

Donner Metals Ltd.

Consolidated Financial Statements

Years Ended February 29, 2012 and February 28, 2011

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Independent Auditor's Report

To the Shareholders of Donner Metals Ltd.

We have audited the accompanying consolidated financial statements of Donner Metals Ltd., which comprise the consolidated statements of financial position as at February 29, 2012, February 28, 2011 and March 1, 2010, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended February 29, 2012 and February 28, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Donner Metals Ltd. as at February 29, 2012, February 28, 2011 and March 1, 2010, and its financial performance and its cash flows for the years ended February 29, 2012 and February 28, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Donner Metals Ltd. has incurred losses since inception and has an accumulated deficit of \$32,568,737. These conditions, along with other matters as set forth in Note 1, indicate the existence of material uncertainties that may cast significant doubt about Donner Metals Ltd.'s ability to continue as a going concern.

(Signed) Deloitte & Touche LLP

Chartered Accountants
Vancouver, Canada
June 19, 2012

DONNER METALS LTD.

Consolidated Statements of Financial Position

(Stated in Canadian Dollars)

	Notes	February 29, 2012	February 28, 2011 (note 20)	March 1, 2010 (note 20)
ASSETS				
Current assets				
Cash		\$ 928,365	\$ 5,022,048	\$ 5,733,400
Trade and other receivables		670,686	47,433	13,728
Tax credits recoverable		1,870,833	960,753	597,854
Advances for exploration		70,515	126,692	503,907
Prepaid expenses		28,550	36,599	26,494
Total current assets		3,568,949	6,193,525	6,875,383
Non-current assets				
Long-term tax credits recoverable		2,028,522	156,784	7,040
Investment	4	-	370,822	1,359,683
Property, plant and equipment	5,6	25,051,099	13,894	19,302
Total non-current assets		27,079,621	541,500	1,386,025
TOTAL ASSETS		\$ 30,648,570	\$ 6,735,025	\$ 8,261,408
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables		\$ 327,679	\$ 102,350	\$ 117,125
Flow-through share premium	7	27,016	383,362	800,381
Total current liabilities		354,695	485,712	917,506
Non-current liabilities				
Unearned revenue	8	17,018,700	-	-
Decommissioning liabilities	9	297,990	-	-
Deferred tax liability	18	2,237,553	-	-
Total non-current liabilities		19,554,243	-	-
Equity				
Common shares	10	34,854,491	25,312,092	20,604,572
Warrants reserve	10	-	1,269,554	1,931,198
Share option reserve		8,459,539	6,395,533	5,658,116
Available-for-sale revaluation reserve		-	(40,799)	948,061
Deficit		(32,568,737)	(26,681,659)	(21,798,045)
Equity attributable to owners of the Company		10,745,293	6,254,721	7,343,902
Non-controlling interest		(5,661)	(5,408)	-
Total equity		10,739,632	6,249,313	7,343,902
TOTAL LIABILITIES AND EQUITY		\$ 30,648,570	\$ 6,735,025	\$ 8,261,408
Nature and continuance of operations	1			
Commitments	6,8			
Subsequent events	19			

Approved by the Board of Directors

"Harvey Keats" Director

"David Patterson" Director

DONNER METALS LTD.

Consolidated Statements of Loss and Comprehensive Loss

(Stated in Canadian Dollars)

	Notes	Year ended February 29, 2012	Year ended February 28, 2011 (note 20)
Expenses			
Exploration	6	\$ 2,008,779	\$ 3,839,051
Foreign exchange loss		153,118	301
General and administrative	12	2,119,035	1,501,273
Share-based payments	11	1,546,670	471,886
Operating loss		(5,827,602)	(5,812,511)
Interest income		82,906	28,101
Loss on sale of investment	4	(314,036)	-
Finance costs	9,18	(16,979)	(6,006)
Loss on disposal of property, plant and equipment		(4,136)	-
Flow-through share premium	7	467,255	901,394
		215,010	923,489
Loss before income taxes		(5,612,592)	(4,889,022)
Income taxes			
Current tax recovery	18	1,962,814	-
Deferred tax expense	18	(2,237,553)	-
		(274,739)	-
Loss for the year		(5,887,331)	(4,889,022)
Other comprehensive loss			
Available-for-sale investment:			
Unrealized loss on change in fair value of investment, net of tax of \$nil	4	(234,204)	(988,860)
Reclassification adjustment for realized loss on sale	4	275,003	-
		40,799	(988,860)
Total comprehensive loss for the year		\$ (5,846,532)	\$ (5,877,882)
Loss attributable to:			
Owners of the Company		\$ (5,887,078)	\$ (4,883,614)
Non-controlling interest		(253)	(5,408)
		\$ (5,887,331)	\$ (4,889,022)
Total comprehensive loss attributable to:			
Owners of the Company		\$ (5,846,279)	\$ (5,872,474)
Non-controlling interest		(253)	(5,408)
		\$ (5,846,532)	\$ (5,877,882)
Weighted average number of common shares outstanding - basic and diluted		148,597,026	114,299,490
Basic and diluted loss per common share		\$ (0.04)	\$ (0.04)

The accompanying notes are an integral part of the consolidated financial statements.

DONNER METALS LTD.
Consolidated Statement of Changes in Equity

(Stated in Canadian Dollars)

	Common Shares		Warrants Reserve	Share Option Reserve	Available-for- sale revaluation Reserve	Deficit	Equity attributable to owners of the Company	Non- controlling Interest	Total Equity
	Number	Amount							
Balance at March 1, 2010 (note 20)	109,796,258	\$ 20,604,572	\$ 1,931,198	\$ 5,658,116	\$ 948,061	\$(21,798,045)	\$ 7,343,902	\$ -	\$ 7,343,902
Private placements, net of costs	8,281,250	2,148,180	-	-	-	-	2,148,180	-	2,148,180
Exercise of stock options	930,000	252,610	-	(71,210)	-	-	181,400	-	181,400
Exercise of warrants	8,207,310	2,306,730	(324,903)	-	-	-	1,981,827	-	1,981,827
Modification of warrants	-	-	63,322	(63,322)	-	-	-	-	-
Expiry of warrants	-	-	(400,063)	400,063	-	-	-	-	-
Share-based payments	-	-	-	471,886	-	-	471,886	-	471,886
Loss for the year	-	-	-	-	-	(4,883,614)	(4,883,614)	(5,408)	(4,889,022)
Unrealized loss on available-for- sale investment	-	-	-	-	(988,860)	-	(988,860)	-	\$(988,860)
Balance at February 28, 2011 (note 20)	127,214,818	25,312,092	1,269,554	6,395,533	(40,799)	(26,681,659)	6,254,721	(5,408)	6,249,313
Private placements, net of costs	17,519,481	4,294,541	-	-	-	-	4,294,541	-	4,294,541
Exercise of warrants	16,615,935	5,247,858	(752,218)	-	-	-	4,495,640	-	4,495,640
Expiry of warrants	-	-	(517,336)	517,336	-	-	-	-	-
Share-based payments	-	-	-	1,546,670	-	-	1,546,670	-	1,546,670
Loss for the year	-	-	-	-	-	(5,887,078)	(5,887,078)	(253)	(5,887,331)
Unrealized loss on available-for- sale investment	-	-	-	-	(234,204)	-	(234,204)	-	(234,204)
Reclassification adjustment for realized loss on sale	-	-	-	-	275,003	-	275,003	-	275,003
Balance at February 29, 2012	161,350,234	\$ 34,854,491	\$ -	\$ 8,459,539	\$ -	\$(32,568,737)	\$ 10,745,293	\$ (5,661)	\$ 10,739,632

At February 29, 2012, the total available-for-sale revaluation reserve and deficit was \$32,568,737 (2011 - \$26,722,458).

The accompanying notes are an integral part of the consolidated financial statements.

DONNER METALS LTD.

