(An Exploration Stage Company)

Annual Financial Statements

For the Years Ended December 31, 2010 and 2009

Management's Responsibility for Financial Reporting

The accompanying financial statements of Valterra Resource Corporation (an exploration stage company) (the "Company") have been prepared by and are the responsibility of the Company's management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and have been approved by the Board of Directors. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal controls that are appropriate in the circumstances. Although no cost effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that the assets are safeguarded, all transactions are authorized and duly recorded, and financial records are properly maintained to facilitate preparation of reliable financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has met with management and the external independent auditors to review the scope and results of the annual audit, and to review the financial statements and related financial reporting matters. The Company's independent auditors, Smythe Ratcliffe LLP, an independent firm of chartered accountants, were appointed as external auditors by the shareholders and have audited the financial statements and their report is included herein.

"Lawrence Page"	*"Mahesh Liyanage"*
Lawrence Page, Q.C. President	Mahesh Liyanage Chief Financial Officer

Vancouver, British Columbia
March 25, 2011

SmytheRatcliffe
CHARTERED ACCOUNTANTS

Independent Auditors' Report

To the Shareholders of Valterra Resource Corporation
(An Exploration Stage Company)

We have audited the accompanying financial statements of Valterra Resource Corporation, which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of operations and comprehensive loss, shareholders' equity and cash flows for the years ended December 31, 2010 and 2009, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Valterra Resource Corporation as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years ended December 31, 2010 and 2009 in accordance with Canadian generally accepted accounting principles.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
March 25, 2011

7th Floor 355 Burrard St
Vancouver, BC V6C 2G8

Tel: 604 687 1231
Fax: 604 688 4675
smytheratcliffe.com

Valterra Resource Corporation
(An Exploration Stage Company)
Balance Sheets

	Note		December 31, 2010		December 31, 2009
Assets					
Current					
Cash	13	$	250,111	$	587,199
Receivables			43,155		11,828
Prepaid and deposits			14,290		2,081
Total Current Assets			**307,556**		**601,108**
Investment	6		30,000		20,000
Mineral properties	7		3,170,247		2,344,315
Reclamation bonds	8		45,000		45,000
Total Assets		**$**	**3,552,803**	**$**	**3,010,423**
Liabilities					
Current					
Bank indebtedness	9	$	197,619	$	197,808
Accounts payable and accrued liabilities			197,270		147,498
Due to related parties	10		189,370		463,737
Total Current Liabilities			**584,259**		**809,043**
Shareholders' Equity					
Share capital	11		9,443,488		8,458,736
Contributed surplus			549,943		532,590
Accumulated other comprehensive income (loss)			3,750		(5,000)
Deficit			(7,028,637)		(6,784,946)
Total Shareholders' Equity			**2,968,544**		**2,201,380**
Total Liabilities and Equity		**$**	**3,552,803**	**$**	**3,010,423**

Nature and continuance of operations (Note 1)
Commitments (Notes 7 and 14)
Subsequent events (Notes 7 (d)(ii) and 15)

Approved on behalf of the Board

"Lawrence Page"	*"Derek Page"*
Lawrence Page, Q.C. Director	Derek Page Director

The accompanying notes are an integral part of these financial statements

Valterra Resource Corporation
(An Exploration Stage Company)
Statements of Operations and Comprehensive Loss

		Years Ended December 31, 2010		2009
Operating Expenses				
Administration	$	107,262	$	109,869
Amortization		-		3,143
Consulting		69,718		112,924
General exploration		25,239		19,952
Independent director fees		23,250		50,001
Interest		6,306		6,644
Investor relations		42,233		55,376
Office and general		29,736		30,746
Professional fees		98,742		119,674
Regulatory fees and taxes		19,628		7,881
Shareholders communications		2,792		6,258
Stock-based compensation (Note 11 (i))		-		119,534
Transfer agent		8,956		8,624
Travel and promotion		1,318		1,063
Total Operating Expenses		**435,180**		**651,689**
Other Item				
Write off of investments		-		4
Loss Before Future Income Tax Recovery		**435,180**		**651,693**
Future income tax recovery (Note 12)		(191,489)		(250,000)
Net Loss for the Year		**243,691**		**401,693**
Other Comprehensive Income (Loss)				
Unrealized loss (gain) on fair value of investment, net of taxes		(8,750)		5,000
Comprehensive Loss for the Year	**$**	234,941	**$**	406,693
Loss per share - basic and diluted	$	0.01	$	0.01
Weighted average number of common shares outstanding		40,467,345		26,802,134

The accompanying notes are an integral part of these financial statements

Valterra Resource Corporation
(An Exploration Stage Company)
Statements of Cash Flows

		Years Ended December 31, 2010		2009
Cash provided by (used for):				
Operating Activities				
Net loss for the year	$	(243,691)	$	(401,693)
Items not involving cash:				
Future income tax recovery		(191,489)		(250,000)
Amortization		-		3,143
Stock-based compensation		-		119,534
Write-off of investments		-		4
		(435,180)		(529,012)
Changes in Non-Cash Working Capital				
Receivables		(31,327)		774
Prepaid and deposits		(12,209)		7,236
Bank indebtedness		(189)		(1,522)
Accounts payable and accrued liabilities		30,453		(21,866)
Due to related parties		(277,972)		189,743
		(291,244)		174,365
Cash Used in Operating Activities		**(726,424)**		**(354,647)**
Investing Activities				
Expenditures on mineral properties		(794,167)		(351,942)
Refund of reclamation bonds		-		7,000
Cash Used in Investing Activities		**(794,167)**		**(344,942)**
Financing Activities				
Common shares issued for cash		1,229,166		1,237,626
Share issuance costs		(45,663)		(78,874)
Cash Provided by Financing Activities		**1,183,503**		**1,158,752**
Increase (Decrease) in Cash During the Year		**(337,088)**		**459,163**
Cash, Beginning of the Year		587,199		128,036
Cash, End of the Year	$	**250,111**	$	**587,199**

Supplemental cash flow information (Note 13)

The accompanying notes are an integral part of these financial statements

Valterra Resource Corporation
(An Exploration Stage Company)
Statements of Shareholders' Equity

