

ATEBA RESOURCES INC.
(An Exploration Stage Enterprise)
FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

ATEBA RESOURCES INC.
(An Exploration Stage Enterprise)

FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

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Independent Auditor's Report

To the Shareholders of Ateba Resources Inc.

We have audited the accompanying financial statements of Ateba Resources Inc., which comprise the balance sheet as at December 31, 2010 and the statements of income (loss) and deficit, comprehensive loss and cash flows for the year then ended, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 our 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, we consider 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 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 Ateba Resources Inc. as at December 31, 2010, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of the financial statements which indicates that Ateba Resources Inc. has incurred losses for the years ended December 31, 2010 and December 31, 2009. Ateba Resources Inc. incurred a loss \$317,667 during the year ended December 31, 2010. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matter

The financial statements of Ateba Resources Inc. for the year ended December 31, 2009, were audited by another licensed public accountant who expressed an unmodified opinion on those statements on April 23, 2010.

English & Jones LLP

ENGLISH & JONES LLP
Chartered Accountants
Licensed Public Accountants

April 27, 2011
St. Catharines, Ontario

ATEBA RESOURCES INC.
(An Exploration Stage Enterprise)

BALANCE SHEETS

DECEMBER 31

	ASSETS	
	2010	2009
CURRENT		
Cash and cash equivalents	\$ 1,853,677	\$ 405,807
Lawyer's trust account	-	50,000
Accounts receivable	57,539	5,619
Marketable securities (note 3)	2,223	1,470
Deposits	<u>50,000</u>	<u>16,667</u>
	1,963,439	479,563
INTEREST IN MINING PROPERTIES (note 5)	628,971	48,965
INVESTMENTS (note 4)	<u>-</u>	<u>5</u>
	<u>\$ 2,592,410</u>	<u>\$ 528,533</u>
	LIABILITIES	
CURRENT		
Accounts payable and accrued liabilities (notes 6 and 7)	<u>\$ 175,224</u>	<u>\$ 55,905</u>
	SHAREHOLDERS' EQUITY	
CAPITAL STOCK (note 7 (a))	24,241,991	22,663,825
WARRANTS (note 8)	587,910	-
CONTRIBUTED SURPLUS (note 9)	140,000	45,000
ACCUMULATED OTHER COMPREHENSIVE LOSS (note 11)	(1,526)	(2,675)
DEFICIT	<u>(22,551,189)</u>	<u>(22,233,522)</u>
	2,417,186	472,628
	<u>\$ 2,592,410</u>	<u>\$ 528,533</u>

NATURE OF OPERATIONS AND GOING CONCERN (note 1)
SUBSEQUENT EVENT (note 17)

Approved by the Board:

Signed "Peter J. Evans", Director
Peter J. Evans

Signed "William P. Dickie", Director
William P. Dickie

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

ATEBA RESOURCES INC.
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STATEMENTS OF INCOME (LOSS) AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31

	2010	2009
REVENUE		
Interest	\$ 5,006	\$ 10,162
EXPENSES		
Office, general and investor relations	\$ 135,084	\$ 105,639
Directors' fees	9,000	9,000
Exploration	-	15,656
Consulting fees	23,500	21,500
Professional fees	71,084	11,000
Stock-based compensation (note 7 (b))	84,000	45,000
Write-down of investment (note 4)	<u>5</u>	<u>-</u>
	<u>322,673</u>	<u>207,795</u>
LOSS FOR THE YEAR	317,667	197,633
DEFICIT AT BEGINNING OF THE YEAR	<u>22,233,522</u>	<u>22,035,889</u>
DEFICIT AT END OF THE YEAR	<u>\$ 22,551,189</u>	<u>\$ 22,233,522</u>
Basic and diluted loss per share (note 7 (c))	<u>\$ 0.01</u>	<u>\$ 0.01</u>

STATEMENTS OF COMPREHENSIVE LOSS
(An Exploration Stage Enterprise)