Consolidated Statements of Cash Flows

(Stated in Canadian Dollars)

	Year ended February 29, 2012	Year ended February 28, 2011
Notes		
Operating activities		
Loss for the year	\$ (5,887,331)	\$ (4,889,022)
Adjustments for:		
Depreciation	13,508	19,381
Share-based payments	1,546,670	471,886
Interest income	(82,906)	(28,101)
Loss on sale of investment	314,036	-
Unwinding of discount on decommissioning liability	4,568	-
Loss on disposal of property, plant and equipment	4,136	-
Flow-through share premium	(467,255)	(901,394)
Deferred tax expense	2,237,553	-
Exchange rate loss on cash	153,042	-
Changes in non-cash working capital items:		
Trade and other receivables	(623,253)	(33,705)
Tax credits recoverable	(910,080)	(362,899)
Advances for exploration	56,177	377,215
Prepaid expenses	8,049	(10,105)
Long-term tax credits recoverable	(1,871,738)	(149,743)
Trade and other payables	75,387	(14,775)
Cash used in operating activities	(5,429,437)	(5,521,262)
Financing activities		
Unearned revenue	17,018,700	-
Common shares issued for cash, net of issue costs	8,901,090	4,795,782
Cash generated by financing activities	25,919,790	4,795,782
Investing activities		
Interest received	82,906	28,101
Proceeds from sale of investment	97,586	-
Purchase of property, plant and equipment	(24,611,486)	(13,973)
Cash generated by (used in) investing activities	(24,430,994)	14,128
Change in cash during the year	(3,940,641)	(711,352)
Effect of exchange rate change on cash	(153,042)	-
Cash, beginning of year	5,022,048	5,733,400
Cash, end of year	\$ 928,365	\$ 5,022,048

Supplemental cash flow information

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DONNER METALS LTD.

Notes to the Consolidated Financial Statements

February 29, 2012 and February 28, 2011

(Stated in Canadian Dollars)

1. Nature and Continuance of Operations

Donner Metals Ltd. (the "Company") was incorporated on June 28, 2005, pursuant to the Business Corporations Act of British Columbia. The Company's shares are listed on the TSX Venture Exchange. The Company is engaged in the acquisition, exploration and development of zinc, copper and nickel properties in Quebec, Canada and is considered to be in the exploration and development stage as it has not placed any of its mineral properties into production. The Company operates in one segment, being the acquisition, exploration and development of mineral properties.

The head office, principal address and registered and records office of the Company are located at Suite 2150 – 885 West Georgia Street, Vancouver, BC, V6C 3E1.

The Company is in the process of exploring its mineral properties in the Matagami Camp, Quebec. The Company's primary focus is the Matagami Project. The Company has received a positive feasibility study on the Bracemac-McLeod deposits at the Matagami Project which indicates that these deposits contain ore reserves that are likely economically recoverable. Based on the positive feasibility study, the construction of the Bracemac-McLeod mine is underway (notes 5 and 6). The measurement of certain assets and liabilities is dependent on future events, therefore the preparation of these consolidated financial statements requires the use of estimates, which may vary from actual results. The success of the Company's exploration and development of its mineral interests is influenced by significant financial risks, legal and political risks, commodity prices, and the ability of the Company to discover economically recoverable reserves and to bring such reserves into future profitable production.

As of February 29, 2012, the Company has no source of operating cash flows, has not yet achieved profitable operations, has a deficit of \$32,568,737 (February 28, 2011 - \$26,681,659) and expects to incur further losses in the development of its business, all of which cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon the Company obtaining additional financing on a timely basis, and achieving sufficient positive cash flows to cover obligations and expenses. Management is actively seeking investment capital and is of the opinion that additional financing will be available to continue its planned activities in the normal course of its operations. These consolidated financial statements do not give effect to any adjustments to the amounts and classifications of assets and liabilities, which might be necessary should the Company be unable to continue its operations as a going concern. Such adjustments could be material.

The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest dollar except where otherwise indicated.

2. Basis of Preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRICs") for the year ended February 29, 2012.

These are the Company's first IFRS consolidated annual financial statements for the year ending February 29, 2012, with a transition date of March 1, 2010. Previously, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The rules of first time adoption are set out in IFRS 1 '*First-time Adoption of International Financial Reporting Standards*'. In preparing the Company's first IFRS financial statements, these transition rules have been applied to the amounts previously reported under GAAP. Reconciliations and descriptions of the effect of transition from Canadian GAAP to IFRS are provided in note 20.

DONNER METALS LTD.

Notes to the Consolidated Financial Statements

February 29, 2012 and February 28, 2011

(Stated in Canadian Dollars)

2. Basis of Preparation (cont'd)

b) Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in note 3 and 14.

These consolidated interim financial statements include the accounts of the Company and its 76.69% owned subsidiary, SVB Nickel Company Ltd. ("SVBN").

c) Approval of the consolidated financial statements

The consolidated financial statements of the Company for the year ended February 29, 2012 were reviewed by the audit committee and approved and authorized for issue by the Board of Directors on June 19, 2012.

d) Adoption of new and revised standards and interpretations

The IASB issued a number of new and amended International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on or after March 1, 2011. For the purpose of preparing and presenting the financial information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

At the date of authorization of these financial statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods:

▪ IFRS 7 (Amendment)	Enhanced disclosure on transfer of financial assets ¹
▪ IFRS 7 (Amendment)	New disclosure requirements on the effect of offsetting arrangements on an entity's financial position ⁴
▪ IFRS 9	New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets and liabilities ⁶
▪ IFRS 10	New standard to establish principles for the presentation of consolidated financial statements when an entity controls multiple entities ⁴
▪ IFRS 11	New standard to account for the rights and obligations in accordance with joint agreements ⁴
▪ IFRS 12	New standard for the disclosure of interests in other entities not within the scope of IFRS 9/IAS 39 ⁴
▪ IFRS 13	New standard on the measurement and disclosure of fair value ⁴
▪ IAS 1 (Amendment)	Presentation of other comprehensive income ³
▪ IAS 12 (Amendment)	Recovery of underlying investment properties measured using a fair value model ²
▪ IAS 27 (Amendment)	New standard issued that supersedes IAS 27 to prescribe the accounting for separate financial statements ⁴
▪ IAS 28 (Amendment)	New standard issued that supersedes IAS 28 (2003) to prescribe the accounting for investments in associates and joint ventures ⁴
▪ IAS 32 (Amendment)	Clarifies the application of the requirements of offsetting of financial assets and liabilities ⁵
▪ IFRIC 20	Interpretation issued that clarifies when production stripping should lead to the recognition of an asset and how the asset should be measured, both initially and in subsequent periods ⁴

DONNER METALS LTD.

Notes to the Consolidated Financial Statements

February 29, 2012 and February 28, 2011

(Stated in Canadian Dollars)

3. Summary of Significant Accounting Policies

¹Effective for annual periods beginning on or after July 1, 2011

²Effective for annual periods beginning on or after January 1, 2012

³Effective for annual periods beginning on or after July 1, 2012

⁴Effective for annual periods beginning on or after January 1, 2013

⁵Effective for annual periods beginning on or after January 1, 2014

⁶Effective for annual periods beginning on or after January 1, 2015

The Company has not early adopted these standards, amendments and interpretations. The Company is currently assessing the application of these standards, amendments and interpretations on the results and financial position of the Company.

a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its controlled subsidiary, SVBN. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of loss and comprehensive loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intercompany transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests in excess of their interest in the subsidiary's equity are allocated against the interests of the Company except to the extent that the non-controlling interests have a binding obligation and are able to make an additional investment to cover the losses.

b) Joint ventures

A joint venture is a contractual arrangement between two or more parties that establishes joint control over the joint venture. There are three broad types of joint ventures: 1) jointly controlled operations; 2) jointly controlled assets; and 3) jointly controlled entities. The Company's involvement in the various mineral properties described in note 6 are examples of a jointly controlled assets whereby the Company has joint control and ownership of the assets.