Common Shares	Number of Shares	Amount	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance as at December 31, 2008	**23,056,439**	**$ 7,598,368**	**$ 327,401**	**$ (6,383,253)**	**$ -**	**$ 1,542,516**
Issued						
Private placements - non-flow-through	5,241,672	468,626	-	-	-	468,626
Private placements - flow-through	8,893,182	769,000	-	-	-	769,000
Shares for mineral property payment	210,000	12,500	-	-	-	12,500
Shares issued for finders' fees	281,250	22,500	-	-	-	22,500
Stock-based compensation	-	-	144,305	-	-	144,305
Subtotal	14,626,104	1,272,626	144,305	-	-	1,416,931
Share issue costs	-	(101,374)	-	-	-	(101,374)
Value assigned to finder warrants	-	(32,768)	32,768	-	-	-
Value assigned to finder options	-	(28,116)	28,116	-	-	-
Tax benefit of renunciation of flow-through expenditures	-	(250,000)	-	-	-	(250,000)
Unrealized loss on investment	-	-	-	-	(5,000)	(5,000)
Net loss for the year	-	-	-	(401,693)	-	(401,693)
Balance as at December 31, 2009	**37,682,543**	**8,458,736**	**532,590**	**(6,784,946)**	**(5,000)**	**2,201,380**
Issued						
Private placements - non-flow-through	16,773,319	838,666	-	-	-	838,666
Private placements - flow-through	7,810,000	390,500	-	-	-	390,500
Shares for mineral property payment	150,000	6,000	-	-	-	6,000
Shares issued for finders' fees	250,000	12,500	-	-	-	12,500
Subtotal	24,983,319	1,247,666	-	-	-	1,247,666
Share issue costs	-	(58,163)	-	-	-	(58,163)
Value assigned to warrants, mineral property payment	-		2,841	-	-	2,841
Value assigned to finder options	-	(14,512)	14,512	-	-	-
Tax benefit of renunciation of flow-through expenditures	-	(190,239)	-	-	-	(190,239)
Unrealized gain on investment, net of taxes	-	-	-	-	8,750	8,750
Net loss for the year	-	-	-	(243,691)	-	(243,691)
Balance as at December 31, 2010	**62,665,862**	**$ 9,443,488**	**$ 549,943**	**$ (7,028,637)**	**$ 3,750**	**$ 2,968,544**

The accompanying notes are an integral part of these financial statements

1. Nature and Continuance of Operations

Valterra Resource Corporation (the "Company") is an exploration stage company. The Company was incorporated in Alberta, continued to the Yukon on May 8, 1997 and subsequently continued to British Columbia on February 22, 2008. The Company's shares are listed on the Canadian National Stock Exchange ("CNSX"). The Company's mineral properties are located in British Columbia, Canada.

The Company's principal business activities include acquisition, exploration, and development of mineral natural resource properties. The Company has yet not determined whether any of its mineral properties contain ore reserves.

These financial statements were prepared on a "going concern" basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Currently the Company is unable to self-finance operations, has limited resources, no source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its mineral property projects.

The Company had a net working capital deficiency of $276,703 as at December 31, 2010 compared to a net working capital deficiency of $207,935 as at December 31, 2009. Excluding cash reserved for Canadian exploration expenditures of $172,875, net working capital deficiency as at December 31, 2010 was $449,578. Refer to Note 15 (a).

The Company does not hold any revenue generating properties and thereby continues to incur losses. As at December 31, 2010, the Company has an accumulated deficit of $7,028,637 (2009: $6,784,946).

The Company has relied mainly upon the issuance of share capital to finance its activities. Future capital requirements will depend on many factors including the Company's ability to execute its business plan. The Company intends to continue relying upon the issuance of share capital to finance future activities but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company. Inability to secure future financing would have a material adverse effect on the Company's business, results of operations and financial condition.

Failure to continue as a going concern may require restatement of assets and liabilities on a liquidation basis, which could differ materially from the going concern basis. These financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern.

2. Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The Company's functional and reporting currency is the Canadian dollar and all amounts are in Canadian dollars, unless otherwise indicated.

3. Summary of Significant Accounting Policies and Future Accounting Changes

(a) Mineral Properties

All costs related to the acquisition, exploration, and development of mineral properties are capitalized on a property-by-property basis, net of recoveries, until such time as these mineral properties are placed into commercial production, sold, or abandoned. The costs incurred to date do not necessarily reflect present or future values. If commercial production is achieved from a mineral property, the related capitalized costs will be amortized on a unit-of-production basis over the estimated life of the ore reserves. If a mineral property is sold, the capitalized costs will be expensed in the period of the sale. If a mineral property is abandoned, the related capitalized costs are written off to the statement of operations.

From time to time, the Company may acquire or dispose of all or part of its mineral property interests under the terms of property option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, option payments are recorded as property costs or recoveries when paid or received. When recoveries exceed the carrying value of the mineral property, the excess is reflected in the statements of operations.

All deferred mineral property expenditures are reviewed annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

(b) Reclamation Bonds

Reclamation bonds are non-interest-bearing, recorded at cost, and held by Canadian government agencies or in trust.

3. Summary of Significant Accounting Policies and Future Accounting Changes, continued

(c) Financial Instruments

Financial instruments are classified as one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in the statements of operations. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity until the investment is no longer recognized or impaired, at which time the amounts are recorded in the statement of operations. Any financial instrument may be designated as held-for-trading upon initial recognition.

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

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(d) Share Capital

The Company records proceeds from share issuances net of commissions and issuance costs. The Company uses the residual value method with respect to the issue of units, wherein the fair value of the common shares is determined by the market value on the date of the announcement of the placement, and the balance, if any, is allocated to the attached warrants. Financing costs associated with private placements are deferred until the shares are issued.

Shares issued for non-monetary consideration are recorded at an amount based on the quoted market value of the Company's shares on the date of share issuance. Shares to be issued, which are contingent upon future events or actions, are recorded by the Company when it is reasonably determinable that the shares will be issued.

3. Summary of Significant Accounting Policies and Future Accounting Changes, continued

(e) Flow-Through Shares

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

(f) Loss per Share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(g) Stock-Based Compensation

The Company accounts for stock-based compensation using a fair value-based method with respect to all stock-based payments to directors, officers, and non-employees. For directors, officers, and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is charged either to operations or mineral properties, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company does not incorporate an estimated forfeiture rate for options that will not vest but rather accounts for forfeitures as they occur.

3. Summary of Significant Accounting Policies and Future Accounting Changes, continued

(h) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined and recognized based on differences between the financial statement carrying values and their respective income tax basis. Future income tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the year in which the temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in the statements of operations in the period in which the change is enacted or substantially enacted. The amount of future income tax assets recognized, including the benefit of income tax losses available for carry-forward, is recognized only to the extent that it is more likely than not to be realized. A valuation allowance is provided against future income tax assets when it is more likely than not that the income tax asset will not be utilized.

(i) Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make judgments, estimates, and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of environmental obligations; asset retirement obligations ("ARO"); accrued liabilities; the impairment and recoverability of mineral properties; determination of the valuation allowance for future income tax assets; and the assumptions used in the calculation of the fair value assigned to stock-based compensation, finders' options, and finders' warrants. While management believes the estimates used are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(j) Asset Retirement Obligations

The Company recognizes an estimate of the liability associated with an ARO, including site closure and costs associated with exploration activities on its mineral properties, in the period in which the liability is incurred if a reasonable estimate of fair value can be made. The estimated fair value or present value of future cash flows associated with the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount will be depleted on a unit-of-production basis over the life of the proved resources. The liability amount will be increased each reporting period due to the passage of time and the amount of accretion is charged to the statements of operations. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material obligations of this nature to record in the financial statements.

3. Summary of Significant Accounting Policies and Future Accounting Changes, continued

(k) Future Accounting Changes

(i) Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants issued Handbook Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests. These sections replace the former Handbook Section 1581, Business Combinations, and Section 1600, Consolidated Financial Statements, and establish a new section for accounting for a non-controlling interest in a subsidiary.