FOR THE YEARS ENDED DECEMBER 31

	2010	2009
Loss for the year	\$ 317,667	\$ 197,633
Other comprehensive income:		
Unrealized gain on marketable securities (notes 3 and 11)	<u>1,149</u>	<u>358</u>
Comprehensive loss for the year	<u>\$ 316,518</u>	<u>\$ 197,275</u>

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

ATEBA RESOURCES INC.
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STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2010	2009
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Loss for the year	(\$ 317,667)	(\$ 197,633)
Add items not affecting cash:		
Stock-based compensation	84,000	45,000
Write-down of investment	5	-
Net changes in non-cash working capital balances:		
Decrease (increase) in accounts receivable	(51,920)	10,196
Decrease in lawyer's trust account	50,000	-
Increase in deposits	(33,333)	(16,667)
Increase in accounts payable and accrued liabilities	<u>119,319</u>	<u>5,719</u>
Cash used in operations	(<u>149,596</u>)	(<u>153,385</u>)
CASH USED IN INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities	396	-
Interest in mining properties	(<u>507,340</u>)	(<u>1,987</u>)
Cash used in investing	(<u>506,944</u>)	(<u>1,987</u>)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Options exercised into common shares	20,000	-
Common shares issued in private placements	2,227,950	-
Cost of private placements	<u>(143,540)</u>	<u>-</u>
Cash provided by financing	<u>2,104,410</u>	<u>-</u>
INCREASE (DECREASE) IN CASH DURING THE YEAR	1,447,870	(155,372)
CASH POSITION AT BEGINNING OF THE YEAR	<u>405,807</u>	<u>561,179</u>
CASH POSITION AT END OF THE YEAR	<u>\$ 1,853,677</u>	<u>\$ 405,807</u>
Cash and cash equivalents are comprised of the following:		
Deposits with bank s	\$ 82,020	\$ 807
Guaranteed investment certificates	<u>1,771,657</u>	<u>405,000</u>
	<u>\$ 1,853,677</u>	<u>\$ 405,807</u>

SUPPLEMENTARY CASH FLOW INFORMATION (note 12)

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

ATEBA RESOURCES INC.
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. NATURE OF OPERATIONS AND GOING CONCERN:

On May 23, 2003, the Ontario Securities Commission ("Commission") issued a Notice of Order (Cease Trade Order) against the Company for failure to file audited financial statements and management's discussion and analysis for the year ended December 31, 2002 with the Commission and its shareholders. Other provincial securities commissions subsequently also issued Cease Trade Orders. Subsequent to the Cease Trade Orders being issued, the Company issued and filed the audited financial statements for the year ended December 31, 2002. Its shares were subsequently delisted from the Canadian Venture Exchange.

On December 17, 2008, the provincial securities commissions all lifted their Cease Trade Orders after the Company complied by filing annual audited financial statements for the years ended December 31, 2003, 2004, 2005, 2006 and 2007, annual management's discussion and analysis for the years ended December 31, 2005, 2006 and 2007 and unaudited interim financial statements and management's discussion and analysis for the three months ended March 31, June 30 and September 30, 2008.

The Company secured initial financing for mineral exploration activities, revival of the Company, and general working capital from its private placements in 2008.

These financial statements have been prepared on the basis that the Company is a going concern, which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations. The ability of the Company to continue operations is dependent upon obtaining the necessary financing to complete the development of its property. These financial statements do not include any adjustments related to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

The Company incurred a loss of \$317,667 for the year ended December 31, 2010 (2009 – \$197,633) and has working capital of \$1,788,215 as at December 31, 2010 (2009 – \$423,658). The ability of the Company to carry out its business plan rests with its ability to secure additional equity and other financing.

2. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements have been prepared in accordance with the accounting principles generally accepted in Canada.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of the recoverability of mineral property costs, and the valuation allowance of future tax assets. Actual results could differ from those estimates.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

The significant accounting policies are as follows:

(a) Financial Instruments

Financial Instruments are initially recognized at their fair value on a settlement basis when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy establishes three levels to classify valuation techniques used to measure fair value. Level 1 items are quoted prices in active markets for identical assets or liabilities. Level 2 items are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets or quoted prices that are derived principally from or corroborated by observable market data and other means. Level 3 inputs are unobservable and supported by little or no market activity. The fair value hierarchy gives the highest priority to Level 1 items and the lowest priority to Level 3 items.