In respect of its interests in these jointly controlled assets, the Company recognizes in its financial statements: 1) its share of the jointly controlled assets, classified according to the nature of the assets; 2) any liabilities that it has incurred; 3) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture; 4) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and 5) any expenses that it has incurred in respect of its interest in the joint venture.

c) Interest income

Interest income from financial assets is accrued, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

d) Foreign currencies

The consolidated financial statements are presented in Canadian dollars. The individual financial statements of each entity are presented in their functional currency, which is the currency of the primary economic environment in which the entity operates. The functional currency of all of the Company's entities is the Canadian dollar.

DONNER METALS LTD.

Notes to the Consolidated Financial Statements

February 29, 2012 and February 28, 2011

(Stated in Canadian Dollars)

3. Summary of Significant Accounting Policies (cont'd)

Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency rate of exchange at the date of the statement of financial position.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

e) Exploration and evaluation expenditures

Exploration and evaluation activity on mineral interests involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity include but are not limited to the following items:

- acquiring the rights to explore;
- researching and analyzing historical data;
- gathering exploration data through topographical, geological, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- compiling pre-feasibility and feasibility studies.

Exploration and evaluation expenditures are charged to operations as they are incurred.

Although the Company has taken steps to verify ownership and legal title to mineral properties in which it has an interest, according to the usual industry standards for the stage of exploration, development and production of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

f) Development expenditures

When it is determined that a mineral interest has economically recoverable reserves via a technical feasibility study, subsequent exploration, construction, installation and completion of infrastructure facilities expenditures are capitalized until such time as the mineral interest to which they directly relate is placed into production, sold, abandoned or subject to a condition of impairment. On the commencement of commercial production, depletion of each mineral interest will be provided on a unit-of-production basis using estimated resources as the depletion base.

g) Property, plant and equipment ("PPE")

PPE are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write off the cost of PPE, less their estimated residual value, using the straight-line method or unit-of-production method over the following expected useful lives:

Computer and office equipment	2 to 6 years
Mine development costs	based on resources on a unit-of-production basis

Mine development costs are carried at cost less any recognized impairment loss. Depreciation of these assets begins when commercial production commences.

DONNER METALS LTD.

Notes to the Consolidated Financial Statements

February 29, 2012 and February 28, 2011

(Stated in Canadian Dollars)

3. Summary of Significant Accounting Policies (cont'd)

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of loss and comprehensive loss.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

h) Share-based payments

Employees (including directors and senior executives) of the Company may receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued for goods or services, the transaction is measured at the fair value of the goods or services received by the entity. When the value of the goods or services cannot be specifically identified, they are measured at fair value of the share-based payment.

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional amount is recognized on the same basis as the amount of the original award for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

i) Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are substantively enacted by the date of the statement of financial position.

DONNER METALS LTD.

Notes to the Consolidated Financial Statements

February 29, 2012 and February 28, 2011

(Stated in Canadian Dollars)

3. Summary of Significant Accounting Policies (cont'd)

Deferred income tax

Deferred income taxes are provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable earnings; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable earnings; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of loss and comprehensive loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

DONNER METALS LTD.

Notes to the Consolidated Financial Statements

February 29, 2012 and February 28, 2011

(Stated in Canadian Dollars)

3. Summary of Significant Accounting Policies (cont'd)

j) Flow-through shares

Resource expenditures for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. Flow-through common shares are recognized in equity based on the Company's quoted stock price on the date of the issuance. The difference between the amount recognized in common shares and the total amount the investor pays for the flow-through common shares is recognized as a liability which is subsequently reversed into earnings as eligible expenditures are incurred if the Company has the intention to renounce the expenditures. The deferred tax impact, if any, is recorded at the same time.

k) Tax credits recoverable

Tax credits recoverable relate to refundable tax credits and mining duties refund from the Province of Quebec. These tax credits are accrued based on a percentage of net eligible resource expenditures incurred in Quebec and recognized as a reduction of expense.

l) Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. During the years ended February 29, 2012 and February 28, 2011, all the outstanding stock options and warrants were anti-dilutive.

m) Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered significant or prolonged decline in the fair value of that investment below its cost which are considered impairments resulting in a reclassification from other comprehensive income to earnings.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

n) Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

DONNER METALS LTD.

Notes to the Consolidated Financial Statements

February 29, 2012 and February 28, 2011

(Stated in Canadian Dollars)

3. Summary of Significant Accounting Policies (cont'd)

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of loss and comprehensive loss.

o) Impairment of financial assets

The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in earnings.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in earnings.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

Available-for-sale

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in earnings, is transferred from equity to earnings. Reversals in respect of equity instruments classified as available-for-sale are not recognized in earnings.

p) Impairment of non-financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its non-financial assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

DONNER METALS LTD.

Notes to the Consolidated Financial Statements

February 29, 2012 and February 28, 2011

(Stated in Canadian Dollars)

3. Summary of Significant Accounting Policies (cont'd)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of loss and comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. An impairment of goodwill is not subsequently reversed.

q) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash. There were no cash equivalents at February 29, 2012, February 28, 2011 and March 1, 2010.

r) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. Any increase in a provision due solely to passage of time is recognized as interest expense.

s) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

t) Unearned revenue

Unearned revenue consists of payments received by the Company in consideration for future commitments to deliver payable metals at contracted prices. As deliveries are made, the Company records a portion of the deferred revenue as sales, based on a proportionate share of deliveries made compared with the total estimated contractual commitment.

u) Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

Critical judgments exercised in applying accounting policies that the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

DONNER METALS LTD.

Notes to the Consolidated Financial Statements

February 29, 2012 and February 28, 2011

(Stated in Canadian Dollars)

3. Summary of Significant Accounting Policies (cont'd)

- i) Management has determined that the capitalized mine development costs have future economic benefits and are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, ongoing capital cost requirements and life of mine plans.

Assumptions and estimates that have a significant risk of resulting in material adjustments are as follows:

- i) Management considers both external and internal sources of information in assessing whether there are any indications that the Company's property, plant and equipment are impaired. External sources of information management considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of its property, plant and equipment. Internal sources of information management consider include the manner in which property, plant and equipment are being used or are expected to be used and indications of economic performance of the assets.
 - ii) Depreciation expense is allocated based on assumed asset lives. Should the asset life or depreciation rates differ from the initial estimate, an adjustment would be made in the consolidated statements of income.
 - iii) The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.
 - iv) The Company has estimated the net present value of future decommissioning costs of the Bracemac-McLeod mine. This requires the input of subjective assumptions about the amount of the future clean-up costs and the life of the mine. Changes in the input assumptions can materially affect the Company's financial position and earnings.
- v) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset until the asset is substantially ready for its intended use. Other borrowing costs are expensed in the period incurred.

4. Investment

	February 29, 2012	February 28, 2011	March 1, 2010
Cost	\$ -	\$ 411,622	\$ 411,622
Cumulative gain (loss) in other comprehensive income	-	(40,800)	948,061
Fair value	\$ -	\$ 370,822	\$ 1,359,683

As at February 28, 2011 and March 1, 2010, the Company owned 650,573 common shares, which represented 8.6% and 9.4% respectively, of the outstanding common shares of Knight Metals Ltd. ("Knight"). The investment had been classified as an available-for-sale investment, with changes in fair value being recorded in other comprehensive income.

During the year ended February 29, 2012, the Company sold all of the common shares of Knight for net proceeds of \$97,586. This resulted in a loss on sale of \$314,036.

