for cash (note 10(b))	711,000	\$177,750				\$177,750
Common shares converted from convertible debt (note 10d)	4,571,040	\$1,151,066	(\$593,763)			\$557,303
Common shares issued for mineral property interest (note 10(c))	750,000	\$90,000				\$90,000
Stock-based compensation / Finder Warrants (note 10(g))		(\$4,588)		\$41,238		\$36,650
Warrants and Options Exercised						
Cash finder's fees (note 10(b))		(\$15,800)				(\$15,800)
Renouncement of tax deductibility relating to flow-through shares		(\$47,815)				(\$47,815)
Net loss for the year					(\$985,437)	(\$985,437)
<b>Balance – March 31, 2009</b>	<b>17,799,096</b>	<b>\$3,358,545</b>	<b>\$214,097</b>	<b>\$ 434,421</b>	<b>(\$2,481,326)</b>	<b>\$1,525,737</b>
Common shares issued for cash (note 10(b))	12,979,908	\$1,901,346				\$1,901,346
Common shares converted from convertible debentures (note 10d)	609,121	\$213,919	(\$85,639)			\$128,280
Common shares issued for settlement of liabilities (note 10(c))	416,667	\$62,500				\$62,500
Stock-based compensation / Finder Warrants (note 10(g))				\$390,175		\$390,175
Warrants and Options Exercised	304,544	\$60,682				\$60,682
Net loss for the year					(\$1,261,244)	(\$1,261,244)
<b>Balance – March 31, 2010</b>	<b>32,109,336</b>	<b>\$5,596,992</b>	<b>\$128,458</b>	<b>\$824,596</b>	<b>\$ (3,742,570)</b>	<b>\$ 2,807,476</b>

# COLT RESOURCES INC.

(An Exploration Stage Company)

For the years ended March 31, 2010 and 2009

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. INCORPORATION, NATURE OF OPERATIONS AND GOING CONCERN

Colt Resources Inc. (the "Company") is a publicly traded junior mining exploration company engaged in the acquisition, exploration and development of mineral property interests in Portugal and Canada.

The Company's main focus is the continued exploration and development of its gold and tungsten properties in Portugal.

The company is a reporting issuer in the provinces of Alberta, British Columbia and Ontario. On March 1, 2007, the Company's common shares were approved for listing and commenced trading on the Canadian Trading and Quotation System ("CNQ") now known as the Canadian National Stock Exchange ("CNSX") under the ticker symbol "COLT". On September 26, 2008, the CNSX adopted a three character format and the Company's ticker symbol was changed to "GTP".

The company was incorporated under the name of "Colt Capital Corp". On July 18, 2007, the Company changed its name to "Colt Resources Inc." and consolidated its capital stock on a 5 to 1 basis.

During fiscal 2008, the Company incorporated a Portuguese subsidiary, Eurocolt Resources Unipessoal Lda. ("Eurocolt"). Eurocolt remains relatively inactive and currently represents the interests of Colt Resources Inc. with local law makers.

During fiscal 2009, the Company listed on the Open Market Segment of the Frankfurt Stock Exchange under the ticker symbol "P01".

The Company's ongoing investments in and expenditures on its mineral property interests comprise substantially all of the Company's assets. The recoverability of amounts shown for mineral property interests and related deferred costs are dependent upon the Company's ability to obtain the necessary financing to complete the exploration and development of its mineral property interests in order to attain profitable mining operations or receive proceeds from the disposition of its mineral property interests. The Company's ability to continue as a going concern is further dependent on being able to satisfy its liabilities as they become due. Management believes that the Company has the ability to raise sufficient funds to pay for its ongoing operating expenditures, meet its liabilities for the ensuing year as they fall due, and to fund cash payments for planned exploration programs. There can be no assurances that management's plan will be successful.

The Company reported net losses for the fiscal year ended March 31, 2010 and 2009. These recurring losses and the need for continued financing to meet its exploration and operating objectives raise concern about the risks associated with the company's business and as a going concern.

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

# COLT RESOURCES INC.

(An Exploration Stage Company)

For the years ended March 31, 2010 and 2009

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## 2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The functional and reporting currency of the Company is the Canadian dollar.

The significant accounting policies are summarized as follows:

### A. Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned foreign integrated subsidiary, Eurocolt. All intercompany balances and transactions have been eliminated.

### B. Foreign currency translation

Amounts recorded in foreign currency are translated into Canadian dollars using the temporal method as follows:

- (i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Revenues and expenses (excluding amortization, which is translated at the same rate as the related asset), at the exchange rate at the date of transaction.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss for the year.

### C. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and term deposits with maturities of less than one year at the date of acquisition. Term deposits included in cash and cash equivalents are highly liquid, can be converted to a known amount of cash at any time, and are held at Canadian chartered banks.

### D. Equipment

Equipment is recorded at cost and is amortized using the declining-balance basis over their estimated useful lives at the following annual rates:

Computer equipment	30%
Mining equipment	20%

Additions during the year are amortized at one-half of the annual rates.

### E. 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 interest acquisition costs and 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, sold, abandoned or the Company's mineral rights are allowed to lapse.



# COLT RESOURCES INC.

(An Exploration Stage Company)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Mineral property interests (Continued)

All capitalized costs are reviewed quarterly, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a mineral property interest exceeds its net recoverable amount (as estimated by quantifiable evidence of an economic geological resource or reserve or by reference to option or expenditure commitments) or when, in the Company's assessment, it will be unable to sell the mineral property interest for an amount greater than the deferred costs, the mineral property interest is written down for the impairment in value.

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

Capitalized costs will be depleted over the estimated useful lives of the properties upon commencement of commercial production or written-off if the properties are abandoned or the applicable mineral rights are allowed to lapse.

### F. Future income taxes

The Company follows the asset and liability method based on the accounting recommendations for future income taxes issued by the Canadian Institute of Chartered Accountants' ("CICA"). Under the asset and liability method, future income tax assets and liabilities are computed based on differences between the financial statement carrying values of assets and liabilities and their corresponding tax values, using substantially enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Future income tax assets can also result by applying unused loss carry-forwards and other deductions. The effect on future tax assets and liabilities of a change in tax rates and valuation allowances is recognized in operations in the period in which the change is enacted or substantially enacted. The amount of future income tax asset is limited to the amount of the benefit that is more likely than not to be realized.

### G. Stock-based compensation plans

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 properties, 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.

# COLT RESOURCES INC.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### H. Asset retirement obligations ("ARO")

The Company recognizes an estimate of the liability associated with an ARO in the 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 estimated 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 no material AROs to record in the consolidated financial statements.

### I. Flow-through shares

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for income tax purposes by the investors who purchased the shares. The proceeds from shares issued under flow-through share financing agreements are credited to capital stock and the tax benefit of the exploration expenditures incurred under these agreements are renounced to the purchaser of the shares. The tax impact to the Company of the renouncement is recorded on the date that the renunciation is filed with taxation authorities, through a decrease in capital stock and the recognition of a future tax liability.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not previously recognized, due to the recording of a valuation allowance, are recognized as a recovery of future income taxes in the consolidated statement of operations.