Subsequent measurement of financial instruments is based on the classification of the financial instrument as follows:

(i) Held for Trading

Cash and cash equivalents and lawyer's trust account have been designated as held for trading financial assets due to their inherent nature and are recorded on the balance sheet at their fair values, with any changes in fair value being recorded in interest income. Transaction costs associated with these items are expensed as incurred. The fair value of cash and cash equivalents are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets. The fair value of lawyer's trust account approximates its cost due to its inherent nature and is classified within Level 3 of the fair value hierarchy given that it has no observable market.

(ii) Available for sale

Marketable securities are classified as available for sale financial assets. These securities are recorded on the balance sheet at fair value, with unrealized gains (losses) recorded in other comprehensive loss. The fair value of marketable securities is based upon quoted market prices. Marketable securities are written down only if there is a permanent decline in the anticipated recoverable amount below their cost. The cost of financial assets designated as available for sale is disclosed in note 3.

(iii) Loans and Receivables

Accounts receivable are classified as loans and receivables and recorded on the balance sheet at amortized cost, with interest being recorded in net income using the effective interest method. The fair value of accounts receivable approximates their recorded amounts due to their short-term maturities.

(iv) Other Financial Liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities and are recorded on the balance sheet at amortized cost, with interest being recorded in net income using the effective interest method. The fair value of accounts payable and accrued liabilities approximated their recorded amounts due to their short-term maturities.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(b) Investments

The Company has a 40% interest in a Company, Claytech Environmental Services Inc. (Claytech) and a portfolio investment in a private Company, Fenicem Minerals Inc. (Fenicem).

The investment in Claytech is subject to significant influence and was accounted for using the equity method (note 5). However, due to a permanent impairment, this investment was valued at a nominal value and written off in 2010 (note 4).

The Company's investment in Fenicem is classified as available-for-sale. Fenicem is a private company with no quoted market price in an active market. However, due to a permanent impairment, this investment was valued at a nominal value and written off in 2010 (note 4).

(c) Revenue recognition

Interest income is recognized on an accrual basis; and, profits on the sale of marketable securities are recognized at the time of settlement.

(d) Mining properties

The Company's interests in mining properties are carried at cost on a property-by-property basis. Costs include capitalized expenditures for acquisition, geological surveys, exploration and development. When shares of the Company are issued from treasury as consideration for the acquisition of mining properties, the market value of the shares is considered a cost of acquisition. Costs for each property are written off to the statement of income (loss) if future recovery is determined to be unlikely.

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

(e) Income taxes

Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax base of the assets and liabilities, and are measured using substantially enacted tax rates expected to be in effect when these temporary differences are likely to reverse. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized, and a valuation allowance is applied against any future tax asset if it is more likely than not that the asset will not be realized.

(f) Loss per common share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted earnings per share is calculated in a manner similar to basic loss per share, except that the weighted average shares outstanding are increased to include the potentially issuable common shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(g) Stock option plan

The Company has a stock option plan, which is described in note 8 (b). The Company accounts for stock-based compensation using the fair-value method. Under the fair value method, stock-based payments are measured at the fair value of equity instruments and are amortized over the vesting period. The offset to the recorded cost is contributed surplus in shareholders' equity.

If the stock options are exercised, the proceeds are credited to share capital and the fair value at the date of grant is reclassified from contributed surplus to share capital.

(h) Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(i) Asset retirement obligations

The Company has adopted CICA Handbook Section 3110, "Asset Retirement Obligations", which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred or can be reasonably estimated, and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at December 31, 2010, the Company has not incurred or committed any asset retirement obligations related to the development of its exploration property.

(j) Share issue costs

Costs incurred in connection with share issuances are charged to capital stock.