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Notes to the Consolidated Financial Statements

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(Stated in Canadian Dollars)

5. Property, Plant and Equipment

	Computer and office equipment	Mine development costs (note 6)	Total
Cost			
As at March 1, 2010	\$ 100,325	\$ -	\$ 100,325
Additions	13,973	-	13,973
As at February 28, 2011	114,298	-	114,298
Additions	22,705	25,032,144	25,054,849
Disposals	(14,699)	-	(14,699)
As at February 29, 2012	\$ 122,304	\$ 25,032,144	\$ 25,154,448
Accumulated depreciation			
As at March 1, 2010	\$ 81,023	\$ -	\$ 81,023
Depreciation	19,381	-	19,381
As at February 28, 2011	100,404	-	100,404
Depreciation	13,508	-	13,508
Disposals	(10,563)	-	(10,563)
As at February 29, 2012	\$ 103,349	\$ -	\$ 103,349
Carrying value			
As at March 1, 2010	\$ 19,302	\$ -	\$ 19,302
As at February 28, 2011	\$ 13,894	\$ -	\$ 13,894
As at February 29, 2012	\$ 18,955	\$ 25,032,144	\$ 25,051,099

The Company has pledged its interest in its share of the revenues from the Bracemac-McLeod mine, in the following order of priority, to 1) Sandstorm Metals & Energy Ltd. as security for liabilities pursuant to the Sandstorm Metals Purchase Agreement (note 8); and 2) Xstrata Canada Corporation as security for liabilities to Xstrata Canada Corporation.

The Company has pledged its interest in plant and equipment from the Bracemac-McLeod mine, in the following order of priority, to 1) Xstrata Canada Corporation as security for liabilities to Xstrata Canada Corporation; and 2) Sandstorm Metals & Energy Ltd. for liabilities pursuant to the Sandstorm Metals Purchase Agreement (note 8).

6. Mineral Properties

The Company's mineral properties are comprised of properties within an option and joint venture agreement and a development and operating agreement in the Matagami Mining Camp of Quebec, Canada and wholly owned mineral claims and interests in joint venture agreements in South Voisey Bay, Labrador, Canada. Although the Company holds some mineral properties through joint venture agreements, none of the Company's operations are carried on through joint venture entities.

For properties that have not reached technical feasibility, exploration and evaluation expenditures are charged to operations as they are incurred. The Company's exploration and evaluation expenditures incurred during the year February 29, 2012 and year ended February 28, 2011 are as follows:

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Notes to the Consolidated Financial Statements

February 29, 2012 and February 28, 2011

(Stated in Canadian Dollars)

6. Mineral Properties (cont'd)

	Year ended February 28, 2012	Year ended February 28, 2011
Matagami		
Exploration and evaluation expenditures	\$ 2,827,783	\$ 4,917,361
Refundable tax credits	(819,004)	(1,110,419)
	2,008,779	3,806,942
South Voisey Bay		
Exploration and evaluation expenditures	-	32,109
	\$ 2,008,779	\$ 3,839,051

For properties that have reached technical feasibility, development, exploration and evaluation expenditures are capitalized as they are incurred. The Bracemac-McLeod property which forms a portion of the Matagami Project has reached technical feasibility.

	Bracemac- McLeod
As at March 1, 2010 and February 28, 2011	\$ -
Mine development costs	25,032,144
As at February 29, 2012	\$ 25,032,144

Matagami Project

The Company is party to an Option and Joint Venture Agreement ("OJVA") and Development and Operating Agreement ("DOA") with Xstrata Canada Corporation – Xstrata Zinc Canada Division ("Xstrata") for the joint exploration, development and mining on the Matagami Project of Quebec.

In April 2011, pursuant to the OJVA, the Company completed its option to earn a 50% participating interest in the joint venture areas that make up the Matagami Project by:

- 1) incurring a total of \$20 million of expenditures, exclusive of management fees, on exploration and related work by May 31, 2011;
- 2) incurring an additional expenditure of up to \$5 million, exclusive of management fees, towards establishing an inferred resource on the Bracemac-McLeod discovery; and
- 3) issuing to Xstrata 1 million common shares of its own stock, which were issued in September 2006.

Under the OJVA, Xstrata has a separate right in each of the joint venture areas to increase its interest by an additional 15% by completing a bankable feasibility study or incurring a maximum of \$20 million towards a bankable feasibility study. Should Xstrata exercise its right in a joint venture, the interests in that joint venture will become 65% Xstrata and 35% the Company. In September, 2010, Xstrata completed a feasibility study on the Bracemac-McLeod deposit which has resulted in Xstrata completing its option in the South Flank and Bracemac-McLeod joint venture areas, resulting in a 65%/35% interest.

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Notes to the Consolidated Financial Statements

February 29, 2012 and February 28, 2011

(Stated in Canadian Dollars)

6. Mineral Properties (cont'd)

The current joint venture areas are:

Matagami Project Joint Venture Area	Current Interests	
	Xstrata	The Company
South Flank JV	65%	35%
Bracemac-McLeod JV	65%	35%
North Flank JV	50%	50%
Central Area JV	50%	50%
West Camp JV	50%	50%
East JV	50%	50%

The joint venture areas are comprised of existing mineral title and any ground acquired up to May 31, 2013 within the area of interest. The Matagami Project is roughly centered on the town of Matagami in central Quebec and comprises an area of mutual interest of 4,737 square kilometres ("km²") which includes 2,895 mineral claims covering 667 km².

The Bracemac-McLeod joint venture area, and the development and future production from the Bracemac-McLeod mine, is governed by the DOA. Under the DOA, Xstrata will process the Company's share of ores produced from the Bracemac-McLeod Mine and purchase, net of benchmark smelting and refining charges, the Company's share of the concentrates.

Under the OJVA and the DOA, Xstrata, has the right to be operator of any mining operations or exploration programs provided it holds at least a 50% interest in the governing joint venture. Xstrata has a life-of-mine right to elect to process and treat the Company's share of any ore/concentrates produced from the Matagami Project and to market the Company's share of any metals produced from the property.

In order to maintain its interest in each respective joint venture, the Company must finance its relative share of the programs approved by the joint venture management committees on which the Company has a vote proportional to its interest in the joint venture with Xstrata having the tie breaker. For the South Flank, North Flank, Central Area, West Camp and East joint venture areas, should the Company not meet its obligations, the Company will suffer dilution of its interest and should its interest reach 10%, the interest will be converted to a 2% net smelter return royalty, of which a 1% net smelter return can be purchased by Xstrata for \$1 million. Failure to meet obligations on the Bracemac-McLeod joint venture under the DOA, will result in direct conversion of the Company's interest to a 2% net smelter return royalty, of which a 1% net smelter return can be purchased by Xstrata for \$1 million.

The feasibility study on the Bracemac-McLeod mine contemplates capital costs of approximately USD\$164 million. The Company's share (35%) of these costs is approximately USD\$57 million (including pre-production and sustaining capital, but not including management fees and equipment transfers). Construction of the Bracemac-McLeod mine began in April 2010, and is scheduled to be ready for production in early 2013.

South Voisey Bay Properties

The Company holds directly and through joint venture agreements varying interests in four mineral licences in Labrador, Canada. The Company anticipates that its interests in the mineral licences will lapse within approximately 24 months.

Teck Resources Limited ("Teck") has a right to earn 50% of the Company's interest in any deposits discovered and developed on the Combined Property. Teck can earn this interest by funding the Company's share of feasibility costs and arranging the Company's share of production financing.

DONNER METALS LTD.

Notes to the Consolidated Financial Statements

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(Stated in Canadian Dollars)

6. Mineral Properties (cont'd)

As at February 29, 2012, the Company has an outstanding share issuance commitment relating to the South Voisey Bay Properties whereby the Company must issue 25,000 shares upon incurring \$1 million in exploration on the Thistle II claims which are now included in the property held by SVBN. The Company has not yet triggered this commitment.

There are net smelter royalty ('NSR') agreements on certain South Voisey Bay mineral licenses ranging up to 3%.

7. Flow-Through Share Premium

As at March 1, 2010	\$	800,381
New premiums		484,375
Liabilities settled		(901,394)
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As at February 28, 2011		383,362
New premiums		110,909
Liabilities settled		(467,255)
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As at February 29, 2012	\$	27,016

The Company periodically issues shares through flow-through share arrangements, where for income tax purposes, the subscription funds are applied to carry out exploration and development activities and the expenditures will be renounced for tax purposes in favour of the subscriber. Accordingly, the Company will not have available deductions from taxable income in respect of such expenditures.