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

These new sections apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company made an assessment and concluded that these new sections have no impact on the Company.

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

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company's interim and annual financial statements relating to reporting periods beginning on or after January 1, 2011 with restatement of comparative information presented.

The conversion to IFRS will impact the Company's accounting policies, information technology and data system, internal control over financial reporting, and disclosure controls and procedures. The Company has established an implementation team and developed a plan to implement the changeover to IFRS on a timely basis.

4. Financial Instruments

The Company's financial instruments comprise cash, reclamation bonds, investment, bank indebtedness, accounts payable and accrued liabilities, and amounts due to related parties. Receivables consist of amounts due from the government and are excluded as a financial instrument. The Company has classified its financial instruments into the following categories:

	December 31, 2010			December 31, 2009		
Financial Assets	**Held-for-trading**	**Available-for-sale**	**Loans and Receivables**	**Held-for-trading**	**Available-for-sale**	**Loans and Receivables**
Cash	$ 250,111	$ -	$ -	$ 587,199	$ -	$ -
Investment	-	30,000	-	-	20,000	-
Reclamation bonds	-	-	45,000	-	-	45,000
	$ 250,111	$ 30,000	$ 45,000	$ 587,199	$ 20,000	$ 45,000

	December 31, 2010	December 31, 2009
Financial Liabilities	**Other Financial Liabilities**	**Other Financial Liabilities**
Bank indebtedness	$ 197,619	$ 197,808
Accounts payable and accrued liabilities	197,270	147,498
Due to related parties	189,370	463,737
	$ 584,259	$ 809,043

Fair Value

The carrying values of cash, bank indebtedness, and accounts payable and accrued liabilities approximate their fair values due to the short period to maturity. The fair value of investment is based on its quoted market price in an active market as at December 31, 2010. Reclamation bonds are non-interest-bearing and recorded at their fair value.

The fair values of amounts due to related parties cannot be reliably measured since there is no quoted price for such instruments.

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Investment	$ 30,000	$ -	$ -	$ 30,000

The Company is exposed to the following risks arising from its financial instruments.

4. Financial Instruments, continued

(a) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge its contractual obligations. The Company is exposed to credit risk mainly in respect to managing its cash position. The Company mitigates credit risk by risk management policies that require cash deposits or short-term investments be invested with Canadian chartered banks rated BBB or better, or commercial paper issuers R1/A2/P2 or higher. All investments must be less than one year in duration.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due by forecasting cash flows for operations and anticipated investing and financing activities and through management of its capital structure. As at December 31, 2010, the cash balance of $250,111 would be insufficient to meet the cash requirements for the Company's administrative overhead, maintaining its mineral interests, and continuing with its exploration program in the following several months. As at December 31, 2010, the accounts payable and accrued liabilities of $197,270 and due to related parties of $189,370 are due in the first quarter of 2011 and are subject to normal trade terms. The Company will be required to raise additional capital in order to fund its operations (Note 15).

(c) Market Risk

(i) Interest Rate Risk

The Company is exposed to interest rate risk on its bank indebtedness, as the payments fluctuate with changes in interest rates. Based on the current balance of the bank indebtedness, an assumed 0.5% increase or decrease in interest rates would not have a significant effect on the Company's results of operations.

(ii) Currency Risk

The Company is exposed to currency risk to the extent expenditures incurred or funds received and balances maintained by the Company are denominated in currencies other than the Canadian dollar. The Company does not use any hedges or other derivatives to mitigate the risk against foreign exchange fluctuations.

In May 2008, the Company entered into an option agreement to acquire a 100% undivided interest in Star claims group (the "Star Property"), whereby the Company is required to make further payments totaling US $255,000 with the next payment of US $25,000 due May 13, 2011. An appreciation or depreciation of the US dollar by 10% can affect the Company's cash flow by $25,362 over the remaining term of the agreement.

As at December 31, 2010, the Company had no amounts receivable or payable in foreign currencies.

4. Financial Instruments, continued

(c) Market Risk, continued

(iii) Other Price Risk

Other price risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is exposed to other price risk through its investment as disclosed in Note 6. Assuming all other variables remain constant, a 10% decrease or increase in the market price of the Company's investment would result in $3,000 decrease or increase in the Company's comprehensive income.

5. Capital Management

The capital of the Company consists of components of shareholders' equity. Capital requirements are driven by the Company's exploration activities on its mineral property interests. The Company's objectives of capital management are to safeguard the entity's ability to support the Company's normal operating requirements on an ongoing basis, continue the exploration of its mineral properties, and support any expansionary plans. The Company's primary process for managing capital consists of the ongoing assessment of current capital resources against budgeted exploration and administrative expenditures. In order to maintain or adjust the capital structure, the Company may issue new shares. There can be no assurance that the Company will be able to obtain equity capital in the case of operating cash deficits.

As the Company is in the exploration stage, its operations have been funded by the issuance of common shares. The Company will continue to rely on share issuances for future funding depending upon market and economic conditions at the time.

There have been no changes in the Company's approach to capital management during the year ended December 31, 2010. The Company is not subject to externally imposed capital requirements other than those related to its credit facility as disclosed in Note 9. The Company is in compliance with the externally imposed capital requirements.

6. Investment

The Company acquired 100,000 common shares in Tosca Mining Corporation ("Tosca"), which are classified as an available-for-sale financial instrument. The fair value for Tosca shares as at December 31, 2010 was $0.30 (2009: $0.20) per share. The Tosca shares were obtained in consideration for payments required pursuant to an earn-in agreement on the Swift Katie property, located in the Nelson Mining Division, British Columbia, Canada.

The Company holds less than 1% of the total number of outstanding shares of Tosca as at December 31, 2010.

7. Mineral Properties

The Company has interests in four mineral properties called Star, Swift Katie, Toughnut, and Rozan. All the properties are located near the towns of Nelson and Salmo, British Columbia.

All costs related to the acquisition, exploration, and development of mineral properties are capitalized until such time these mineral properties are placed into commercial production, sold, or abandoned. A summary of capitalized expenditures as at December 31, 2010 is as follows:

Mineral Properties	Toughnut $	Star $	Swift Katie $	Rozan $	Total $
Acquisition costs					
Balance as at December 31, 2009	19,453	33,484	133,889	-	186,826
Additions during the year	34,349	26,479	2,753	9,490	73,071
Balance as at December 31, 2010	**53,802**	**59,963**	**136,642**	**9,490**	**259,897**
Exploration					
Balance as at December 31, 2009	23,353	627,333	1,506,803	-	2,157,489
Air support	7,475	-	-	-	7,475
Assays and analysis	24,361	17,686	-	1,164	43,211
Camp and supplies	8,480	3,218	-	788	12,486
Drilling	234,504	101,330	-	-	335,834
Environmental expenses	2,695	930	-	-	3,625
Equipment rental and field supplies	17,314	8,918	-	757	26,989
General exploration	159	73	-	-	232
Geological services	120,332	56,567	-	6,070	182,969
Project supervision	45,012	81,379	-	13,090	139,481
Travel	559	-	-	-	559
Net additions during the year	460,891	270,101	-	21,869	752,861
Balance as at December 31, 2010	**484,244**	**897,434**	**1,506,803**	**21,869**	**2,910,350**
Total acquisition and exploration cost	**538,046**	**957,397**	**1,643,445**	**31,359**	**3,170,247**