(k) Future accounting changes

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company is currently evaluating the impact of IFRS upon adoption on January 1, 2011.

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3. MARKETABLE SECURITIES:

The Company's marketable securities have been designated as available-for sale and are reported at fair value based on quoted market prices. As prescribed by the new standards, prior periods have not been restated (see note 3).

Marketable securities consist of shares in publicly traded companies.

	2010	2009
Marketable securities:		
Fair value	\$ 2,223	\$ 1,470
Cost	(3,749)	(4,145)
Accumulated unrealized gain (loss)	(\$ 1,526)	(\$ 2,675)

During the year ended December 31, 2010, the Company recognized a gain of nil on sale of marketable securities for proceeds of \$396 (2009 – nil) and an unrealized gain of \$1,149 (2009 – \$358) on marketable securities in other comprehensive income (loss).

4. INVESTMENTS:

The Company owns 40% of Claytech and believes that it has no value and thus has written this investment off in 2010.

The Company owns 11,167 shares of Fenicem and believes that it has no value and thus has written this investment off in 2010.

5. INTEREST IN MINING PROPERTIES:

Accumulated mineral property costs have been incurred as follows:

2010						
	Balance, beginning of the year		Acquisition		Exploration	Balance, December 31, 2010
Elliot Lake	\$ 48,965	\$	-	\$	1,005	\$ 49,970
Larder Lake	-		125,667		453,334	579,001
	\$ 48,965	\$	125,667	\$	454,339	\$ 628,971
<hr/>						
2009						
	Balance, beginning of the year		Acquisition		Exploration	Balance, end of the year
Elliot Lake	\$ 46,978	\$	-	\$	1,987	\$ 48,965

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5. INTEREST IN MINING PROPERTIES (CONTINUED):

Elliot Lake

Prior to 2000, the Company had written down its interest in its mineral property in Elliot Lake, Ontario. The Company has not abandoned the property and it incurred deferred costs during the year ended December 31, 2010 of \$1,005 (2009 - \$1,637) in order to maintain the property interest in good standing.

Larder Lake

In 2010, the Company signed three Mining Option Agreements (the "Agreements") whereby the Company can earn up to a 100% interest in certain mining claims in McVittie, Ossian and Katrine Townships, Ontario over a four year period. In order to acquire up to a 100% interest in these claims, the Company must fulfil the following commitments:

	Cash	Share units	Work commitment
2010	\$ 70,000 (fulfilled)	466,668 (fulfilled)	\$ 83,333 (fulfilled)
2011	\$ 116,666	466,668	\$ 616,667
2012	\$ 116,666	466,666	\$ 700,000
2013	\$ 46,668	466,666	\$ 933,334
2014	\$ -	466,666	\$ 1,166,666
Total consideration	\$ 350,000	2,333,334	\$ 3,500,000

Each share unit consists of one common share and one common share purchase warrant. Two of the agreements allow that each warrant gives the holder the right to purchase one common share of the Company at the higher of \$0.15 or the volume weighted average trading price for the 30 days previous to the issuance. The third agreement allows that each warrant gives the holder the right to purchase one common share of the Company at the higher of \$0.30 or the volume weighted average trading price for the 30 days previous to the issuance.

The above properties are subject to a 2% NSR upon full exercise by the Company of each agreement.

Measurement Uncertainty

The carrying values of the Company's mining properties at December 31, 2010 was \$628,971 (2009 - \$48,965). Management's review of these carrying values indicated that at December 31, 2010, the properties were not impaired. Management's conclusion is dependent on assumptions about several factors including future operating costs, mineral production levels, future mineral prices and capital equipment needs and costs. Management will continue to monitor the critical factors impacting its impairment analysis and will re-evaluate the carrying value of its long-lived assets as necessary.

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6. RELATED PARTY INFORMATION:

A company, Cognate Engineering Inc., controlled by a director, William P. Dickie, charged fees in the amount of \$108,000 (2009 - \$72,000), for administrative and bookkeeping services, which are included in office, general and investor relations expense. The contract between Ateba and this company allows for a monthly fee of \$12,000 and expires in June 2012.