### J. Interest income

Interest income on the term deposits is recognized on an accrual basis at the stated rate over the term to maturity.

### K. 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. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, have not been included in the calculation of the weighted average number of common shares outstanding.

# COLT RESOURCES INC.

(An Exploration Stage Company)

For the years ended March 31, 2010 and 2009

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### L. Use of estimates

The preparation of financial statements in conformity 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 period. Significant estimates made in the preparation of these financial statements include the valuation of charges related to financing, impairment of mineral property interests, asset retirement obligations, environmental obligations, accrued liabilities, allocation of debt and equity portions of convertible debentures, rate of accretion for deferred charge of conversion feature, rates for amortization of equipment, assumptions for stock-based compensation expense and determination of the valuation allowance for future income tax assets. While Management believes the estimates to be reasonable; actual results could differ from those estimates and could impact future results of operations and cash flows.

### M. Financial instruments and comprehensive income

Financial assets and financial liabilities that are purchased or assumed with the intention of generating profits in the near term are classified as held-for-trading. Any financial instrument can be designated as held-for-trading as long as its fair value can be reliably measured. These instruments are measured at fair value with subsequent changes in fair value included in net income (loss).

Financial assets that have a fixed maturity date and fixed or determinable payments where the Company intends and has the ability to hold the financial asset to maturity are classified as held-to-maturity and measured at amortized cost using the effective interest rate method. Any gains and losses arising from the sale of held-to-maturity financial assets are included in net income (loss).

Financial assets classified as loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are included in net income (loss).

Available-for-sale assets are those financial assets that are not classified as held-for-trading, held-to-maturity, or loans and receivables, and are carried at fair value. Any gains or losses arising from the change in fair value are recorded as other comprehensive income (loss). Upon the sale of the available-for-sale asset, cumulative gains and losses arising from the sale are included in net income (loss).

Financial liabilities that are not classified as held-to-maturity are classified as other financial liabilities, and are carried at amortized cost using the effective interest method. Any gains or losses arising from the realization of other financial liabilities are included in net income (loss).

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

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### N. Financial instruments and comprehensive income (loss) (Continued)

Other comprehensive income (loss) consists of unrealized gains and losses that under Canadian GAAP are required to be recognized in a period but excluded from net income for that period. These consolidated financial statements do not contain any other comprehensive income (loss).

### O. Accounting for equity units

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated entirely to common shares using the relative fair value approach

### P. Convertible Debenture

Proceeds from convertible debentures are allocated between the debt and equity component by first allocating the proceeds to the equity component based on its fair value as determined using the Black-Scholes option pricing model with the residual value being allocated to the debt component. The debt component accretes over the term of the debt using the effective interest rate method such that upon maturity the debt balance recorded will equal the maturity value of the remaining outstanding debt. The related financing costs are recorded against the debt and are amortized over the term to maturity. The increase in the debt balance and amortization of related financing costs are reflected as interest, accretion and financing fees on convertible debentures in the consolidated statement of operations. The value of the equity component remains unchanged in future periods except upon conversion when the related debt and equity components are reclassified to capital stock.

### Q. Share issuance costs

Costs incurred in connection with the issuance of capital stock are netted against the proceeds received

### R. Effective April 2009, the Company adopted the new CICA Handbook Section 3064 `Goodwill and Intangible Assets`, which replaces Section 3062 `Goodwill and Other Intangible Assets`, and results in the withdrawal of section 3450 `Research and Development Costs`. This section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Adoption of this standard had no material impact on the Consolidated Financial Statements.

## 3. CHANGES IN ACCOUNTING POLICIES

### A. Financial Instrument disclosures

Effective April 1, 2008 the Company adopted, CICA Handbook Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation", which together comprise a complete set of disclosure requirements for financial instruments. Section 3862 requires disclosure of additional detail by financial instruments; Section 3863 requires disclosure of additional detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

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## 3. CHANGES IN ACCOUNTING POLICIES (Continued)

As a result of the adoption of these standards, additional disclosures on the risks of certain financial instruments have been included in note 4.

### B. Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee (the "EIC") of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is to be applied retrospectively without restatement of prior periods in interim and annual financial statements for periods ending on or after the date of issuance of EIC-173. On the date of adoption, the Company re-measured its financial assets and liabilities as appropriate and there was no impact on the consolidated financial statements arising from the adoption of EIC-173. In accordance with EIC-173, prior period consolidated financial statements have not been restated.

### C. Mining Exploration Costs

In March 2009, the EIC issued EIC-174, "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mining properties. It also provides guidance for development and exploration stage entities that cannot estimate future cash flows from its properties in assessing whether impairment in such properties is required. EIC-174 also provides additional discussion on recognition of long-lived assets. EIC-174 is to be applied in interim and annual financial statements for periods ending on or after the date of issuance of EIC-174. The adoption of this section did not have a significant impact on the Company's consolidated financial statements.

### D. Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-Controlling Interests". These sections replace former CICA 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 business 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. The Company is currently evaluating the impact of the adoption of these sections.

### E. International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Canadian Accounting Standards Board confirmed the changeover to IFRS from Canadian GAAP will be required for Canadian publicly-listed

# COLT RESOURCES INC.

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## 3. CHANGES IN ACCOUNTING POLICIES (Continued)

companies effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company will adopt IFRS commencing for interim and fiscal period reporting commencing April 1, 2011. The IFRS standards will require the restatement of comparative financial statements of the Company for the interim periods and for the year ended March 31, 2011 and earlier where applicable. While the Company has begun developing its IFRS conversion plan, it cannot reasonably disclose the impact on its financial reporting at this time but will be discussing the plan in its Management Discussion and Analysis for the year ended March 31, 2010.

## 4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The company adopted the amendments to CICA Section 3862 for these annual financial statements. The amendments require the use of a fair value hierarchy in order to classify the fair value disclosures related to the company's financial assets and financial liabilities that are recognized in the balance sheet at fair value.

The fair value hierarchy has the following levels:

- Level 1: Quoted market prices in active markets for identical assets and liabilities
- Level 2: Inputs other than quoted market prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: Unobservable inputs such as inputs for the assets or liability that are not based on observable market data.

The fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

### (a) Financial instruments

The carrying values of cash, short term investments sundry receivable, accounts payable and accrued liabilities, accounts payable and exploration expenses and loan payable approximate their fair values due to the relative short periods to maturity of these instruments.