- a) In November 2011, the Company issued 11,090,910 flow-through common shares at a price of \$0.22 per share for gross proceeds totalling \$2,440,000. The Company is committed to incur \$2,440,000 in qualifying Canadian Exploration Expenditures on or before December 31, 2012. The Company recognized a liability based on the premium received for \$110,909. As at February 29, 2012, the Company had satisfied approximately \$1,850,000 of its \$2,440,000 commitment and the liability remaining was \$27,016. Subsequent to February 29, 2012, the Company incurred the remaining \$590,000 of qualifying Canadian Exploration Expenditures.
- b) In December 2010, the Company issued 8,281,250 flow-through common shares at a price of \$0.32 per share for gross proceeds totalling \$2,650,000. The Company was committed to incur \$2,650,000 in qualifying Canadian Exploration Expenditures on or before December 31, 2011. The Company recognized a liability based on the premium received for \$484,375. As at February 29, 2012, the Company has satisfied all of its \$2,650,000 commitment. As a result, the liability has been reduced to \$nil (2011 - \$383,362).
- c) During the year ended February 28, 2010, the Company issued 25,614,118 flow-through common shares and units at prices ranging from \$0.19 to \$0.475 per share or unit for gross proceeds of \$6,707,260. The Company recognized a liability based on the premium received on the flow-through shares and units compared to the Company's closing share price on the date of issuance for \$1,283,854. The liability was reversed as the qualifying expenditures were incurred by the Company. As at February 28, 2011, the liability had been reduced to \$nil.

8. Unearned Revenue

On July 12, 2011, the Company and Sandstorm Metals & Energy Ltd. (TSXV-SND) ("Sandstorm") signed a Metal Purchase Agreement covering a region defined by a circle with a radius of 3.2 kilometres, centered on the Bracemac-McLeod deposit. This region covers a portion of the Bracemac-McLeod joint venture area and a portion of the South Flank joint venture area.

Under the terms of the Metal Purchase Agreement, the Company received an upfront purchase deposit from Sandstorm in the amount of US\$17.75 million and will receive a second purchase deposit of US\$5 million on or before June 30, 2012 upon completion of certain conditions. In addition, Sandstorm subscribed for 6,428,571 common shares of the Company at a deemed price of USD\$0.35 per share, for gross proceeds of USD\$2,250,000 (note 10).

DONNER METALS LTD.

Notes to the Consolidated Financial Statements

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(Stated in Canadian Dollars)

8. Unearned Revenue (cont'd)

The Metal Purchase Agreement provides for the sale of metal by the Company to Sandstorm equal to 17.5% of the copper and precious metals (gold and silver) from the Bracemac-McLeod mine. The Company will receive US\$0.80 per pound of delivered copper if the spot price of copper per pound as quoted on the London Metal Exchange is above US\$2.75 per pound, otherwise, the lesser of US\$0.55 and the prevailing spot price of copper per pound. Once Sandstorm has purchased 14.8 million pounds of copper, the Company will receive US\$1.05 per pound of delivered copper, if the spot price of copper per pound is above US\$2.75 per pound, otherwise, the lesser of US\$0.80 and the prevailing spot price of copper per pound. The Company will receive for gold or gold equivalent ounces the lesser of US\$350 per ounce and the prevailing spot price for gold per ounce as quoted by the London Bullion Market Association. The Company has the option until December 31, 2013 to purchase back from Sandstorm half of the metal to be sold to Sandstorm for US\$17.5 million.

Pursuant to the Metal Purchase Agreement, the Company has guaranteed to Sandstorm that Sandstorm will receive minimum cash flow from the purchase of copper and precious metals of (i) US\$6.5 million in calendar 2013, (ii) US\$6.5 million in calendar 2014, (iii) US\$7.0 million in calendar 2015, and (iv) US\$5.0 million in calendar 2016.

Pursuant to the Metal Purchase Agreement, the Company has also agreed to issue to Sandstorm US \$1.4 million worth of common shares upon the payment of the second purchase deposit.

Sandstorm has no other rights in the remainder of the Matagami Project. The Company has pledged its interest in its share of the revenues from the Bracemac-McLeod mine to Sandstorm as security for liabilities pursuant to the Metals Purchase Agreement (note 5).

9. Decommissioning Liability

The Company's provision for closure and reclamation costs consists of costs accrued based on the current best estimate of mine closure and reclamation activities that will be required at the Bracemac-McLeod mine upon completion of mining activity. Significant closure activities include land rehabilitation, demolition of buildings and mine facilities and other costs.

The Company has estimated its share of the total undiscounted value of decommissioning liability to be \$303,975 as at February 29, 2012. Based on the current mine plan, these payments are expected to be made in 2016. The Company used a risk free interest rate of 2.46% and an inflation rate of 1.8% to calculate the present value of the decommissioning liability.

As at March 1, 2010 and February 28, 2011	\$	-
New estimated cash flows		293,422
Finance costs		4,568
<hr/>		
As at February 29, 2012	\$	297,990

10. Common Shares and Warrants

a) Authorized:

An unlimited number of common shares without par value.

b) Issued:

- i) In July 2011, the Company completed a private placement with Sandstorm whereby Sandstorm subscribed for 6,428,571 common shares of the Company at a deemed price of \$0.34 (USD\$0.35) per share, for gross proceeds of \$2,157,300 (USD\$2,250,000). The Company incurred fees and costs of \$12,000.

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Notes to the Consolidated Financial Statements

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(Stated in Canadian Dollars)

10. Common Shares and Warrants (cont'd)

ii) In November 2011, the Company issued 11,090,910 flow-through common shares for gross proceeds of \$2,440,000. The Company incurred total issuance costs of \$179,850 (all in cash) and recognized a liability on issuance of \$110,909 (note 7).

c) Warrants:

The changes in warrants issued during the years ended February 29, 2012 and February 28, 2011 are as follows:

	Year ended February 29, 2012		Year ended February 28, 2011	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of period	27,690,181	\$ 0.29	40,873,251	\$ 0.32
Exercised	(16,615,935)	\$ 0.27	(8,207,310)	\$ 0.24
Expired	(11,074,246)	\$ 0.32	(4,975,760)	\$ 0.38
Balance, end of period	-	\$ -	27,690,181	\$ 0.29

For warrants exercised during the years ended February 29, 2012 and February 28, 2011, the weighted average share price at the dates of exercise was \$0.31 (2011 - \$0.27).

During the year ended February 28, 2011, the Company 1) extended the expiry date of 6,637,500 warrants from November 6, 2010 to May 2, 2011; 2) extended the expiry date of 8,033,000 warrants from February 2, 2011 to May 2, 2011 and reduced the exercise price from \$0.45 per warrant to \$0.30 per warrant; and 3) extended the expiry date of 100,000 warrants from February 9, 2011 to May 2, 2011 and reduced the exercise price from \$0.45 per warrant to \$0.30 per warrant.

11. Share-based Payments

a) Stock option plan

A stock option plan (the "Plan") was adopted by the Company and approved by shareholders in 2005. Under the Plan, the Company may grant options to directors, officers, employees, independent contractors or consultants. The number of options outstanding at any time may not be more than 10% of the number of common shares issued and outstanding. The exercise price associated with each grant of options is determined by the Company and is subject to the policies of the TSX Venture Exchange. The maximum term of each option is 10 years. The options vest on a basis as determined by the directors or a committee thereof at the time of grant.

During the year ended February 29, 2012, the Company 1) granted 8,775,000 stock options to officers, employees, directors, and consultants at an exercise price of \$0.30 with an expiry date of March 3, 2014; and 2) granted 750,000 stock options to consultants at an exercise price of \$0.25 with an expiry of September 6, 2012. Of the 9,525,000 stock options granted, 8,575,000 vested immediately and 950,000 are vesting over a one year period at 25% every three months. The Company recognized \$1,546,670 for share-based payments.