During the year, consulting fees of \$23,500 (2009- \$19,500) were charged by the Chief Financial Officer for financial management services.

See note 8 (a) for additional related party information.

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.

7. CAPITAL STOCK:

- (a) Authorized and Issued:
 Unlimited number of special shares issuable in series
 Unlimited number of common shares

Details of issued and outstanding common shares are as follows:

	2010		2009	
	Shares	Amount	Shares	Amount
Balance at beginning of the year	29,526,692	\$ 22,663,825	29,526,692	\$ 22,663,825
Shares issued:				
Mining Option Agreements (note 6)	466,668	40,666	-	-
Private placements	18,355,885	2,227,950	-	-
Cost of private placements - cash	-	(143,540)	-	-
Cost of private placements – warrants valuation	-	(572,910)	-	-
Options exercised for cash	200,000	20,000	-	-
Reversal of cost of options exercised		6,000		
Balance at end of the year	48,549,245	\$ 24,241,991	29,526,692	\$ 22,663,825

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

7. CAPITAL STOCK (CONTINUED):

(a) Authorized and Issued:

In July 2010, the Company issued 5,250,000 units, pursuant to a private placement at a price of \$0.08 per unit. Each Unit consisted of one common share in the capital of the Company and one Common Share purchase warrant. Of these 5,250,000 units, 4,587,500 units have been designated as flow through units (each flow through unit consisting of one flow through common share and one common share purchase warrant). Each Warrant entitles the holder thereof to purchase one Common Share for a period of two years from the closing of the Offering at a price of CDN \$0.12 per Common Share, provided that if, at any time after the date of issuance of such Warrant, the Common Shares trade on a stock exchange at a price of \$0.25 per Common Share or greater for a period of twenty (20) consecutive trading days, the Company may accelerate the expiry date of the Warrants by giving notice to the holders thereof and in such case the Warrants will expire on the 30th day after the date on which such notice is given by the Company. Gross proceeds received totalled \$420,000. In addition, 475,500 common shares were issued and \$31,040 paid in cash as agent fees in the private placement. Other expenses related to the private placement are estimated at \$5,000.

In December 2010, the Company issued 12,630,385 units, pursuant to a private placement at a price of \$0.13 per unit and \$0.17 per flow through unit. Each unit consisted of one common share in the capital of the Company and one-half Common Share purchase warrant. Of these 12,630,385 units, 4,150,000 units have been designated as flow through units (each flow through unit consisting of one flow through common share and one-half common share purchase warrant). Each Warrant entitles the holder thereof to purchase one-half Common Share for a period of two years from the closing of the Offering at a price of CDN \$0.25 per Common Share, provided that if, at any time after the date of issuance of such Warrant, the Common Shares trade on a stock exchange at a price of \$0.40 per Common Share or greater for a period of twenty (20) consecutive trading days, the Company may accelerate the expiry date of the Warrants by giving notice to the holders thereof and in such case the Warrants will expire on the 30th day after the date on which such notice is given by the Company. Gross proceeds received totalled \$1,807,950. In addition, \$97,500 paid in cash as agent fees in the private placement and the agents were eligible to purchase 716,031 units. Each of these agents' units consists of one common share which the agents may purchase at \$0.13 per share. Other expenses related to the private placement are estimated at \$10,000.

(b) Stock Option Plan

In 2008, the Company changed its share option plan. The new plan sets out that options to purchase common shares may be granted by the Board of Directors to directors, officers, employees and service providers of the Company for terms up to five years at a price equal to the market price prevailing on the date of the grant. The maximum number of common shares available for issuance under the plan is 10% (4,854,924) of the issued and outstanding common shares, with no more than 5% (2,427,462) being granted to any one person.

When options are issued to employees and consultants for services rendered, a charge is recognized against income or against interest in mining properties for individuals directly related to mining projects, consistent with the recommendation of the CICA Handbook Section adopted by the Company. The Company uses the Black-Scholes option valuation model to value stock options.