7. Mineral Properties, continued

A summary of capitalized expenditures as at December 31, 2009 is as follows:

Mineral Properties	**Toughnut** $	**Star** $	**Swift Katie** $	**Total** $
Acquisition costs				
Balance as at December 31, 2008	-	6,727	146,316	153,043
Additions during the year	19,453	26,757	47,573	93,783
Earn-in Tosca	-	-	(60,000)	(60,000)
Balance as at December 31, 2009	**19,453**	**33,484**	**133,889**	**186,826**
Exploration				
Balance as at December 31, 2008	-	373,245	1,451,848	1,825,093
Assays and analysis	-	15,482	-	15,482
Camp and supplies	101	2,126	101	2,328
Drilling	1,000	57,371	-	58,371
Environmental expenses	-	1,335	2,205	3,540
Equipment rental and field supplies	140	3,880	2,430	6,450
General exploration	4	18	4	26
Geological services	-	6,104	1,250	7,354
Project supervision	21,532	152,703	33,157	207,392
Stock-based compensation	-	9,675	15,097	24,772
Travel	576	5,394	711	6,681
Net additions during the year	23,353	254,088	54,955	332,396
Balance as at December 31, 2009	**23,353**	**627,333**	**1,506,803**	**2,157,489**
Total acquisition and exploration cost	**42,806**	**660,817**	**1,640,692**	**2,344,315**

(a) Star Property

Pursuant to an agreement dated May 13, 2008, the Company can earn a 100% undivided interest in the Star Property subject to a net smelter return royalty ("NSR") of 3% with a buy-down option to 2% before the commencement of commercial production for $1,500,000. To earn a 100% undivided interest in the Star Property, the Company is required to make staged payments totaling US $300,000 and incur total exploration expenditures of $400,000 as follows:

(i) US $20,000 and incur in the aggregate a minimum of $100,000 in exploration expenditures on or before May 13, 2009 (paid and incurred);
(ii) US $25,000 and incur in the aggregate a minimum of $200,000 in exploration expenditures on or before May 13, 2010 (paid and incurred);

7. Mineral Properties, continued

(a) Star Property, continued

(iii) US $25,000 and incur in the aggregate a minimum of $300,000 in exploration expenditures on or before May 13, 2011;
(iv) US $30,000 and incur in the aggregate a minimum of $400,000 in exploration expenditures on or before May 13, 2012; and
(v) US $40,000 on or before May 13, 2013, 2014, and 2015; US $50,000 on or before May 13, 2016; and US $30,000 on or before May 13, 2017.

In order to facilitate the Star option payment on May 13, 2010, as per the option agreement, the Company issued promissory notes to one director/officer and three consultants of the Company for $25,494. The Company repaid $7,626 during the year.

(b) Swift Katie Property

Pursuant to an agreement dated July 21, 2006 (the "Option Agreement") as amended, Manex Resource Group Inc. ("Manex"), a private company controlled by the President of the Company, acquired an option from the optionors to purchase the Swift Katie Property. The option was assigned by Manex to the Company for $2,500.

Pursuant to the amended option agreement dated December 18, 2008, the Company exercised the option and owns a 60% interest in the Swift Katie Property and to increase such interest to 100% the Company is required to make cash payments, incur exploration expenditures, and issue shares to the optionors as follows:

(i) Pay $60,000, incur $350,000 in exploration expenditures and issue 225,000 of its common shares on or before December 31, 2010 (payment status under negotiations, expenditure requirement has been met (Note 15 (d)); and
(ii) Pay an additional $60,000, incur an additional $350,000 in exploration expenditures, and issue an additional 225,000 of its common shares on or before December 31, 2011.

The optionors of the property retain a 2% NSR on the property if the Company earns a 60% interest and a 3% NSR if the Company earns a 100% interest in the property. The Company has the option to purchase one-half of the NSR for $1,000,000 per 1% at any time prior to the commencement of commercial production.

7. Mineral Properties, continued

(b) Swift Katie Property, continued

Beginning December 31, 2010 and annually thereafter, the Company is required to make an annual advance minimum royalty payment of $35,000, increasing to $50,000 annually in December 2012 and thereafter. These payments will be adjusted annually according to the Consumer Price Index base of December 31, 2006. Annual advance minimum royalty payments are deductible from future NSR royalty payments. The Company is in negotiation to postpone the payment required on December 31, 2010. Refer to Note 15 (d).

On August 21, 2009, the Company entered into an option agreement with JRTL Capital Corp. ("JRTL") on the Swift Katie Property. On December 3, 2009, JRTL changed its name to Tosca. In December 2010, Tosca terminated the option agreement.

(c) Toughnut Property

On March 10, 2009, the Company entered into an option agreement to acquire a 100% undivided interest in the Toughnut Property, comprising nine mineral claims and one Crown grant (the "Toughnut Property").

On March 16, 2009 and March 4, 2010, the agreement was amended for the requirements on cash payments, exploration expenditures and issuing shares. Pursuant to the amended agreement, to acquire a 100% interest in the Toughnut Property, the Company is required to make staged payments totaling $200,000, incur total exploration expenditures of $1,250,000, and issue 450,000 of its common shares to the optionors over five years as follows:

(i) Pay $5,000 and issue 100,000 common shares on March 9, 2009 (paid and issued);
(ii) Issue 100,000 common shares on or before March 10, 2010 (issued);
(iii) Pay $30,000 on or before August 1, 2010 (paid);
(iv) Incur not less than $300,000 of exploration expenditures on or before September 30, 2010 (incurred);
(v) Pay $35,000, issue 50,000 common shares and incur not less than an aggregate $500,000 of exploration expenditures on or before March 10, 2011;
(vi) Pay $40,000, issue 50,000 common shares and incur not less than an aggregate $750,000 of exploration expenditures on or before March 10, 2012;
(vii) Pay $40,000, issue 50,000 common shares and incur not less than an aggregate $1,000,000 of exploration expenditures on or before March 10, 2013; and
(viii) Pay $50,000, issue 100,000 common shares and incur not less than an aggregate $1,250,000 of exploration expenditures on or before March 10, 2014.

The optionors of the Toughnut Property retain a 1% NSR on three mineral claims and 2% NSR on the remainder of the property. The Company has the option to purchase one-half of the optionors' NSR by making a payment of $1,000,000.

7. Mineral Properties, continued

(c) Toughnut Property, continued

In addition to the optionors' NSR of 1% on the three mineral claims, there is an underlying royalty, pursuant to which third parties are entitled to a 1% NSR on these three mineral claims, up to a maximum aggregate amount of $1,000,000.