During the year ended February 28, 2011, the Company 1) granted 950,000 stock options to consultants at an exercise price of \$0.25 with an expiry date of September 6, 2011; 2) granted 400,000 stock options to officers at an exercise price of \$0.28 with an expiry date of December 7, 2012; 3) granted 2,345,000 stock options to employees and consultants at an exercise price of \$0.285 with an expiry date of February 23, 2014; and 4) extended the expiry date of 530,000 stock options at an exercise price of \$0.18 from May 28, 2010 to July 19, 2010. Of the 4,225,000 stock options granted and extended, 3,575,000 vested immediately and 650,000 are vesting over a one year period at 25% every three months. The Company recognized \$471,886 for share-based payments.

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Notes to the Consolidated Financial Statements

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(Stated in Canadian Dollars)

11. Share-based Payments (cont'd)

The fair value of stock options granted is estimated using the Black-Scholes Option Pricing Model with the following weighted average values and assumptions:

	Year ended February 29, 2012	Year ended February 28, 2011
Weighted average fair value at grant date	\$0.16	\$0.11
Average risk-free interest rate	2.05%	1.54%
Expected life	3 years	2 years
Expected volatility	87%	78%
Expected dividend yield	0%	0%
Forfeiture rate	1%	1%

The expected volatility assumption is based on the historical volatility of the Company's common share price on the TSX Venture Exchange. The risk-free interest rate is based on yield curves on the Canadian government zero-coupon bonds or Canadian government treasury bills with a remaining term equal to the stock options' expected life.

b) Stock options

The changes in stock options issued during the years ended February 29, 2012 and February 28, 2011 are as follows:

	Year ended February 29, 2012		Year ended February 28, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	3,945,000	\$ 0.27	10,974,950	\$ 0.29
Granted	9,525,000	\$ 0.30	3,695,000	\$ 0.28
Exercised	-	\$ -	(930,000)	\$ 0.20
Expired	(1,200,000)	\$ 0.22	(9,794,950)	\$ 0.30
Balance, end of year	12,270,000	\$ 0.29	3,945,000	\$ 0.27

For options exercised during the year ended February 28, 2011, the weighted average share price at the dates of exercise was \$0.24.

The following table summarizes information about stock options outstanding and exercisable at February 29, 2012:

	Options outstanding			Options exercisable	
	Exercise price	Number of options	Weighted average remaining life (years)	Number of options	Weighted average remaining life (years)
\$ 0.25	750,000	0.03	487,500	0.03	
\$ 0.28	400,000	0.02	400,000	0.02	
\$ 0.29	2,345,000	0.38	2,345,000	0.38	
\$ 0.30	8,775,000	1.44	8,625,000	1.44	
	12,270,000	1.87	11,857,500	1.87	

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(Stated in Canadian Dollars)

12. General and Administrative

	Year ended February 29, 2012	Year ended February 28, 2011
Administrative fees	\$ 206,500	\$ 154,087
Consulting fees	76,277	20,000
Depreciation	13,508	19,381
Directors fees	61,000	36,000
Filing and transfer agent fees	33,882	32,945
Management fees	504,592	393,792
Office and miscellaneous	94,262	99,332
Professional fees	104,549	81,622
Promotion	577,012	399,640
Rent	143,069	96,193
Travel	304,384	168,281
	<u>\$ 2,119,035</u>	<u>\$ 1,501,273</u>

13. Related Party Transactions

Balances and transactions between the Company and its subsidiary have been eliminated on consolidation and are not disclosed in this note. The following is a summary of the related party transactions that occurred during the years ended February 29, 2012 and February 28, 2011.

a) Trading transactions

The Company incurred the following fees and expenses in the normal course of operations at fair value in connection with companies owned by key management and directors.

	February 29, 2012	February 28, 2011
Management fees (i)	\$ 504,592	\$ 393,793
Technical geological services (ii)	236,007	123,228
Directors fees (iii)	61,000	36,000
	<u>\$ 801,599</u>	<u>\$ 553,021</u>

- i) incurred \$134,842 (2011 - \$110,723) for management fees to a company controlled by the CEO, incurred \$274,000 (2011 - \$183,000) for management fees to a company controlled by the CFO, incurred \$89,525 (2011 - \$100,070) for management fees to a company controlled by the Vice-President of Exploration, and \$6,225 (2011 - \$nil) for management fees to the Vice-President of Engineering;
- ii) incurred \$102,883 (2011 - \$65,702) for technical geological services to a company controlled by the CEO, incurred \$113,525 (2011 - \$54,665) for technical geological services to a company controlled by the Vice-President of Exploration, and incurred \$19,600 (2011 - \$nil) for technical geological services to the Vice-President of Engineering; and
- iii) incurred \$61,000 (2011 - \$36,000) for directors fees to three separate companies controlled by three separate non-management directors.

DONNER METALS LTD.

Notes to the Consolidated Financial Statements

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(Stated in Canadian Dollars)

13. Related Party Transactions (cont'd)

Trade and other receivables include \$1,027 (February 28, 2011 - \$362; March 1, 2010 - \$564) owing from related parties and trade and other payables include \$65,125 (February 28, 2011 - \$6,923; March 1, 2010 - \$14,867) owing to related parties. Amounts due to or from related parties are unsecured, non-interest bearing and are due on demand.

b) Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the years ended February 29, 2012 and February 28, 2011 were as follows:

	February 29, 2012	February 28, 2011
Short-term employee benefits	\$ 801,599	\$ 553,021
Share-based payments	1,412,937	46,988
	<u>\$ 2,214,536</u>	<u>\$ 600,009</u>

- i) Short-term employee benefits include management fees, technical geological services and directors fees disclosed in note 13a.
- ii) Share-based payments are the fair value of options granted to key management personnel that is expensed during the year.
- iii) Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended February 29, 2012 and February 28, 2011.

14. Financial Instruments

As at February 29, 2012, the Company's financial instruments are cash, trade and other receivables, and trade and other payables. The amounts reflected in the statement of financial position are carrying amounts and approximate their fair values due to their short-term nature. These financial instruments are classified as follows:

Cash – loans and receivables
Trade and other receivables – loans and receivables
Trade and other payables – other financial liabilities

The following fair value hierarchy is used to categorize and disclose the Company's financial assets and liabilities held at fair value for which a valuation technique is used:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2: All inputs which have a significant effect on the fair value are observable, either directly or indirectly, for substantially the full contractual term.
- Level 3: Inputs which have a significant effect on the fair value are not based on observable market data.

At February 28, 2012, the Company has no financial instruments measured in the fair value hierarchy.

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Notes to the Consolidated Financial Statements

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14. Financial Instruments (cont'd)

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and trade and other receivables are exposed to credit risk. Management believes the credit risk on cash is small because the counterparties are highly rated financial institutions and the credit risk on trade and other receivables and tax credits recoverable is small because the counterparties are federal and provincial governments.

The aging of trade and other receivables and tax credits recoverable are as follows:

	February 29, 2012	February 28, 2011	March 1, 2010
Trade and other receivables			
0 to 60 days	\$ 480,763	\$ 47,433	\$ 13,446
61 to 120 days	189,923	-	282
	<u>\$ 670,686</u>	<u>\$ 47,433</u>	<u>\$ 13,728</u>
Tax credits recoverable			
0 to 365 days	\$ 2,781,817	\$ 1,110,497	\$ 38,630
> 365 days	1,117,538	7,040	566,264
	<u>\$ 3,899,355</u>	<u>\$ 1,117,537</u>	<u>\$ 604,894</u>

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. The Company is not exposed to significant interest rate risk due to the short-term to maturity of its financial instruments. The Company had no interest rate swaps or financial contracts in place as at or during the year ended February 29, 2012.

c) Currency risk

Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to currency risk has generally been negligible because the Company's operations are in one country, being Canada. However, the Company did experience a \$153,040 foreign currency translation loss during the three months ended November 30, 2011 on translation of the USD\$20,000,000 received from the Sandstorm financing to Canadian dollars during a period where the Canadian dollar was weakening against the US dollar. The Company's future sales of concentrates and payments to be made to and received from Sandstorm will be priced in US dollars, and therefore the Company will be subject to greater currency risk from the fluctuations of exchange rates between the Canadian dollar and the US dollar. The Company currently does not use derivative instruments or hedges to manage currency risks.