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7. CAPITAL STOCK (CONTINUED):

(b) Stock Option Plan (Continued):

The fair value of each option was estimated on the date of grant. Under Black Scholes, the options issued during 2010 have been valued at \$101,000 (2009 - \$45,000). \$84,000 (2009 - \$45,000) has been expensed to loss and \$17,000 (2009 - \$nil) has been capitalized into Interest in Mining Properties, using the following assumptions at the measurement date:

	2010	2009
Risk free interest rate	1.61% to 2.37%	3%
Expected life	2 to 5 years	5 years
Price volatility	75% to 106%	100%
Dividend yield	Nil	nil

The following table reflects the continuity for the years ended December 31, 2010 and 2009 of options granted, exercised and expired under the plan.

	2010		2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise price
Outstanding at beginning of year	1,500,000	\$ 0.15	-	\$ -
Granted during the year	1,300,000	\$ 0.25	1,500,000	0.15
Exercised during the year	200,000	\$ 0.10	-	-
Expired during the year	-	-	-	-
Outstanding at end of year	<u>2,600,000</u>	<u>\$ 0.20</u>	<u>1,500,000</u>	<u>\$ 0.15</u>

The following summarizes information on the stock options outstanding at December 31, 2010:

Weighted average exercise price	\$0.20
Options exercisable as at December 31, 2010	2,600,000

The following table summarizes the options outstanding at December 31, 2010:

Number of Options	Exercise Price	Expiry Date
1,300,000	\$0.16	January 7, 2014
200,000	0.10	June 10, 2014
200,000	0.15	November 15, 2015
900,000	0.30	December 15, 2015
<u>2,600,000</u>		

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7. CAPITAL STOCK (CONTINUED):

(c) Basic and diluted earnings (loss) per share

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	2010	2009
Numerator:		
Net income (loss) for the year	(\$317,667)	(\$197,633)
Denominator:		
Weighted average common shares outstanding	33,010,098	29,526,692
Basic and diluted earnings (loss) per share		
For the year	(\$0.01)	(\$0.01)

Details of anti-dilutive potential securities outstanding not included in diluted EPS calculations at December 31, 2010 and December 31, 2009 are as follows:

Anti-dilutive potential securities	2010	2009
Common shares potentially assumable:		
-pursuant to warrants	12,747,891.50	-
-under stock options	2,600,000.00	1,500,000.00

8. WARRANTS

(a) Mining Option Agreements

As part of the three Larder Lake Mining Option Agreements (note 6), the Company issued share units. Each unit consisted of one share and one warrant. Two of the agreements allow that each warrant gives the holder the right to purchase one common share of the Company at the higher of \$0.15 or the volume weighted average trading price for the 30 days previous to the issuance. The third agreement allows that each warrant gives the holder the right to purchase one common share of the Company at the higher of \$0.30 or the volume weighted average trading price for the 30 days previous to the issuance.

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8. WARRANTS (CONTINUED):

The fair value of each warrant was estimated on the date of issue. Under Black Scholes, the warrants issued during the year ended December 31, 2010 have been valued at \$15,000 (2009 – \$nil) and capitalized into the cost of the interest in mining properties, using the following assumptions at the measurement date:

	2010
Risk free interest rate	1.29 % to 1.62%
Expected life	2 years
Price volatility	86% to 104%
Dividend yield	nil

(b) Private Placement

Pursuant to the Private Placement in July 2010 (note 7(a)), the Company issued share units. Each Unit consists of one common share in the capital of the Company and one Common Share purchase warrant. Each Warrant entitles the holder thereof to purchase one Common Share for a period of two (2) years from the closing of the Offering at a price of CDN \$0.12 per Common Share, provided that if, at any time after the date of issuance of such Warrant, the Common Shares trade on a stock exchange at a price of \$0.25 per Common Share or greater for a period of twenty (20) consecutive trading days, the Company may accelerate the expiry date of the Warrants by giving notice to the holders thereof and in such case the Warrants will expire on the 30th day after the date on which such notice is given by the Company.