(d) Rozan Property

On January 13, 2010, the Company entered into an option agreement to acquire a 100% undivided interest in the Rozan property, comprising thirty-two mineral claims located near Nelson, BC (the "Rozan Property"). To acquire a 100% interest in the Rozan Property, the Company is required to make staged payments totaling $200,000, incur total exploration expenditures of $1,000,000, and issue 350,000 units** to the optionors over the next five years as follows:

(i) Issue 50,000 units on the signing of the agreement (issued);
(ii) Pay $30,000, issue 50,000 units (issued), and incur not less than an aggregate $50,000 of exploration expenditures on or before January 13, 2011 (under negotiation (Note 15 (c));
(iii) Pay $30,000, issue 50,000 units, and incur not less than an aggregate $250,000 of exploration expenditures on or before January 13, 2012;
(iv) Pay $40,000, issue 50,000 units, and incur not less than an aggregate $500,000 of exploration expenditures on or before January 13, 2013;
(v) Pay $40,000, issue 50,000 units, and incur not less than an aggregate $750,000 of exploration expenditures on or before January 13, 2014; and
(vi) Pay $60,000, issue 100,000 units, and incur not less than an aggregate $1,000,000 of exploration expenditures on or before January 13, 2015.

**Each unit consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable for a period of five years at an exercise price based on the quoted market value of the Company's common shares at the date of issuance.

The optionors of the Rozan Property retain a NSR royalty of 2% on the mineral claims of the property. The Company has the option to purchase one-half of the NSR by paying $500,000 to the optionors.

In addition to the optionor's NSR of 2% on the property, there is an underlying royalty, pursuant to which a third party is entitled to a 1% NSR on the property. The additional 1% NSR is subject to a right of first purchase by the optionor. Should the optionor acquire the additional 1% NSR on the property, the Company will have first right of purchase to acquire this royalty should the optionor elect in the future to sell it to a third party.

7. Mineral Properties, continued

(e) Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to site restoration and reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation, by application of technically proven and economically feasible measures. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. Environmental legislation is becoming increasingly stringent and the cost of regulatory compliance is increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the properties may be diminished or negated.

(f) Title to Mineral Properties

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history of many mineral properties. The Company has investigated title to its mineral property interests in accordance with industry standards for the current stage of exploration of such properties and, to the best of its knowledge, title to its properties are in good standing; however, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

(g) Realization of Assets

Realization of the Company's investment in mineral properties is dependent upon the establishment of legal ownership, the obtaining of permits, the satisfaction of governmental requirements, the attainment of successful production from the properties, or from the proceeds of their disposal.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that any of the Company's current or future exploration programs will result in profitable mining operations. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete their exploration and development, and establish future profitable operations, or realize proceeds from the sale of the mineral properties. The carrying value of the Company's mineral properties may not reflect current or future values.

8. Reclamation Bonds

The Company has posted non-interest-bearing reclamation bonds against any potential land restoration costs that may be incurred in the future on certain properties. The funds are held in trust and may be released after required reclamation is satisfactorily completed.

As at December 31, 2010, the amount on deposit was $45,000 (2009: $45,000), of which $35,000 is for the Swift Katie Property, and $10,000 is for the Star Property.

9. Bank Indebtedness

Bank indebtedness is due on demand, bears interest at prime plus 1% per annum, and is secured by a letter of credit from Schroders (C.I.) supported by a guarantee by a company owned by a shareholder of the Company. During 2006, the Company issued 200,000 common shares at an agreed price of $0.20 per share, as consideration for the guarantee. Under the credit facility letter, the Company is required to obtain written consent from the bank prior to paying or declaring any dividends, reducing its share capital, reorganizing, or changing control. The balance outstanding as at December 31, 2010 was $197,619 (2009: $197,808).

10. Related Party Balances and Transactions

In addition to those transactions disclosed elsewhere in these financial statements, the Company entered into the following related party transactions during the year ended December 31, 2010, as follows:

(a) Under the service agreement, as amended, between the Company and a company privately held by a director and officer of the Company, the Company was charged as follows:

- $103,839 (2009: $106,650) for office space and general administration services, included in administration expenses;
- $43,289 (2009: $55,106), included in professional fees;
- $37,605 (2009: $45,262), included in consulting;
- $24,101 (2009: $41,737), included in investor relations;
- $159,010 (2009: $191,172) for geological consulting services in relation to mineral properties; and
- $3,422 (2009: $3,218) in respect of the mark-up on out-of-pocket expenses, included in administration expenses.

Amounts payable under the agreement at December 31, 2010 were $55,366 (2009: $369,887).

10. Related Party Balances and Transactions, continued

(b) Fees charged by a law firm privately held by a director and officer of the Company were as follows:

- $22,054 (2009: $30,839), included in professional fees;
- $5,328 (2009: $13,074), for legal consulting services in relation to mineral properties;
- $7,014 (2009: $17,108), included in share issue costs; and
- $Nil (2009: $2,121), included in consulting.

Amounts payable as at December 31, 2010 were $11,243 (2009: $58,675).

(c) Consulting fees relating to office administration of $14,000 (2009: $24,000) were charged by a private company controlled by an officer of the Company (resigned as an officer effective July 31, 2010). Amounts payable as at December 31, 2010 were $25,340 (2009: $10,500).

(d) Independent directors' fees of $23,250 (2009: $50,001) were incurred by the Company (independent directors' fees were discontinued as of July 1, 2010). Amounts payable as at December 31, 2010 were $50,378 (2009: $nil).

(e) In order to facilitate the Star option payment on May 13, 2010 as per the option agreement, the Company issued promissory notes to one director/officer and three employees of the Company for $25,494. Amounts payable as at December 31, 2010 was $17,868 (2009: $nil).

(f) Consulting fees relating to corporate development and financing activities were charged by a private company controlled by a former director of the Company of $4,500 (2009: $23,500) and were included in share issue costs (2009: consulting fees). Amounts payable as at December 31, 2010 were $29,175 (2009: $24,675).

The total amount due to related parties as at December 31, 2010 was $189,370 (2009: $463,737). Amounts due to related parties are unsecured, non-interest-bearing, and have no formal terms of repayment.

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

11. Share Capital

(a) Authorized

(i) Unlimited common shares without par value; and
(ii) Unlimited preference shares without par value.

11. Share Capital, continued

(b) Equity Financings

The Company completed the following private placements during the year ended December 31, 2010:

(i) Non-Flow-Through Unit Private Placements

On November 22, 2010, the Company closed the first tranche of a non-brokered private placement by issuing 15,048,319 units at a price of $0.05 per unit for gross proceeds of $752,416. Each unit consisted of one common share and one share purchase warrant, with each warrant exercisable to purchase one common share at a price of $0.10 for a period of two years. The Company did not incur finders' fees.

On December 31, 2010, the Company closed the second tranche of a non-brokered private placement by issuing 1,725,000 units at a price of $0.05 per unit for gross proceeds of $86,250. Each unit consisted of one common share and one share purchase warrant, with each warrant exercisable to purchase one common share at a price of $0.10 for a period of two years.

The Company paid $5,175 in finders' fees and issued 172,500 share purchase warrants to finders at an exercise price of $0.10 per share for a period of two years.