DONNER METALS LTD.

Notes to the Consolidated Financial Statements

February 29, 2012 and February 28, 2011

(Stated in Canadian Dollars)

14. Financial Instruments (cont'd)

d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's trade and other payables are all current and due within 90 days of the statement of financial position date. The Company seeks to ensure that it has sufficient capital to meet short term financial obligations after taking into account its exploration, development, and operating obligations and cash on hand. The timing of the commencement of commercial production from the Bracemac-MacLeod mine is uncertain. The Company anticipates seeking financing prior to the receipt of revenues from the mine in order to fund initial mine operating costs, general and administrative costs, ongoing mine development costs, and Matagami Project exploration costs which are expected to average approximately \$2,000,000 per month in calendar 2012 (note 19).

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's obligations:

	<u>Total</u>	<u>Less than 1 year</u>	<u>One to two years</u>	<u>More than two years</u>
Trade and other payables	\$ 327,679	\$ 327,679	\$ -	\$ -
Lease of office premises	\$ 191,002	\$ 191,002	\$ -	\$ -
Decommissioning liabilities	\$ 303,975	\$ -	\$ -	\$ 303,975
	<u>\$ 822,656</u>	<u>\$ 518,681</u>	<u>\$ -</u>	<u>\$ 303,975</u>

e) Price risk

The ability of the Company to explore and develop its mineral properties and the future profitability of the Company are directly related to the market prices of zinc, copper, gold and silver. The Company's future cash flows from product sales will therefore be impacted by fluctuations in commodity prices.

15. Capital Management

The Company includes as capital its common shares, warrants reserve and share option reserve. Total capital as at February 29, 2012 was \$43,314,030 (February 28, 2011 - \$32,977,179; March 1, 2010 - \$28,193,886). The Company has no externally imposed capital requirements.

The Company's objectives 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. As the Company does not have cash flow from operations, to maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its excess cash in highly liquid short-term interest-bearing investments, selected with regards to the expected timing of expenditures from continuing operations.

As discussed in note 6, significant additional mine development expenditures will be required.

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(Stated in Canadian Dollars)

16. Supplemental Cash Flow Information

	February 29, 2012	February 28, 2011
Non-cash financing activities:		
Fair value of warrants transferred to common shares on exercise of warrants	\$ 752,218	\$ 324,903
Fair value of options transferred to common shares on exercise of options	\$ -	\$ 71,210

17. Segmented information

At February 29, 2012 the Company has one reportable operating segment, being acquisition, exploration and development of mineral properties in Canada. All of the Company's assets are located in Canada.

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and
- for which discrete financial information is available.

18. Income Taxes

The Company has incurred \$12,411 (2011 - \$6,006) of Part XII.6 tax which is incurred on the issuance of flow-through shares using the look-back rule. These taxes are deductible for tax purposes and are included in finance costs on the statements of loss and comprehensive loss. Tax expense differs from the amount computed by applying the combined Canadian federal and provincial income tax rates, applicable to Donner Metals Ltd., to the loss before income taxes due to the following:

	February 29, 2012	February 28, 2011
Loss before income taxes	\$ (5,612,592)	\$ (4,889,022)
<u>Canadian federal and provincial income tax rates</u>	<u>26.25%</u>	<u>28.20%</u>
Income tax recovery based on Canadian federal and provincial income tax rates	(1,473,305)	(1,378,704)
Increase (decrease) attributable to:		
Changes in unrecognized deferred tax assets	809,210	1,216,071
Non-deductible (taxable) expenditures	199,159	97,322
Differences between current and deferred income tax rates	(31,544)	65,311
Effect of flow-through share renunciation	496,480	-
Quebec refundable mining tax	(1,962,814)	-
Quebec mining taxes	2,237,553	-
<u>Tax expense</u>	<u>\$ 274,739</u>	<u>\$ -</u>

The Company has recognized Quebec refundable mining taxes of \$1,962,814 and has correspondingly recorded a deferred tax liability of \$2,237,553 on Quebec mining taxes. The higher tax rate on this taxable temporary difference gives rise to a tax expense of \$274,739 in the year ended February 29, 2012 (2011 - \$nil).

Unrecognized deductible temporary differences, unused tax losses and unused tax credits are attributable to the following:

DONNER METALS LTD.

Notes to the Consolidated Financial Statements

February 29, 2012 and February 28, 2011

(Stated in Canadian Dollars)

18. Income Taxes (cont'd)

	February 29, 2012	February 28, 2011
Non-capital losses carry forwards	\$ 9,247,591	\$ 7,438,779
Capital loss carryforwards	3,034,835	-
Property, plant and equipment	9,214,442	6,829,612
Capital investment	-	3,275,599
Share issuance costs	585,104	824,004
Decommissioning liabilities	297,990	-
Flow-through share premium	27,016	-
Tax credits	4,066,278	2,898,845
	<u>\$ 26,473,256</u>	<u>\$ 21,266,839</u>

The Company has accumulated losses of approximately \$9,247,591 which may be deducted in the calculation of taxable income in future years. These losses expire on various dates up to fiscal 2032. The Company has tax credits totaling \$4,066,278.

19. Subsequent Events

Subsequent to February 29, 2012, the Company issued 14,750,000 units (the "Units") at a price of \$0.25 per Unit and 41,071,500 flow-through shares at a price of \$0.28 per flow-through share for aggregate gross proceeds of \$15,187,520.

Each Unit consists of one common share in the capital of the Company and one half of one transferable common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder to acquire one common share at a price of \$0.32 per common share until March 6, 2014.

The Company paid cash commissions of \$1,063,126 and issued 3,907,505 agent's compensation options entitling the agent to purchase 3,907,505 Units ("Compensation Units") at an exercise price of \$0.25 per Compensation Unit until March 6, 2014. Each Compensation Unit consists of one common share of the Company and one half of one Warrant. Each Warrant entitles the holder to acquire one common share at a price of \$0.32 per common share until March 6, 2014.

The net proceeds from the sale of the Units will be used by the Company to fund its portion of the capital expenditures required to complete construction of the Bracemac-McLeod zinc mine, for exploration expenditures at its projects in Québec, and for other general corporate and working capital purposes. The gross proceeds from the sale of the Flow-Through Shares will be used by the Company to fund exploration and development expenditures which qualify as 100% Canadian Exploration Expense.

20. First Time Adoption of IFRS

The Company has adopted IFRS on March 1, 2011 with a transition date of March 1, 2010 (the "Transition Date"). Under IFRS 1 'First-time Adoption of International Financial Reporting Standards' ("IFRS 1"), the IFRS are applied retrospectively at the Transition Date with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings (deficit) unless certain optional exemptions are applied.

The Company has elected to apply the following IFRS 1 optional exemptions at the Transition Date:

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20. First Time Adoption of IFRS (cont'd)

a) Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 'Business Combinations' ("IFRS 3") retrospectively to business combinations that occurred before the Transition Date. The Company has used this election and has applied IFRS 3 prospectively from the Transition Date. Accordingly, there is no adjustment required to the Transition Date statement of financial position. As a result of this election, the Company's accounting for its non-controlling interests which existed prior to the Transition Date, per the requirement of IAS 27 '*Consolidated and Separate Financial Statements*', have been applied prospectively from the date of the transition of IFRS per the required exception in IFRS 1.

b) Consolidated and separate financial statements

In accordance with IFRS 1, if a company elects to apply IFRS 3 retrospectively, IAS 27 '*Consolidated and Separate Financial Statements*' ("IAS 27") must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

c) Share-based payments

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 '*Share-based Payments*' ("IFRS 2") to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the Transition Date and January 1, 2005. The Company has elected to not apply IFRS 2 to awards that vested prior to the Transition Date.

d) Borrowing costs

IFRS 1 provides the Company with an option to account for borrowing costs under IAS 23 '*Borrowing Costs*' ("IAS 23") as of the Transition Date. The Company has elected to apply IAS 23 prospectively from the Transition Date.