The carrying values of financial assets by category at March 31, 2010 are as follows:

<b>Financial Assets</b>	<b>Held-for-trading</b>	<b>Loans and receivables</b>	<b>Held to Maturity</b>
Cash and cash equivalents	\$ 484,445	\$	
Performance bonds			123,300
	\$ 484,445	\$	\$ 123,300

# COLT RESOURCES INC.

(An Exploration Stage Company)

For the years ended March 31, 2010 and 2009

## 4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

The carrying values of financial liabilities by category at March 31, 2010 are as follows:

Accounts payable and accrued liabilities	\$	414,622
Amounts due to related parties		49,670
Convertible debenture		271,038
	\$	735,330

### (b) Fair value

The carrying values of the Company's cash and equivalents, performance bonds and accounts payable and accrued liabilities approximate their fair values because of the relative short-term maturities of these financial instruments. The fair value of cash and cash equivalents includes the balance of interest receivable. Cash and cash equivalents and performance bonds are reflected on the balance sheet at fair value using level 1 hierarchy because measurements are determined using quoted prices in active markets for identical assets.

The Company's convertible debenture is segregated into its debt and equity components at the date of issue, in accordance with the substance of the contractual agreements. The value of the conversion option makes up the equity component of the instrument and was recorded upon initial recognition using the Black-Scholes option pricing model. The debt component of the instrument was recorded at initial recognition using the residual approach and is carried at amortized cost using the effective interest method.

### (c) Credit risk

The Company is exposed to credit risk with respect to cash and cash equivalents and performance bonds. The risk arises from the non-performance of counterparties of contractual financial obligations. The Company manages credit risk by maintaining cash and cash equivalents and performance bonds with major financial institutions.

At March 31, 2010, the Company's maximum exposure to credit risk is as follows:

		2010	2009
Cash held in bank accounts	\$	484,445	19,818
Performance bonds (held in Portugal)		123,300	133,600
	\$	607,745	153,418

The Company is not exposed to concentration of credit risk with respect to cash and cash equivalents or performance bonds as the amounts are held with major financial institutions in Canada and Portugal.

# COLT RESOURCES INC.

(An Exploration Stage Company)

For the years ended March 31, 2010 and 2009

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## 4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

### (d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows used in operations and exploration activities, anticipated from investing and financing activities, and taking into account the Company's holdings of cash and cash equivalents.

As at March 31, 2010, the Company has cash and cash equivalents of \$484,445 and a working capital deficiency of \$189,358 (\$263,959 for 2009). Accounts payable and accrued liabilities have contractual maturities of 30 days or less and are subject to normal trade terms, amounts due to related parties are due on demand and convertible debenture is due at maturity on June 28, 2010. The Company will require additional equity financing to meet its existing obligations as well as administrative overhead costs and planned exploration activities on its mineral property interests in fiscal 2011. While the Company has been successful in raising debt and equity funds in the past, there exists uncertainty whether it will be able to raise sufficient funds in the future.

### (e) Market risk

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

#### (i) Interest rate risk

The Company's cash and equivalents generally consist of cash held in bank accounts and term deposits that earn interest at variable interest rates. Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations. In the past, the company has managed interest rate risk by purchasing highly liquid, short-term investments from major financial institutions. At March 31, 2010, cash and cash equivalents consisted entirely of cash held in bank accounts; therefore, fluctuations in market rates do not have a material impact on estimated fair values at year-end.

The convertible debenture is not subject to significant interest rate risk.

#### (ii) Foreign currency risk

The Company operates in Canada and Portugal. The Company is exposed to foreign currency risk to the extent that financial instruments are denominated in European Euro.

As at March 31, 2010 the Company's significant exposures to foreign currency risk, based on balance sheet values, were to the European Euro. The company held financial instruments denominated in European Euros consisting of €90,000 in guarantee deposits and €3,874 in cash for a total of €93,874

As at March 31, 2010 the Company used a foreign exchange rate of CDN\$1.37 for €1.00.

The Company has not entered into any foreign currency contracts to mitigate the risk. Our sensitivity analysis assumes all other variables remain constant and are based on above net exposures. A 10% appreciation or depreciation of the Euro dollar vis-à-vis the Canadian dollar would result in \$8,148 increase or decrease respectively, in net income and shareholder equity



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## 4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

### (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 currency risk. The Company is not exposed to significant other price risk.

## 5. SHORT TERM INVESTMENTS (DEPOSITS)

The company did not hold term deposits, included in cash and cash equivalents, at March 31, 2010.

## 6. RECEIVABLES

The company did not report any amounts receivable at March 31 2010.

## 7. EQUIPMENT

	March 31, 2010			March 31 2009	
	Cost	Accumulated Amortization	Net	Net	
Computer equipment	\$ 1,790	\$ -	\$ 1,790		9,651
Mining equipment	5,823	1,469	4,354		1,813
	\$ 7,613	\$ 1,469	\$ 6,144		11,464

## 8. MINERAL PROPERTY INTERESTS

### PORTUGUESE MINING INTERESTS

#### A. Penedono Property (GOLD)

The company holds a 100% interest on the Penedono Property in Portugal, which comprises three separate blocks covering 102.471 km<sup>2</sup>, located in north central Portugal, four hours driving time from Lisbon. Roads provide ready access throughout the concession, infrastructure and local resources are excellent and the local population is supportive of resource development.

In respect to the formal transference to the Company of the Penedono Exploration License, the Company has lodged a performance bond in the form of a bank guarantee for the amount of €50,000 in favor of the Government of Portugal.

On May 2007, the Company entered into a Definitive Agreement with Rio Narcea Gold Mines S.A. Sucursal Em Portugal ("Rio Narcea"), whereby Rio Narcea agreed to assign all of the rights, benefits and obligations covered under the exploration contract dated October 29, 2004 with the Government of Portugal in respect to the Penedono Gold Property (the "Penedono Exploration License"). In consideration for the assignment, Colt Resources issued fully paid and non-assessable 200,000 restricted common shares of the Company on the closing date of the transaction.

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## 8. MINERAL PROPERTY INTERESTS (Continued)

Of these 200,000 restricted common shares, 50,000 common shares became tradable effective on each December 29, 2007, March 29, 2008, June 29, 2008 and September 29, 2008. Furthermore, from commercial production and under certain terms and conditions, the Company is obligated to pay to Rio Narcea a 1% NSR royalty to a maximum amount of US \$1,000,000.

### ***Contractual Obligations***

- Under certain terms and conditions, Colt is also obligated to pay Rio Narcea Portugal (the seller of the concession) 1% Net Smelter Returns Royalty for a maximum amount of US \$1,000,000
- Colt is obligated to pay to the Portuguese Government Exploration License fees, as follows:
  - €5,125 on or before October 29, 2007 (Paid)
  - €2,562.50 on or before October 29, 2008 (Paid)
  - €5,125 on or before October 29, 2009 (Paid)
- Should the property be placed into commercial production, Colt is obligated to pay 4% Net Smelter Returns Royalty to the Portuguese Government

### B. Armamar-Meda Property (TUNGSTEN)

The company holds a 100% interest on the Armamar-Meda property in Portugal, which covers 436 km<sup>2</sup> located in north central Portugal. Paved and gravel roads provide good access throughout the concession. Infrastructure and local resources are excellent.