Pursuant to the Private Placement in December 2010 (note 7(a)), the Company issued share units. Each Unit consists of one common share in the capital of the Company and one-half Common Share purchase warrant. Each Warrant entitles the holder thereof to purchase one Common Share for a period of two (2) years from the closing of the Offering at a price of CDN \$0.25 per Common Share, provided that if, at any time after the date of issuance of such Warrant, the Common Shares trade on a stock exchange at a price of \$0.40 per Common Share or greater for a period of twenty (20) consecutive trading days, the Company may accelerate the expiry date of the Warrants by giving notice to the holders thereof and in such case the Warrants will expire on the 30th day after the date on which such notice is given by the Company.

The fair value of each warrant was estimated on the date of issue. Under Black Scholes, the warrants issued during the year ended December 31, 2010 have been valued at \$572,910 (2009 - \$nil) and capitalized into Capital Stock, using the following assumptions at the measurement date:

	2010
Risk free interest rate	1.55% to 1.62%
Expected life	2 years
Price volatility	79% to 104%
Dividend yield	nil

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8. WARRANTS (CONTINUED)

(b) Private Placement (Continued)

The following table reflects the continuity for the years ended December 31, 2010 and 2009 of warrants issued, exercised and expired under the plan.

	Year Ended December 31, 2010	Year Ended December 31, 2009
Outstanding at beginning of year	-	-
Issued during the period	12,747,891	-
Exercised during the period	-	-
Expired during the period	-	-
Outstanding at end of period	<u>12,747,891</u>	<u>-</u>

Summary

	Year Ended December 31, 2010	Year Ended December 31, 2009
Outstanding at beginning of year	-	-
Warrants issued		
Mining option agreements	\$15,000	-
Private placements	521,910	-
Agent fees for private placements	<u>51,000</u>	<u>-</u>
Outstanding at end of period	<u>\$587,910</u>	<u>-</u>

The following table summarizes the warrants outstanding at December 31, 2010:

Number of Warrants	Expiry Date
200,000	January 28 2012
133,334	February 2, 2012
5,250,000	July 7, 2012
133,334	December 2, 2012
<u>7,031,223</u>	December 22, 2012
<u>12,747,891</u>	

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9. CONTRIBUTED SURPLUS

	2010	2009
Balance at the beginning of the year	\$45,000	\$ -
Stock options issued	101,000	45,000
Stock options exercised	(6,000)	-
	<hr/>	<hr/>
Balance at the end of the year	<u>\$140,000</u>	<u>\$45,000</u>

10. INCOME TAXES:

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes.

The Company has no future tax liabilities.

Future income tax assets arise from the following:

	2010	2009
Future tax assets:		
Resource properties	\$ 636,967	\$ 799,390
Non-capital loss carry-forwards	532,262	471,850
Capital loss carry-forwards	285,490	285,490
Capital assets	17,345	18,470
Share issue costs	51,899	26,056
Cumulative eligible capital	<u>73,920</u>	<u>78,715</u>
	1,597,883	1,679,971
Less: valuation allowance	<u>(1,597,883)</u>	<u>(1,679,971)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company provided a valuation allowance equal to the future tax assets as it is not presently more likely than not that they will be realized. The Company's income tax expense for each of the years ended is \$Nil.

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10. INCOME TAXES (CONTINUED):

The Company's provision for income taxes differ from the amounts computed by applying the basic current rates to income (loss) for the year before taxes, as shown in the following table:

	2010	2009
Statutory rate applied to income (loss) for the year before income taxes	(\$ 98,444)	\$ (65,218)
Increase (reduction) in taxes resulting from:		
Stock based compensation	26,032	14,850
Share issue costs	(21,910)	(8,685)
Other non-deductible item	314	6,005
Tax loss not benefited	<u>94,007</u>	<u>53,048</u>
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>