(ii) Flow-Through Unit Private Placements

On November 22, 2010, the Company closed the first tranche of a non-brokered flow-through private placement by issuing 5,000,000 units at a price of $0.05 per unit for gross proceeds of $250,000. Each unit consisted of one flow-through common share and one-half of one share purchase warrant, with each whole warrant exercisable to purchase one non-flow-through common share at a price of $0.10 for a period of two years.

The Company paid $12,500 in due diligence fees and issued 250,000 finders' units and 500,000 finders' options in relation to this private placement. Each finders' unit consists of one non-flow-through common share and one-half of one share purchase warrant. Each whole warrant issued to finders are exercisable to purchase one non-flow-through common share at an exercise price of $0.10 for a period of two years. The units were fair valued at $0.05 each. Each finders' option is exercisable to purchase one unit at $0.05 for a period of two years (Note 11 (f)). The finders' options were fair valued at approximately $0.029 per option using the Black-Scholes option pricing model (Note 11 (h)). If exercised, each unit will consist of one non-flow-through common share and one-half of one share purchase warrant. Each whole warrant is exercisable to purchase one additional non-flow-through common share at an exercise price of $0.10 for a period of two years.

11. Share Capital, continued

(b) Equity Financings, continued

The Company completed the following private placements during the year ended December 31, 2010, continued:

(ii) Flow-Through Unit Private Placements, continued

On December 31, 2010, the Company closed the second tranche of a non-brokered flow-through private placement by issuing 2,810,000 units at a price of $0.05 per unit for gross proceeds of $140,500. Each unit consisted of one flow-through common share and one-half of one share purchase warrant, with each whole warrant exercisable to purchase one non-flow-through common share at a price of $0.10 for a period of two years.

The Company paid $6,480 in finders' fees and issued 216,000 share purchase warrants to finders at an exercise price of $0.10 per share for a period of two years.

The Company completed the following private placements during the year ended December 31, 2009:

(iii) Combination of Flow-Through and Non-Flow-Through Units Private Placement:

In June 2009, the Company closed the first tranche of a non-brokered private placement consisting of 850,000 units at $0.20 per unit for gross proceeds of $170,000, of which $93,500 were to be spent on Canadian exploration expenditures. Each unit consisted of one flow-through share at $0.11, one non-flow-through share at $0.09 and one share purchase warrant exercisable to purchase one additional non-flow-through share at an exercise price of $0.15 for a period of two years.

The Company paid $3,900 in finders' fees, $4,956 in legal and regulatory fees, and issued 32,500 warrants to finders at an exercise price of $0.15 per share for a period of two years. The warrants were fair valued at $0.079 each using the Black-Scholes option pricing model (Note 11 (h)).

(iv) Non-Flow-Through Units Private Placements

In June 2009, the Company closed the first tranche of a non-brokered private placement consisting of 2,322,222 units at $0.09 per unit for gross proceeds of $209,000. Each unit consisted of one non-flow-through share and one share purchase warrant exercisable to purchase one additional non-flow-through share at an exercise price of $0.15 for a period of two years.

11. Share Capital, continued

(b) Equity Financings, continued

The Company completed the following private placements during the year ended December 31, 2009, continued:

(iv) Non-Flow-Through Units Private Placements, continued

The Company paid $2,970 in finders' fees, $6,585 in legal and regulatory fees, and issued 55,000 warrants to finders at an exercise price of $0.15 per share for a period of two years. The warrants were fair valued at $0.079 each using the Black-Scholes option pricing model (Note 11 (h)).

In July 2009, the Company completed the second tranche of this private placement. The second tranche consisted of 1,756,950 units at $0.09 per unit for gross proceeds of $158,126. Each unit consisted of one non-flow-through share and one share purchase warrant exercisable to purchase one additional non-flow-through share at an exercise price of $0.15 for a period of two years.

The Company paid $4,050 in finders' fees, $6,066 in legal and regulatory fees and issued 75,000 warrants to finders at an exercise price of $0.15 per share for a period of two years. The warrants were fair valued at $0.10 each using the Black-Scholes option pricing model (Note 11 (h)).

In December 2009, the Company completed a non-brokered private placement consisting of 312,500 units at $0.08 per share for gross proceeds of $25,000. Each non-flow-through unit issued consisted of one non-flow-through common share and one share purchase warrant exercisable to purchase one additional non-flow-through common share at an exercise price of $0.10 for a period of two years.

In relation to the December 2009 non-flow-through private placement, the Company paid $600 in finders' fees, $1,000 in legal and regulatory fees, and issued 7,500 warrants to finders at an exercise price of $0.10 per share for a period of two years. The warrants were fair valued at $0.05 each using the Black-Scholes option pricing model (Note 11 (h)).

In July 2009, the Company completed a non-brokered private placement of 1,068,182 units at $0.11 for gross proceeds of $117,500. Each unit consisted of one flow-through share and one-half of one share purchase warrant. Each full warrant is exercisable to purchase one additional non-flow-through share at an exercise price of $0.15 for a period of two years.

The Company paid $6,600 in finders' fees and issued 100,000 warrants to finders at an exercise price of $0.15 per share for a period of two years. The warrants were fair valued at $0.10 each using the Black-Scholes option pricing model (Note 11 (h)).

11. Share Capital, continued

(b) Equity Financings, continued

The Company completed the following private placements during the year ended December 31, 2009, continued:

(iv) Non-Flow-Through Units Private Placements, continued

In December 2009, the Company completed a non-brokered flow-through private placement for gross proceeds of $558,000. The Company issued 6,975,000 flow-through units at $0.08 each. Each unit consisted of one flow-through common share and one-half of one share purchase warrant. Each whole warrant is exercisable to purchase one additional non-flow-through common share at an exercise price of $0.15 for a period of two years.

The Company paid $2,280 in finder's fees, $14,867 in legal and regulatory fees, $25,000 in due diligence fees, issued 281,250 finders' units, 28,500 finder's warrants and 562,500 agents' options in relation to this private placement. Each finders' unit consisted of one non-flow-through common share and one-half of one share purchase warrant. All 169,125 warrants issued to finders are exercisable to purchase one additional non-flow-through common share at an exercise price of $0.15 for a period of two years. The warrants were fair valued at $0.05 each using the Black-Scholes option pricing model (Note 11 (h)).

Each finders' option is exercisable to purchase one unit at $0.08 for a period of two years (Note 11 (f)). The agent options were fair valued at approximately $0.05 per option using the Black-Scholes option pricing model (Note 11 (h)). If exercised, each unit will consist of one non-flow-through common share and one-half of one share purchase warrant. Each warrant is exercisable to purchase one additional non-flow-through common share at an exercise price of $0.15 for a period of two years.

In summary, the Company raised $1,237,626 through the issuance of 14,416,104 common shares, incurred $78,874 in cash share issue costs, of which $20,400 were for finders' fees, $25,000 for due diligence fees, and $33,474 for legal and regulatory fees. In addition, the Company recorded non-cash share issue costs of $22,500 on the issuance of 281,250 units issued to finders, $32,768 on the issuance of 439,125 warrants to finders and $28,116 on the issuance of 562,500 agent options.