On December 10, 2007, the Company entered into a prospecting and exploration license agreement with the Government of Portugal whereby the Company has been granted the exclusive right to prospect and explore for base and precious metals on the property, which is partially contiguous to the Company's Penedono Exploration Concession (the "Armamar-Meda Concession and Exploration License").

On January 22, 2008, the Company lodged a bank guarantee in favor of the Government of Portugal, as a performance bond, for the amount of €20,000 in respect to the Armamar-Meda Concession and Exploration License.

### ***Contractual Obligations***

- The Initial Term of the Armamar Meda Exploration License is for three years (which started December 10, 2007) and can be extended twice on an annual basis. During the Initial Term, Colt is obligated to incur prospecting and exploration expenditures of not less than €25,000 by December 10, 2008 (Incurred), €50,000 by December 10, 2009 (Incurred) and €75,000 by December 10, 2010 (Incurred). Upon the expiry of the Initial Term, Colt shall be required to relinquish, on an annual basis, 50% of the area covered by the Armamar Meda Exploration License.
- During the Extended Term, Colt is obligated to incur exploration expenditures on an annual basis of not less than €100,000. During this time, Colt is obligated to pay to the Government of Portugal and annual license fee in the amount of €35 per sq. km. of ground covered by its license.
- Upon the completion of the Initial and Extended Terms, Colt may apply for an Exploitation License, which if granted, shall have a term of 30 years and which may be extended by the approval of the Portuguese Government, for a period not to exceed 20 years.

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(An Exploration Stage Company)

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## 8. MINERAL PROPERTY INTERESTS (Continued)

- Upon the granting of the Exploitation License, and in the event that mining activities are to take place, then Colt shall be obligated, at Colt's sole discretion, either to pay 10% of the net income derived from its mining activities or, alternatively, pay Net Smelter Returns Royalty on production at NSR rates ranging from 1% to 4% depending on the price of gold. Additionally, as soon as the Exploitation License is granted to Colt, and provided that production from the mining activities is determined to exceed 1,000,000 ounces of gold or of gold equivalent during the life of the mining activities, then Colt will be obligated to pay € 100,000 as a commercial discovery bonus to the Government of Portugal.

### C. Moimenta-Almendra Property (TUNGSTEN and GOLD)

The company holds a 100% interest on the Moimenta-Almendra Property in Portugal, which is an area made of 3 separate blocks totalling 566.58 km<sup>2</sup> in area, namely from West to East (attached map): Moimenta block (98.00km<sup>2</sup>), Castainço block (102.72 km<sup>2</sup>), Almendra block (365.86 km<sup>2</sup>).

On January 10, 2008, the Company entered into a prospecting and exploration license agreement with the Government of Portugal (the "Moimenta Almendra License") whereby the Company has been granted the exclusive right to prospect and explore the Moimenta Almendra property which is partially contiguous to the Penedono and Armamar-Meda Exploration concessions.

The initial term of the Moimenta Almendra License is for a period of three years ending January 10, 2011 (the "Initial Term"), which can be extended twice on an annual basis (the "Extended Term"). During the Initial Term, Colt is obligated to incur prospecting and exploration expenditures of not less than €25,000 by January 10, 2009 (incurred), €50,000 by January 10, 2010, and €75,000 by January 10, 2011. During the Extended Term, Colt is obligated to incur exploration expenditures on an annual basis of not less than €100,000. During the Initial and Extended Terms, Colt is obligated to pay to the Government of Portugal an annual fee in the amount of €25 per square kilometer of ground covered by the Moimenta Almendra License.

In respect to the Moimenta Almendra License, Colt has lodged a bank guarantee, as a performance bond, for the amount of €10,000 in favor of the Government of Portugal.

#### ***Contractual Obligations***

- Contractual periods: initial period of three years, followed by two extensions of one year each; 50% area reduction at each extension.
- Bond (bank guarantee): € 10,000.
- The initial term of three years ending January 10, 2011 (the "Initial Term"), which can be extended twice on an annual basis (the "Extended Term").
- Colt is obligated to incur prospecting and exploration expenditures of not less than €25,000 by January 10, 2009 (incurred), €50,000 by January 10, 2010 and, €75,000 by January 10, 2011.
- During the Extended Term, Colt is obligated to incur exploration expenditures on an annual basis of not less than €100,000 and shall be required to relinquish 50% of the area covered by the license.
- Upon the completion of the Initial and Extended Term, Colt may apply for an Exploitation License, which, if granted, shall have a term of 30 years and which may be extended by Portuguese Government approval for a period not to exceed 20 years (the "Exploitation License").

# COLT RESOURCES INC.

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For the years ended March 31, 2010 and 2009

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## 8. MINERAL PROPERTY INTERESTS (Continued)

- Yearly tax for concession: €25 per km<sup>2</sup>, totalling €14,164.50 for each of the first three years (subsequently reduced upon reduction of area).

### D. Santa Margarida do Sado Property (Volcanic Massive Sulfide)

The company holds a 100% interest on the Santa Margarida do Sado Property in Portugal, which consists of 360.46 km square of prospective ground situated on the western extension of the Iberian Pyrite Belt, where the favourable basement geology is concealed under Tertiary cover sediments of the Lower Sado Basin. The IPB extends for more than 250 km from southern Spain through southern Portugal and is the host for numerous volcanogenic massive sulphide deposits in both countries, including several giant deposits with >100 Mt total geologic resources, such as Rio Tinto and Tharsis in Spain, and Aljustrel and Neves-Corvo in Portugal.

On November 30<sup>th</sup> 2009 the Company lodged a bank guarantee in favor of the Government of Portugal, as a performance bond, for the amount of €10,000 in respect to this Concession and Exploration License.

#### ***Contractual Obligations***

- On September 23, 2009 the Company entered into a prospecting and exploration license agreement for a new concession with the Government of Portugal (the "Santa Margarida do Sado License") whereby the Company has been granted the exclusive right to prospect and explore the Santa Margarida do Sado Property in Portugal's Iberian Pyrite Belt consisting of 360.46 square kilometres.
- The concession was granted for a period of 4 years with a 50% reduction at the end of the 2nd and 3rd year respectively. The required minimum investment for the 1st year is 100,000 Euro, 2nd year 300,000 Euros and 3rd and 4th year each 500,000 Euro.

## CANADIAN MINING INTERESTS

### E. Extra High Mineral Property (GOLD, ZINC AND LEAD)

The company holds a 67% interest on the Extra High property, which is located 60 km north from Kamloops B.C., Canada. Access to the property is by good gravel logging roads to the 1,450 metre elevation.

On January 23, 2008, Colt entered into an Option Agreement with Zab Resources Inc., whereby Colt has the right and option to acquire, in two separate equal tranches, Zab's 66% undivided interest in the Extra High Property. Pursuant to the Option Agreement, Colt has exercised the first tranche of the option by making a cash payment of \$250,000 to Zab and has acquired from Zab a 33% undivided interest in the Property. As a result of exercising the first tranche of the option, Colt now holds a 67% undivided interest in the Property and has become the operator of the Property.