IFRS 1 requires that the Company's estimates under IFRS at the Transition Date must be consistent with estimates made for the same date under Canadian GAAP, unless there is objective evidence that those estimates are in error. The Company's IFRS estimates as of March 1, 2010 are consistent with its Canadian GAAP estimates at the same date.

IFRS employs a conceptual framework that is similar to GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and financial performance. In order to allow the users of the financial statements to better understand these changes, the Company's GAAP statement of loss and comprehensive loss and statement of financial position for the year ended February 28, 2011 has been reconciled to IFRS, with the resulting differences explained.

The adoption of IFRS does not have a significant impact on the statement of cash flows for the year ended February 28, 2011. Therefore, no reconciliation is presented in these consolidated financial statements.

The adoption of IFRS has resulted in the Company re-classifying the expenses reported on the consolidated statements of loss and comprehensive loss in accordance with their nature. These reclassifications have not impacted the reported loss and comprehensive loss.

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Notes to the Consolidated Financial Statements

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20. First Time Adoption of IFRS (cont'd)

Notes to the IFRS reconciliations:

i) Flow-through shares

Canadian GAAP – flow-through shares are credited to share capital, net of any issuance costs. On the date the tax credits are renounced to the flow-through share subscribers, a deferred tax liability/recovery is recognized as a cost of issuing the flow-through shares.

IFRS – a liability is recognized for the difference between the net proceeds received and the market price of the shares on the date of issue (the “flow-through share premium”). Provided the Company has the intention to renounce the tax benefits to the flow-through subscriber, the flow-through share premium is reversed and recorded as other income as qualifying expenditures are incurred. The deferred tax impact, if any, is recognized at the same time. As a result, adjustments of \$460,388 and \$383,362 were credited to common shares and flow-through share premium with a corresponding charge to deficit of \$843,750 as at February 28, 2011. For the year ended February 28, 2011 there was a decrease to deferred tax recovery of \$793,621 and an increase in flow-through share premium of \$901,394. As at March 1, 2010, adjustments of \$151,141 and \$800,381 were credited to common shares and flow-through share premium with a corresponding charge to deficit of \$951,522.

ii) Non-controlling interests

Canadian GAAP – non-controlling interests in the equity of a consolidated affiliate are classified as a separate component between liabilities and equity in the consolidated statement financial position and as a separate component of net earnings within the consolidated statement of earnings. Also, if the non-controlling interest was in a deficit position, the Company was not required to show the non-controlling interest’s portion of the loss.

IFRS – non-controlling interests in the equity of a consolidated affiliate are classified as a component of equity separate from the equity of the parent and are not included in net earnings, but instead are presented as an allocation of net earnings, even if this results in the non-controlling interests having a deficit balance. As a result, the non-controlling interest’s share of loss and comprehensive loss for the year ended February 28, 2011 was \$5,408 and has been shown separately on the statement of loss and comprehensive loss and the statement of financial position.

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20. First Time Adoption of IFRS (cont'd)

The March 1, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash		\$ 5,733,400	\$ -	\$ 5,733,400
Trade and other receivables		13,728	-	13,728
Tax credits recoverable		597,854	-	597,854
Advances for exploration		503,907	-	503,907
Prepaid expenses		26,494	-	26,494
Total current assets		6,875,383	-	6,875,383
Non-current assets				
Property and equipment		19,302	-	19,302
Long-term tax credits recoverable		7,040	-	7,040
Investment		1,359,683	-	1,359,683
Total non-current assets		1,386,025	-	1,386,025
Total assets		\$ 8,261,408	\$ -	\$ 8,261,408
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables		\$ 117,125		\$ 117,125
Flow-through share premium	i	-	800,381	800,381
Total current liabilities		117,125	800,381	917,506
Equity				
Common shares	i	20,453,431	151,141	20,604,572
Warrants reserve		1,931,198	-	1,931,198
Share option reserve		5,658,116	-	5,658,116
Available-for-sale revaluation reserve		948,061	-	948,061
Deficit	i	(20,846,523)	(951,522)	(21,798,045)
Total equity		8,144,283	(800,381)	7,343,902
Total liabilities and equity		\$ 8,261,408	\$ -	\$ 8,261,408

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Notes to the Consolidated Financial Statements

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(Stated in Canadian Dollars)

20. First Time Adoption of IFRS (cont'd)

The February 28, 2011 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash		\$ 5,022,048	\$ -	\$ 5,022,048
Trade and other receivables		47,433	-	47,433
Tax credits recoverable		960,753	-	960,753
Advances for exploration		126,692	-	126,692
Prepaid expenses		36,599	-	36,599
Total current assets		6,193,525	-	6,193,525
Non-current assets				
Property and equipment		13,894	-	13,894
Long-term tax credits recoverable		156,784	-	156,784
Investment		370,822	-	370,822
Total non-current assets		541,500	-	541,500
Total assets		\$ 6,735,025	\$ -	\$ 6,735,025
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables		\$ 102,350	\$ -	\$ 102,350
Flow-through share premium	i	-	383,362	383,362
Total current liabilities		102,350	383,362	485,712
Equity				
Common shares	i	24,851,705	460,387	25,312,092
Warrants reserve		1,269,554	-	1,269,554
Share option reserve		6,395,533	-	6,395,533
Available-for-sale revaluation reserve		(40,799)	-	(40,799)
Deficit	i,ii	(25,843,318)	(838,341)	(26,681,659)
Equity attributable to owners of the Company	ii	6,632,675	(377,954)	6,254,721
Non-controlling interest	ii	-	(5,408)	(5,408)
Total equity		6,632,675	(383,362)	6,249,313
Total liabilities and equity		\$ 6,735,025	\$ -	\$ 6,735,025

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20. First Time Adoption of IFRS (cont'd)

The Canadian GAAP consolidated statement of loss and comprehensive loss for the year ended February 28, 2011 has been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Expenses				
Exploration		\$ 3,839,051	\$ -	\$ 3,839,051
Foreign exchange loss		301	-	301
General and administrative		1,501,273	-	1,501,273
Share-based payments		471,886	-	471,886
Operating loss		(5,812,511)	-	(5,812,511)
Interest income		28,101	-	28,101
Interest expense on flow-through shares		(6,006)	-	(6,006)
Flow-through share premium	i	-	901,394	901,394
		22,095	901,394	923,489
Loss before income taxes		(5,790,416)	901,394	(4,889,022)
Deferred income tax recovery	i	793,621	(793,621)	-
Loss for the year		(4,996,795)	107,773	(4,889,022)
Other comprehensive loss				
Unrealized loss on mark to market of investment, net of tax		(988,860)	-	(988,860)
Total comprehensive loss		\$ (5,985,655)	\$ 107,773	\$ (5,877,882)
Loss attributable to:				
Non-controlling interest	ii	\$ -	\$ (5,408)	\$ (5,408)
Owners of the Company	ii	-	(4,883,614)	(4,883,614)
		\$ -	\$ (4,889,022)	\$ (4,889,022)
Comprehensive loss attributable to:				
Non-controlling interest	ii	\$ -	\$ (5,408)	\$ (5,408)
Owners of the Company	ii	-	(5,872,474)	(5,872,474)
		\$ -	\$ (5,877,882)	\$ (5,877,882)
Basic and diluted loss per share		\$ (0.04)		\$ (0.04)
Weighted average number of common shares outstanding - basic and diluted		114,299,490		114,299,490