(c) Shares Issued for Mineral Property

The Company issued 50,000 common shares at a fair value based on the quoted market price of $0.06 per share to the optionors on signing of the option agreement for the Rozan Property.

The Company issued 100,000 common shares at a fair value based on the quoted market price of $0.03 per share to the optionors as per the option agreement for the Toughnut Property.

11. Share Capital, continued

(d) Renunciation of Flow-Through Shares

The Company recorded a future income tax liability of $190,239 (2009 - $250,000) and recognized a charge against share capital for this amount, in connection with the renunciation of flow-through expenditures of $760,957 (2009 - $1,000,000) in February 2010.

(e) Stock Options

The Company has a stock option plan (the "Plan") allowing for the reservation of common shares issuable under the Plan to a maximum 10% of the number of issued and outstanding common shares of the Company at any given time. The terms of any stock option granted under the Plan may not exceed the length of term permitted by the policies of any stock exchange on which the Company's shares are listed at the date of grant. The exercise price may not be less than the greater of the closing price on the trading day prior to the date of grant of the options or the closing price on the date of grant of the options. On an annual basis, the Plan requires approval by the Company's shareholders.

A summary of the stock options outstanding and exercisable as at December 31, 2010 is provided below:

Exercise Price	Fair Value at Grant Date	Expiry Date	Balance December 31, 2009	Cancelled or Expired	Balance December 31, 2010
$0.25	$0.19	October 9, 2012	1,335,000	75,000	1,260,000
$0.28	$0.21	December 4, 2012	10,000	10,000	-
$0.10	$0.06	February 24, 2014	50,000	-	50,000
$0.10	$0.09	August 11, 2014	1,600,000	145,000	1,455,000
			2,995,000	**230,000**	**2,765,000**
Weighted average exercise price			$0.17	$0.16	$0.17
Weighted average fair value			$0.11	$0.13	$0.13
Weighted average contractual life remaining in years			3.78		2.77

11. Share Capital, continued

(e) Stock Options, continued

A summary of the stock options outstanding and exercisable as at December 31, 2009 is provided below:

Exercise Price	Fair Value at Grant Date	Expiry Date	Balance December 31, 2008	Granted	Expired	Balance December 31, 2009
$0.25	$0.19	October 9, 2012	1,345,000	-	10,000	1,335,000
$0.28	$0.21	December 4, 2012	10,000	-	-	10,000
$0.25	$0.17	May 26, 2013	50,000	-	50,000	-
$0.10	$0.06	February 24, 2014	-	50,000	-	50,000
$0.10	$0.09	August 11, 2014	-	1,600,000	-	1,600,000
			1,405,000	**1,650,000**	**60,000**	**2,995,000**
Weighted average exercise price			$0.25	$0.10	$0.25	$0.17
Weighted average fair value			$0.19	$0.06	$0.17	$0.11
Weighted average contractual life remaining in years			3.80			3.78

(f) Finders' Options

A summary of the options granted to finders that are outstanding and exercisable as at December 31, 2010 and 2009 are provided below:

Exercise Price	Fair Value at Grant Date	Expiry Date	Balance December 31, 2009	Granted	Balance December 31, 2010
$0.08	$0.05	December 23, 2011	562,500	-	562,500
$0.05	$0.03	November 17, 2012	-	500,000	500,000
			562,500	**500,000**	**1,062,500**
Weighted average exercise price			$0.08	$0.05	$0.07
Weighted average fair value			$0.05	$0.03	$0.04
Weighted average contractual life remaining in years			1.98		1.40

Exercise Price	Fair Value at Grant Date	Expiry Date	Balance December 31, 2008	Granted	Balance December 31, 2009
$0.08	$0.05	December 23, 2011	-	562,500	562,500
			-	**562,500**	**562,500**
Weighted average exercise price			-	$0.08	$0.08
Weighted average fair value			-	$0.05	$0.05
Weighted average contractual life remaining in years			-		1.98

11. Share Capital, continued

(g) Share Purchase Warrants

The Company's share purchase warrants outstanding as at December 31, 2010 and 2009 are summarized as follows:

Exercise Price	Expiry Date	Balance December 31, 2009	Granted	Cancelled or Expired	Balance December 31, 2010
$0.30	July 7, 2010	500,000	-	500,000	-
$0.15	June 12, 2011	3,172,222	-	-	3,172,222
$0.15	June 12, 2011	87,500	-	-	87,500
$0.15	July 17, 2011	1,756,950	-	-	1,756,950
$0.15	July 17, 2011	75,000	-	-	75,000
$0.15	July 24, 2011	534,091	-	-	534,091
$0.15	July 24, 2011	100,000	-	-	100,000
$0.15	December 23, 2011	3,487,500	-	-	3,487,500
$0.15	December 23, 2011	169,125	-	-	169,125
$0.10	December 23, 2011	312,500	-	-	312,500
$0.10	December 23, 2011	7,500	-	-	7,500
$0.10	November 17, 2012	-	17,548,319	-	17,548,319
$0.10	November 17, 2012	-	125,000	-	125,000
$0.10	December 30, 2012	-	3,130,000	-	3,130,000
$0.10	December 30, 2012	-	388,500	-	388,500
$0.06	January 14, 2015	-	50,000	-	50,000
		10,202,388	**21,241,819**	**500,000**	**30,944,207**
Weighted average exercise price		$0.16	$0.10	$0.30	$0.12
Weighted average contractual life remaining in years		1.63			1.52

11. Share Capital, continued

(g) Share Purchase Warrants, continued

Exercise Price	Expiry Date	Balance December 31, 2008	Granted	Cancelled or Expired	Balance December 31, 2009
$0.30	July 7, 2009	250,000	-	250,000	-
$0.30	July 7, 2010	500,000	-	-	500,000
$0.15	June 12, 2011	-	3,172,222	-	3,172,222
$0.15	June 12, 2011	-	87,500	-	87,500
$0.15	July 17, 2011	-	1,756,950	-	1,756,950
$0.15	July 17, 2011	-	75,000	-	75,000
$0.15	July 24, 2011	-	534,091	-	534,091
$0.15	July 24, 2011	-	100,000	-	100,000
$0.15	December 23, 2011	-	3,487,500	-	3,487,500
$0.15	December 23, 2011	-	169,125	-	169,125
$0.10	December 23, 2011	-	312,500	-	312,500
$0.10	December 23, 2011	-	7,500	-	7,500
		750,000	**9,702,388**	**250,000**	**10,202,388**
Weighted average exercise price		$0.30	$0.15	$0.30	$0.16
Weighted average contractual life remaining in years		1.18			1.63

During the year ended December 31, 2010, the Company granted 50,000 share purchase warrants with respect to the property option agreement for the Rozan Property (Note 7 (d)). The Company recognized the fair value of the share purchase warrants of $0.057 per warrant calculated using the Black-Scholes option pricing model (Note 11 (h)).

(h) Fair Value Determination

The Company applies the fair value method of accounting for stock-based awards and, accordingly, the fair value of stock-based awards is expensed in the statements of operations or capitalized to mineral properties as appropriate.