#### ***Contractual Obligations***

Each party shall contribute its proportionate share of the property expenditures. Should any party's interest be diluted to less than a 10% undivided interest in the Property, then its interest will forever be converted to a 0.5% NSR royalty.

# COLT RESOURCES INC.

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## 8. MINERAL PROPERTY INTERESTS (Continued)

### F. Gaspésie Properties (Various Minerals)

On December 15, 2008 the Company entered into an Agreement with Diagnos, a publicly traded company to acquire a 100% interest in four mineral properties (the "Gaspésie properties") located in the Gaspésie Region of the Province of Quebec (the "Gaspésie Agreement"). The terms of the proposed acquisition include the acquisition of the mineral claims on the four properties for \$35,150 and incurring exploration expenditures in the amount \$214,850. This total debt was to be settled by a payment of \$62,500 in cash and \$187,500 in restricted common shares of the Company at a deemed value of \$0.25 per share for 750,000 common shares, on or before March 27, 2009.

During the year ended March 31, 2009, the Company issued 750,000 common shares to Diagnos valued at their quoted market value on the date of issue of \$90,000 or \$0.12 per common share which resulted in a reduction of mineral property acquisition and exploration costs of \$97,500.

The Gaspésie Agreement was amended by letter dated March 26, 2009, whereby the due date of the payment of \$62,500 in cash was extended to May 15, 2009 and further amended by letter dated May 15, 2009 whereby the Company issued 416,667 common shares (issued) to Diagnos at a deemed value of \$0.15 per share for the Gaspésie properties and is obligated to pay Diagnos \$27,662 in cash.

Additionally, Diagnos will retain a 2% NSR to a maximum of \$1,000,000 at any time within the first five years of an economic discovery. The Company is required to spend a minimum of \$450,000 in exploration and drilling on the Gaspésie properties by December 15, 2010.

### G. Uranium Properties

On October 5, 2007, the Company entered into a Property Option Agreement regarding the "Uranium Properties" with Diagnos Inc. ("Diagnos"), as further amended by a letter agreement dated November 28, 2007, whereby Diagnos has agreed, under certain terms and conditions, to grant the Company the sole and exclusive option to purchase a 100% undivided right, title and interest, subject only to a 2% NSR royalty, in two uranium exploration prospects, which are located in the province of Quebec. The Company paid Diagnos \$90,000 on February 8, 2008 of which \$18,000 related to the acquisition for claims and \$72,000 was for exploration expenditures.

During the year ended March 31, 2009, the Company decided not to pursue the Uranium properties option and as such wrote-off \$90,000 to operations.

### 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.

# COLT RESOURCES INC.

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## 8. MINERAL PROPERTY INTERESTS (Continued)

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 properties are abandoned or the claims allowed to lapse.

### TITLE

Although the Company has taken steps to verify the title to mineral properties in which it has or has a right to acquire an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee title (whether of the Company or of any underlying vendor(s) from whom the Company may be acquiring its interest). Title to mineral properties may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples.

### ENVIRONMENTAL OBLIGATIONS

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. If the restrictions adversely affect the scope of exploration and development on the mineral property interests, 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.

# COLT RESOURCES INC.

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## 8. MINERAL PROPERTY INTERESTS (Continued)

### SUMMARY OF EXPENDITURES

The following chart summarizes the capitalized expenditures for each mineral property over the last two years

	Canada			Portugal				Total
	Extra High (note 8e)	Uranium Properties (note 8g)	Gaspésie Properties (note 8f)	Penedono Gold (note 8a)	Armamar- Meda (note 8b)	Moimenta Almendra (note 8c)	Sda Margarida (note 8d)	
<b>Balance, March 31, 2008</b>	<b>\$ 523,356</b>	<b>\$ 90,000</b>	<b>\$ 0</b>	<b>\$ 596,837</b>	<b>\$ 53,397</b>	<b>\$ 4,116</b>	<b>\$ 0</b>	<b>\$ 1,267,706</b>
Acquisition costs			35,150					35,150
Property development expenditures								
Mineral exploration	7,172		123,460	406,310	154,570	48,826		740,338
Mineral exploration tax credit	(2,151)		(18,494)					(20,645)
Write-off of mineral property interest		(90,000)						(90,000)
<b>Balance, March 31, 2009</b>	<b>\$ 528,377</b>	<b>\$ 0</b>	<b>\$ 140,116</b>	<b>\$ 1,003,147</b>	<b>\$ 207,967</b>	<b>\$ 52,942</b>	<b>\$ 0</b>	<b>\$ 1,932,549</b>
Acquisition costs							20,216	20,216
Mineral exploration	4,733		(4,117)	489,931	322,656	88,321	13,101	914,625
<b>Balance, March 31, 2010</b>	<b>\$ 533,110</b>	<b>\$ 0</b>	<b>\$ 135,999</b>	<b>\$ 1,493,078</b>	<b>\$ 530,623</b>	<b>\$ 141,263</b>	<b>\$ 33,317</b>	<b>\$ 2,867,390</b>

## 9. CONVERTIBLE DEBENTURE

At March 31, 2010, convertible debentures with a carrying value of \$271,038 (2009 - \$287,917) due June 28, 2010, bearing interest at 10% per annum due at maturity, were outstanding. The debt is convertible into units, each unit consisting of one common share and one share purchase warrant. If converted before June 29, 2008, the conversion price was \$0.25 per unit; if converted before June 29, 2009, the conversion price will be \$0.30 per unit; and if converted before June 29, 2010, the conversion price will be \$0.35 per unit. Each warrant is exercisable to purchase one common share at \$0.25 to June 29, 2008, \$0.30 to June 29, 2009 and \$0.35 to June 29, 2010, expiring on June 29, 2010 (note 10(f)).

During the three months ended June 30, 2009, \$150,000 of principal and \$33,703 of interest was redeemed for 609,121 units. The non-equity portion related to this conversion in the amount of \$128,280, the equity portion related to this conversion in the amount of \$85,639 and accrued interest in the amount of \$33,703 were recorded as a reduction in the convertible debenture (notes 10(d) and (f)).

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**9. CONVERTIBLE DEBENTURE** (continued)

	<b>Mar 31, 2010</b>	<b>March 31, 2009</b>
Convertible debenture, beginning balance	\$ 287,917	\$ 692,440
Interest	111,401	152,780
Conversion of debenture	(128,280)	(557,303)
<b>Convertible debenture, balance</b>	<b>\$ 271,038</b>	<b>\$ 287,917</b>
Equity portion of convertible debenture, beginning balance	\$ 214,097	\$ 807,860
Equity allocation of conversion	(85,639)	(593,763)
<b>Equity portion of convertible debenture, balance</b>	<b>\$ 128,458</b>	<b>\$ 214,097</b>

During 2008, using the Black-Scholes pricing model, the Company valued the equity portion of the convertible debenture by assuming a 188% volatility, an interest rate of 4.56%, and a term to expiry of 3 years and attributed this value to the deferred charge for conversion feature, which is accreted over the term to maturity using the effective interest rate method, by charges to operations.