The company has non-capital loss carryforwards, which can be used to reduce future income taxes payable, expiring as follows: 2014 - \$397,568; 2015 - \$116,738; 2026 - \$94,939, 2027 - \$65,147; 2028 - \$280,172; 2029 - \$160,753 and 2030 - \$287,676. The company also has capital loss carryforwards, which can be applied against future capital gains in the amount of \$1,241,262. The Company also has Canadian Exploration and Development Expenditures of approximately \$2,476,430 and Foreign Resource Expenditures of \$233,075 which can be used to reduce taxable income in future years. No benefit from these amounts has been recorded in these financial statements.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):

Accumulated other comprehensive income is comprised of the following:

	2010	2009
Balance, beginning of year	(\$ 2,675)	(\$ 3,033)
Unrealized gain on marketable securities	<u>1,149</u>	<u>358</u>
Balance, end of year	<u>(\$ 1,526)</u>	<u>(\$ 2,675)</u>

12. SUPPLEMENTARY CASH FLOW INFORMATION:

The Company did not pay any income taxes nor interest during either of the two years ended December 31, 2010 and 2009.

During the years ended December 31, 2010 and 2009, the Company had non-cash activities as follows:

	2010	2009
Agents' commissions	\$ 51,000	\$ -

13. COMPARATIVE FIGURES:

Comparative figures have been reclassified to conform with the current year's financial statement presentation.

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14. SEGMENTED INFORMATION:

The Company conducts its business in a single operating segment being the acquisition, exploration and development of mineral properties. All mineral properties are located in Canada. In addition, all revenues, expenses and other assets are located in Canada.

15. CAPITAL MANAGEMENT:

The Company considers its capital to include components of shareholders' equity.

The Company's objectives in managing its capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's investments; to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its properties; to maintain a flexible capital structure for its projects for the benefit of its stakeholders; to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; and to seek out and acquire new projects of merit.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral property. The capability of the Company to carry out planned exploration and pay for administrative costs is dependent on its ability to secure additional equity or other financings. The Company will assess properties and seek to acquire properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company's investment policy is to invest excess cash in low risk, highly liquid, short-term interest bearing investments, selected with regards to the expected timing of upcoming expenditures.

The Company expects its current capital resources will be sufficient to carry out its exploration plans, operation plans and operations through its current operating period.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were 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.

Fair value

The Company has determined the estimated fair value of its financial instruments based on estimates and assumptions. The actual results may differ from those estimates and the use of different assumptions or methodologies may have a material effect on the estimated fair value amounts.

The fair value of cash and cash equivalents, lawyer's trust account, accounts receivable, accounts payable and accrued liabilities, and loan payable are comparable to their carrying value due to the relatively short period to maturity of these instruments.

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16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS:

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

Credit risk

The Company's credit risk is primarily attributable to short-term investments and receivables included in current assets. The Company has no material concentration of credit risk arising from operations. Cash and cash equivalents consist of bank deposits and guaranteed investment certificates, which have been invested with a Canadian Chartered Bank, from which management believes the risk of loss to be remote. Other credit risk primarily consists of HST receivable. Management believes that credit risk with respect to receivables is minimal.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2010, the Company has cash and cash equivalents of \$1,853,677 (2009 - \$405,807) to settle accounts payable and accrued liabilities of \$175,224 (2009 - \$55,905). The ability of the Company to continue to pursue its exploration activities is dependent on its ability to secure additional equity or other financing. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and equity prices.

(a) Interest rate risk - The Company has cash and cash equivalents bearing fixed interest rates and no interest bearing debt. The Company's current policy is to invest excess cash in investment-grade term deposit certificates issued by its banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit of its bank.

(b) Price risk - the Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

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

Sensitivity analysis

As at December 31, 2010, the carrying value amounts of the Company's financial instruments approximates their fair value.

17. SUBSEQUENT EVENTS:

In February 2011, the Company acquired 110 staked claim units on approximately 1,760 hectares (4,000 acres). This property is contiguous to its Larder Lake property. The company is required to spend \$nil on this property for the year ended the anniversary date of the agreement, February 7, 2012 and \$44,000 per year thereafter.