11. Share Capital, continued

(h) Fair Value Determination, continued

The fair value of finders' options and finders' warrants granted during the year ended December 31, 2010 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	December 31, 2010	December 31, 2009		
	Finders' Options	Options	Finders' Options	Finders' Warrants
Risk-free interest rate	1.63%	2.53%	2.50%	1.31%
Expected share price volatility	162.70%	137.18%	516.64%	347.21%
Expected option/warrant life in years	2.0	5.0	2.0	2.0
Expected dividend yield	0%	0%	0%	0%

(i) Stock-Based Compensation

Option pricing models require the input of highly subjective assumptions. Changes in the subjective input assumptions can materially affect the fair value estimate. The total calculated fair value of stock-based compensation for the years ended December 31, 2010 and 2009 were included in the respective statements of operations or capitalized to mineral properties as follows:

	December 31, 2010	December 31, 2009
Consultants	$ -	$ 12,386
Directors and officers	-	83,703
Management company employees	-	23,445
Total	**$ -**	**$ 119,534**

12. Income Taxes

A reconciliation of the income tax benefit (provisions) with amounts determined by applying the Canadian income tax rates to the net loss for each fiscal year ended December 31 is as follows:

	2010	2009
Loss before income taxes	$ 435,180	$ 651,693
Income tax recovery at statutory rates	$ (124,026)	$ (195,508)
Non-deductible items	-	35,860
Change in timing differences	38,929	34,407
Change in valuation allowance	(125,090)	(187,859)
Effect of change in tax rate	18,698	63,100
Future income tax recovery	$ (191,489)	$ (250,000)

During the year ended December 31, 2010, the Company issued 7,810,000 common shares on a flow-through basis for gross proceeds of $390,500. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants.

During the year ended December 31, 2010, the Company renounced to investors exploration expenditures of $760,957 (2009: $1,000,000) related to the flow-through shares issued in 2009 resulting in a future income tax liability of $190,239 (2009: $250,000) (Note 11 (d)).

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

		2010		2009
Future income tax assets (liabilities):				
Share issue costs	$	179,505	$	198,086
Excess of book value of exploration expenditures over tax value		(2,691,504)		(1,930,547)
Excess of tax value of long-term investment tax over book value		1,240,500		1,245,500
Excess of tax value of equipment over book value		28,343		28,343
Non-capital loss carry-forwards		3,350,258		3,066,082
		2,107,102		2,607,464
Tax rate		25.00%		25.00%
		526,776		651,866
Valuation allowance		(526,776)		(651,866)
Future income tax assets	$	-	$	-

A valuation allowance has been recognized, as it is more likely than not that the Company will not realize the future benefit of these income tax assets.

12. Income Taxes, continued

Subject to certain restrictions, the Company has losses of approximately $3,350,000 available to reduce future taxable income as follows:

	2010
2014	$ 396,000
2015	316,000
2026	374,000
2027	564,000
2028	594,000
2029	594,000
2030	512,000
	$ 3,350,000

13. Supplemental Cash Flow Information

	For the Year Ended December 31, 2010	2009
Cash is comprised of:		
Cash	$ 77,236	$ 3,228
Cash reserved for flow-through expenditures	172,875	583,971
Total Cash	$ 250,111	$ 587,199
Cash Items		
Income tax paid	$ -	$ -
Interest received	$ 371	$ -
Interest paid	$ 6,677	$ 7,070
Non-Cash Items		
Investing Activities		
Mineral property costs included in accounts payable	$ 33,153	$ 13,834
Mineral property costs included in related party	$ 3,605	$ -
Stock-based compensation included in mineral properties	$ -	$ 24,772
Financing Activities		
Fair value of warrants issued for mineral properties	$ 2,841	$ -
Shares issued for mineral properties	$ 6,000	$ 12,500
Shares received from mineral properties	$ -	$ 25,000
Fair value of finders' options	$ 14,512	$ 28,116
Shares issued for finders' fees	$ 12,500	$ 22,500
Tax benefit of renounciation to flow-through expenditures	$ 190,239	$ 250,000

14. Commitments

(a) Service Agreement

Under a service agreement, as amended, between the Company and a company privately held by a director and officer of the Company, the Company is charged $8,000 monthly for office accommodation and office management services. The agreement expires on June 30, 2012. The Company may terminate the agreement at any time by paying the remaining monthly fees for a year from the date of the written notice of the termination. The fee commitment for the next two years is as follows:

Year ending December 31,		Amount
2011	$	96,000
2012		48,000
	$	144,000

(b) Flow-Through Expenditures

Funds raised through the issuance of flow-through shares are required to be expended on qualifying Canadian mineral exploration expenditures, as defined pursuant to Canadian income tax legislation. The flow-through gross proceeds less the qualified expenditures made to date represent the funds received from flow-through share issuances that have not been spent and are held by the Company for such expenditures.

The Company is committed to incur qualifying Canadian exploration expenditures of approximately $383,000 by December 31, 2011 and $551,000 by December 31, 2010 (incurred).

As at December 31, 2010, the Company has incurred qualifying expenditures of approximately $188,000 with respect to exploration activities at its mineral properties, with a remaining commitment of approximately $195,000 to be incurred by December 31, 2011.

15. Subsequent Events

(a) Private Placement

On March 23, 2011, the Company closed the third tranche of the private placement announced on November 17, 2010. The third tranche consisted of 18,124,460 units at $0.05 per unit for gross proceeds of $906,223. Each unit consists of one common share and one share purchase warrant, with each warrant exercisable to purchase one common share at an exercise price of $0.10 for a period of two years.

15. Subsequent Events, continued

(a) Private Placement, continued

The Company paid $27,750 in finders' fees and issued 925,000 finders' share purchase warrants exercisable at a price of $0.10 per share for a period of two years.

On March 23, 2011, the Company closed the third tranche of the flow-through private placement announced on November 17, 2010. The third tranche consisted of 8,220,000 units at $0.05 per unit for gross proceeds of $411,000. Each unit consists of one common share and one-half of one share purchase warrant, with each warrant exercisable to purchase one non-flow-through common share at an exercise price of $0.10 for a period of two years.

The Company paid $24,000 in finders' fees and issued 800,000 finders' share purchase warrants exercisable at a price of $0.10 per share for a period of two years.

(b) Stock Options

Subsequent to December 31, 2010, 100,000 stock options with a weighted average exercise price of $0.18 were forfeited.

(c) Mineral Property Option Agreement Amendments – Rozan Property

On February 8, 2011, the Company and the optionors for the Rozan Property amended the agreement. The Company issued 600,000 units to the optionors in lieu of the $30,000 cash payment. The units consist of one common share and one share purchase warrant. Each share purchase warrant is exercisable to purchase one common share at an exercise price of $0.10 for a period of two years. The parties mutually agreed to defer the requirement to incur not less than an aggregate $50,000 of exploration expenditures for 90 days.

(d) Mineral Property Option Agreement Amendments – Swift Katie Property

On March 21, 2011, the Company issued 225,000 common shares and made a cash payment of $97,600 to the optionors of the Swift Katie property, as per the option agreement.