The debt portion of the convertible debenture is amortized to its maturity value plus accrued interest using an effective interest rate of 46%.

**10. CAPITAL STOCK**

(a) Authorized

Unlimited number of common voting shares  
 Unlimited number of preferred shares, issuable in series

i. Consolidation

On July 18, 2007, the Company consolidated its 29,258,915 old common shares, exchanging 5 (old) common shares for 1 (new) common share resulting in 5,851,783 new common shares outstanding. All common shares and per share amounts have been restated to give retroactive effect to the 5:1 share consolidation that took effect on July 18, 2007.

(b) Issued

During 2010 and 2009, the Company closed the following non-brokered private placements:

- i. During 2009, the Company closed a non-brokered private placement with various investors for a total of 1,660,000 units at \$0.25 per unit for gross proceeds of \$415,000. Each unit consists of one common share and one share purchase warrant, exercisable at \$0.30 per share for 36 months.



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## 10. CAPITAL STOCK (Continued)

- ii. During 2009, the Company closed a non-brokered private placement for a total of 60,800 flow-through units at \$2.50 per unit for gross proceeds of \$152,000. Each unit consists of nine flow-through common shares, one non-flow through common share and ten warrants. Each warrant entitles the holder to purchase one non flow-through common share at \$0.35 per share for 12 months. Issue costs related to this issuance totaled \$15,438 of which \$12,160 was paid in cash and \$3,278 was the fair value of the 48,640 finders' warrants issued (note 10(f)).
  - iii. During 2009, the Company closed a non-brokered private placement for a total of 18,200 flow-through units at \$2.50 per unit for gross proceeds of \$45,500. Each unit consists of nine flow-through common shares, one non-flow through common share and ten warrants. Each warrant entitles the holder to purchase one non flow-through common share at \$0.35 per share for 12 months. Issue costs related to this issuance totaled \$4,950 of which \$3,640 was paid in cash and \$1,310 was the fair value of the 14,560 finders' warrants issued (note 10(f)).
  - iv. During 2010, the Company closed a non-brokered private placement for a total of 8,999,908 units at \$0.11 per unit for gross proceeds of \$989,990. Each unit consisted of one common share and a half share purchase warrant. For every two warrants the holder can purchase one common share at \$0.15 per share expiring June 30 2011. Finder Fees of 8% totaling \$6,000 in cash were paid.
  - v. During 2010, the Company closed a non-brokered private placement for a total of 3,576,544 units at \$0.25 per unit for gross proceeds of \$894,136. Each unit consisted of one common share and a half share purchase warrant. For every two warrants the holder can purchase one common share at \$0.45 per share expiring February 25, 2012. Finder Fees of totaling \$41,000 were paid.
- (c) Issued for mineral property interest and settlement of liabilities
- During 2009, the Company issued 750,000 common shares valued at \$0.12 per share based on the quoted market value of the Company's shares on the date of issue for the settlement of exploration expenditures on the Gaspésie properties (note 8(c)).
- During 2010, the Company issued 416,667 common shares valued at \$0.15 based on the quoted market value of the Company's shares on the date of issue for settlement of liabilities related to exploration expenditures on the Gaspésie properties (note 8c)
- (d) Issued for conversion of debenture
- During 2009, convertible debenture valued at \$1,151,066 was converted into units at a rate of \$0.25 per unit. Each unit consisted of one common share and one warrant yielding 4,571,040 common shares and warrants (notes 9 and 10(f)).
- During 2010 convertible debenture valued at \$213,919 was converted into units at a rate of \$0.35 per unit. Each unit consisted of one common share and one warrant yielding 609,121 common shares and warrants (notes 9 and 10(f)).

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**10. CAPITAL STOCK (Continued)**

(e) Stock-Based Compensation

The Company has a stock option plan in which officers, directors, employees, and consultants can participate. The total number of common shares reserved for issuance under the current option plan (2007 Plan) cannot exceed 20% of the common shares outstanding at the date of the grant. The terms of the options are set by the Board of Directors at the time of grant with an exercise price not less than \$0.05 per share and a term not exceeding five years.

The Company uses the fair value method using the Black-Scholes option pricing model to value and account for stock options issued during the reporting period. During the fiscal year ended March 31, 2010 a total of 3,526,580 options were issued to directors, officers and consultants with a strike price of \$0.25 and five year expiry. The company valued and recorded the issuances at \$374,086. The amount was allocated to Directors Compensation and Consulting Expense.

The fair value of each option grant was calculated using the following weighted average assumptions:

	2010	2009
Expected life (years)	2-5	2
Risk Free Rate	1.27-2.41%	1.10%
Volatility	85.00%	74.60%
Dividend yield	0.00%	0.00%

The following summarizes the stock option activity during the fiscal year ended March 31, 2010 and 2009:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years
Balance, March 31, 2008	2,005,611	\$ 0.25	4.74
Options granted	600,000	\$ 0.25	
Options forfeited	(829,031)	\$ 0.25	
Balance, March 31, 2009	1,776,580	\$ 0.25	2.78
Options granted	3,526,580	\$ 0.25	
Options forfeited	(1,003,160)	\$ 0.25	
Options Exercised	(150,000)	\$0.25	
Balance, March 31, 2010	4,150,000	\$ 0.25	2.98

**COLT RESOURCES INC.**

(An Exploration Stage Company)

For the years ended March 31, 2010 and 2009

**10. CAPITAL STOCK (Continued)**

The following stock options are outstanding and exercisable at the fiscal year ended March 31, 2010:

Expiry Date	Exercise Price	Number of Options	
		March 31, 2010	March 31, 2009
June 30, 2009	\$0.25		500,000
March 19, 2011	\$0.25	100,000	100,000
February 22, 2012	\$0.25		53,160
March 19, 2013	\$0.25	850,000	1,123,420
April 8, 2014	\$0.25	750,000	0
May 25, 2011	\$0.25	200,000	0
May 28, 2014	\$0.25	100,000	0
November 23, 2014	\$0.25	2,150,000	0
Total stock options outstanding and exercisable		4,150,000	1,776,580

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate

## (f) Warrants

The following summarizes the warrant activity during the fiscal year ended March 31, 2010 and 2009:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years
Balance, March 31, 2008	4,429,850	\$ 0.30	2.59
Warrants expired	(310,720)	\$ 0.25	
Warrants issued	7,084,240	\$ 0.30	
Balance, March 31, 2009	11,203,370	\$ 0.30	1.62
Warrants expired / Exercised	(1,007,744)	\$ 0.29	
Warrants issued	6,834,074	\$ 0.24	
Balance, March 31, 2010	17,029,700	\$ 0.29	1.20

# COLT RESOURCES INC.

(An Exploration Stage Company)

For the years ended March 31, 2010 and 2009

## 10. CAPITAL STOCK (Continued)

At March 31, 2010, the following warrants are outstanding. Each warrant entitles the holder to purchase one common share at the exercise price per common share with the following expiry dates:

Expiry Date	Exercise Price	Number of Warrants	
		2010	2009
September 28, 2009	\$0.25	-	48,640
September 29, 2009	\$0.30	-	608,000
November 27, 2009	\$0.25	-	4,960
November 27, 2009	\$0.35	-	62,000
December 30, 2009	\$0.25	-	9,600
December 30, 2009	\$0.35	-	120,000
December 30, 2010	\$0.30	3,908,000	3,908,000
June 29, 2010	\$0.30/\$0.35	-	4,782,170
June 29, 2011	\$0.30	609,121	-
June 29, 2011	\$0.35	4,782,170	-
June 30, 2011	\$0.15	4,345,409	-
July 30, 2011	\$0.30	1,360,000	900,000
November 30, 2011	\$0.30	-	460,000
February 25, 2012	\$0.45	1,590,000	-
March 3, 2012	\$0.30	300,000	300,000
March 23, 2012	\$0.45	135,000	-
<b>Total warrants outstanding and exercisable</b>		<b>17,029,700</b>	<b>11,203,370</b>

During 2009, 48,640 finders' warrants related to the issuance of a private placement of 60,800 flow-through units exercisable for one unit at \$0.25 per unit for one year were issued (note 10b(ii)). Each unit consists of one common share and one share purchase warrant exercisable for \$0.35 per share for one year from the issuance of the finders' warrants. The finders' warrants were valued using the Black-Scholes pricing model with the following assumptions: 80.44% volatility, 2.66% risk free interest rate, 0.00% dividend yield, and 1 year expected life. The fair value of the warrants in the amount of \$3,278 was recognized as share issuance costs and credited to contributed surplus.

# COLT RESOURCES INC.

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## 10. CAPITAL STOCK (Continued)

During 2009, 14,560 finders' warrants related to the issuance of a private placement of 18,200 flow-through units exercisable at \$0.25 per share for one year were also issued (note 8(b)(viii)). Each unit consists of one common share and one share purchase warrant exercisable for \$0.35 per share for one year from the issuance of the finders' warrants. The finders' warrants were valued using the Black-Scholes pricing model with the following assumptions: 188.00% volatility, 3.50% risk free interest rate, 0.00% dividend yield, and 1 year expected life. The fair value of the warrants in the amount of \$1,310 was recognized as share issuance costs and credited to contributed surplus.

On June 24<sup>th</sup> 2009, the company issued 609,121 warrants resulting from the conversion of a convertible debenture into 609,121 units (each unit comprising of one share and one purchase warrant at \$0.30). The purchase warrants expire on June 29<sup>th</sup> 2011

On July 7<sup>th</sup> 2009, the company issued 1,000,000 warrants resulting from the June 2009 Non-Brokered Private Placement of 2,000,000 units (each unit comprising of one share and half a warrant at \$0.15). The purchase warrants expire on June 30<sup>th</sup> 2011

On July 14<sup>th</sup> 2009, the company issued 669,544 warrants resulting from the June 2009 Non-Brokered Private Placement of 1,339,088 units (each unit comprising of one share and half a warrant at \$0.15). The purchase warrants expire on June 30<sup>th</sup> 2011

On July 31<sup>th</sup> 2009, the company issued 340,909 warrants resulting from the June 2009 Non-Brokered Private Placement of 681,818 units (each unit comprising of one share and half a warrant at \$0.15). The purchase warrants expire on June 30<sup>th</sup> 2011

On November 16<sup>th</sup> 2009, the company issued 2,489,500 warrants resulting from the June 2009 Non-Brokered Private Placement of 4,979,000 units (each unit comprising of one share and half a warrant at \$0.15). The purchase warrants expire on February 25<sup>th</sup> 2012

On March 17<sup>th</sup> 2010, the company issued 1,260,000 warrants resulting from the February 2010 Non-Brokered Private Placement of 2,520,000 units (each unit comprising of one share and half a warrant at \$0.45). The purchase warrants expire on March 23<sup>rd</sup> 2012

On March 24<sup>th</sup> 2010, the company issued 135,000 Finder Warrants resulting from the February 2010 Non-Brokered Private Placement. Each warrant unit is convertible at \$0.25 and comprises of one share and one warrant at \$0.45. The purchase warrants expire on March 23<sup>rd</sup> 2012 and a value of \$16,089 was recorded at fiscal year-end in shareholder's equity using the Black Scholes method (85% Volatility, 2.18% risk free rate and 730 days to expiration).

On March 25<sup>th</sup> 2010, the company issued 330,000 warrants resulting from the February 2010 Non-Brokered Private Placement of 660,000 units (each unit comprising of one share and half a warrant at \$0.45). The purchase warrants expire on February 25<sup>rd</sup> 2012

# COLT RESOURCES INC.

(An Exploration Stage Company)

For the years ended March 31, 2010 and 2009

## 11. RELATED PARTY TRANSACTIONS

- (a) A director and the Chief Operating Officer of the Company who is also President and Chief Executive Officer of Eurocolt, the Company's wholly-owned Portuguese subsidiary, received a monthly fee of \$7,500 until January 31 2010. On February 1<sup>st</sup> 2010 the related party stepped down from the Board of Directors and as COO and continues as President and CEO of Eurocolt. At March 31, 2010, \$11,784 was owed to the related party from his former role and \$13,737 (€10,000) from his continued role in Eurocolt.
- (b) A director of the Company charges the Company a fee of \$500 per day for geological consulting whenever his services are required. At March 31, 2010, \$8,466 was owed to the related party.
- (c) A director and Chief Executive Officer ("CEO") of the Company charges the Company a fee of \$10,000 per month for professional fees. At March 31, 2010, \$11,287 was owed to the related party.
- (d) A director and Chief Financial Officer ("CFO") of the Company charged the Company \$7,500 per month as professional fees pursuant to his contract with the Company. At March 31, 2010, \$0 was owed to the related party. On May 2010 the contract was renewed with a monthly fee of \$10,000.
- (e) A director and Corporate Secretary of the company charged the company on an hourly rate of \$250 for professional fees. At March 31, 2010 \$4,396 was owed to the related party.
- (f) During the year the Company entered into a loan agreement for a loan of \$75,000 from individuals related to the CEO bearing interest at 10% per annum if paid in full by November 19, 2009, otherwise bearing interest at 12% per annum due January 19, 2010. The loan was not repaid by the due date and the interest rate was modified accordingly. Subsequently, In January of 2010 the loan was renewed for another term of 6 months under the same conditions as before. On March 25 2010 the loan was repaid in full, totalling \$82,531 including accrued interest.

## 12. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the acquisition and exploration of mineral property interests and in two geographical segments, Canada and Portugal. The capital assets (including mineral properties) and total assets identifiable with these geographic areas are as follows:

<b>Total Assets</b>	<b>March 31, 2010</b>	<b>March 31, 2009</b>
Canada	\$ 1,257,964	\$ 771,144
Portugal	\$ 2,284,842	\$ 1,400,630
	<b>\$ 3,542,806</b>	<b>\$ 2,171,774</b>

# COLT RESOURCES INC.

(An Exploration Stage Company)

For the years ended March 31, 2010 and 2009

## 13. INCOME TAXES

The reconciliation of income tax provision computed at the statutory tax rates for the year ended March 31, 2010 of 30.90% (2009 – 31.03%) in Canada and 26.50% (2009 – 26.50%) in Portugal to the reported income tax provision is as follows:

	2010	2009
Income tax benefit computed at statutory rates	\$ 388,700	\$ 319,511
Non-deductible write-down of mineral property interest	-	(27,923)
Non-deductible stock-based compensation	(115,600)	(11,371)
Other non-deductible items	(3,273)	(1,566)
Share issue and financing costs	18,763	14,372
Change in timing differences	(43,356)	41,523
Change in valuation allowance	(248,574)	(220,089)
Change in future income taxes resulting from enacted tax rate reduction	-	(66,642)
	\$ (3,340)	\$ 47,815

Future income tax assets reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The applicable tax rate to be expected is 26.90% for 2010 and 26.90% for 2009. Significant components of the Company's future tax assets as at March 31 are as follows:

	2010	2009
Future income tax assets		
Non-capital loss carry-forwards in Canada	\$ 756,830	\$ 524,321
Non-capital loss carried forward in Portugal	16,343	6,177
Capital loss carry-forwards	1,792	1,792
Undeducted share issuance and financing costs	40,663	37,630
Cumulative eligible capital	32,723	32,723
Non-refundable mining exploration tax credit	11,180	11,163
Excess of tax basis over carrying amount of equipment	4,621	1,772
Excess of carrying amount over tax basis of mineral property interests	(22,938)	(22,938)
	841,214	592,640
Valuation allowance for future income tax assets	(841,214)	(592,640)
Future income tax assets, net	\$ 0	\$ 0

# COLT RESOURCES INC.

(An Exploration Stage Company)

For the years ended March 31, 2010 and 2009

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## 13. INCOME TAXES (Continued)

The Company has capital losses for income tax purposes of approximately \$13,300, which can be carried forward indefinitely.

The Company has available non-capital losses of approximately \$2,813,000 that may be carried forward to apply against future income for Canadian tax purposes. The losses expire as follows:

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2014	43,000
2025	26,000
2026	43,000
2027	66,000
2028	812,000
2029	925,000
2030	898,000
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	\$ 2,813,000

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The Company has losses from operation of approximately \$61,700 (2009-\$23,300) that may be carried forward to apply against future income for Portuguese tax purposes. The losses expire in 2016 (2009-2015).

During the year ended March 31, 2010, the Company renounced \$NIL (2009 – \$177,750) of qualifying Canadian Exploration Expenditures pursuant to the issuance of flow-through shares.

The Company has approximately \$41,560 (2009 - \$41,500) in pre-production mining expenditures income tax credits which may be used to offset federal income taxes payable. Credits may be carried forward for a maximum of 20 years to be applied against federal income taxes payable of future years.

## 14. COMMITMENTS

During the fiscal year ended March 31, 2010,

- (a) The Company entered into an investor relations agreement with an investor relations consulting firm for a two year term at a cost of \$1,374 €1,000 per month. Pursuant to the agreement, the Company also granted 200,000 stock options to the firm exercisable for \$0.25 each for two years expiring May 25, 2011. As of March 31 2010 the company owed \$7,663 to the consulting firm.
- (b) The Company reported the end of its ongoing commitment for a leased property in Vancouver that commenced on April 1, 2008. As of March 31 2010 the company had settled for early termination and had a balance owing of \$3,187 which was subsequently paid in full.
- (c) On November 5, 2009 management entered into a non-exclusive brokerage agreement with IBK Capital Corporation for the purposes of structuring a private placement. The company agreed to a non-refundable work fee of \$25,000 plus \$3,500 of expenses. On March 29<sup>th</sup> 2010 IBK raised \$165,000 and a finder's fee totalling \$13,200 and expenses totalling \$6,600 were deducted from the total raised. Subsequent to March 31 2010, the agreement with IBK was terminated.



# COLT RESOURCES INC.

(An Exploration Stage Company)

For the years ended March 31, 2010 and 2009

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## 15. CAPITAL MANAGEMENT

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 exploration and development of its mineral property interests. The Company considers the items included in shareholders' equity (excluding equity portion of convertible debenture) in the definition of capital.

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, especially in regards to its mineral property interests. In order to maintain or adjust the capital structure, the Company may issue new common shares through private placements or dispose of assets to settle liabilities. There were no changes in the Company's approach to capital management during the reporting period. The Company is not exposed to externally imposed capital requirements.

## 16. SUBSEQUENT EVENTS

Subsequent to March 31, 2010:

- a. On March 31, 2010 the company announced its intention to proceed with (and subsequently closed) its first closing on its February 2010 Non-Brokered Private Placement totalling 4,000,000 units consisting of one share and half a warrant at 0.45\$. The total raised during the first closing was \$1,000,000
- b. On April 19, 2010 the company signed an IR representation agreement with an engagement fee of \$106,840 (€79,000) to actively represent the company's interests in European markets. The agreement also included a supporting IR service with a fee paid in advance of \$135,240 (€100,000).
- c. On April 2010 the company disclosed the change of independent auditing firm and appointed Schwartz, Levitsky, Feldman. The change was due to the relocation of the head offices from Vancouver to Montreal in January of 2010.
- d. During the month of May 2010, shareholders exercised a total of 408,000 warrants at \$0.15 and 300,000 stock options at \$0.25 resulting in 708,000 common shares issued.
- e. On May 6, 2010 the company announced it had entered into an investor representation agreement with a consultant. The agreement requires the company to pay a monthly fee of \$5,000. The agreement can be terminated anytime with a 30-day notice.
- f. On May 25, 2010 the company announced its intention to proceed to a second closing on its February 2010 Non-Brokered Private Placement totalling 4,400,000 units consisting of one share and half a warrant at \$0.45. The total raised during the second closing was \$1,100,000
- g. On June 1, 2010 the company appointed Donald Ziraldo to the Board of Directors.

# COLT RESOURCES INC.

(An Exploration Stage Company)

For the years ended March 31, 2010 and 2009

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## 16. SUBSEQUENT EVENTS (Continued)

- h. On June 25, 2010 the company closed an additional 280,000 units at \$0.25 each. Each unit consisted of one common share and half share purchase warrant at \$0.45.
- i. On June 28, 2010 the company announced the extension for the warrants issued in conjunction with the 2007 Convertible Debenture from June 29<sup>th</sup> 2010 to June 29<sup>th</sup> 2011. The company also announced that it had made the payment in full of the balance of the Convertible Debenture on its maturity date. The said payment was issued in shares at \$0.34316 per common share in accordance to the terms of the debenture agreement.