EXCHEQUER RESOURCE CORP.

(A development stage company)

Financial Statements

December 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Exchequer Resources Corp.
(An development stage company)

We have audited the accompanying financial statements of Exchequer Resources Corp. (the "Company"), which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and notes comprising 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 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 an audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 Company'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 Company'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 statement.

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

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

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 1 in the financial statements, which indicates that the Company incurred loss since inception of $8,549,179. 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.

CHANG LEE LLP
Chartered Accountants

Vancouver, Canada
May 2, 2011

EXCHEQUER RESOURCE CORP.

(A development stage company)

Balance Sheets
As at December 31,

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 327,781	$ 151,466
Sales tax receivable	4,582	2,071
Marketable securities (Note 3)	112,500	-
Total current assets	444,863	153,537
Investment and advancement (Note 4)	29,420	-
Mineral property (Note 5)	-	1
Total assets	$ 474,283	153,538
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 30,620	$ 51,665
Notes payable (Note 7)	95,000	-
	125,620	51,665
SHAREHOLDERS' EQUITY		
Share capital (Note 8b)	8,801,962	8,093,651
Contributed surplus (Note 8e)	95,880	100,411
Deficit	(8,549,179)	(8,092,189)
Total shareholders' equity	348,663	101,873
Total liabilities and shareholders' equity	$ 474,283	$ 153,538

Nature and continuance of operations (Note 1)
Subsequent events (Note 13)

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

EXCHEQUER RESOURCE CORP.

(A development stage company)

Statements of Operations, Comprehensive Loss and Deficit
Years ended December 31, 2010 and 2009

	2010	2009
General and Administrative Expenses		
Consulting	$ 65,500	$ 10,000
Filing and transfer agent fees	11,710	15,253
Licenses and permits	166	4,096
Management fees	30,000	30,000
Office expenses	4,000	2,082
Professional fees	85,534	47,619
Rent	13,200	-
Research and development	294,041	349,077
Secretarial	10,000	-
Travel and promotion	55,338	11,913
	569,489	470,040
Other items		
Loss on marketable securities	(37,500)	-
Gain on disposition of mineral property (Note 5)	149,999	-
Net loss and comprehensive loss for the year before non-controlling interest	(456,990)	(470,040)
Non-controlling interest	-	15,001
Net loss and comprehensive loss for the year	(456,990)	(455,039)
Deficit, beginning of year	(8,092,189)	(7,637,150)
Deficit, end of year	$ (8,549,179)	$ (8,092,189)
Loss per share, basic and diluted	$ (0.02)	$ (0.04)
Weighted average number of common shares outstanding – basic and diluted	25,671,299	11,279,517

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

EXCHEQUER RESOURCE CORP.
(A development stage company)

Statements of Cash Flows
Years ended December 31, 2010 and 2009

	2010	2009
Cash flows from (used in)		
Operating activities		
Net loss for the year	$ (456,990)	$ (455,039)
Less: Items not involving cash:		
Non-controlling interest	-	(15,001)
Research and development	-	15,001
Loss on marketable securities	37,500	-
Gain on disposition of mineral property	(149,999)	-
Changes in non-cash working capital:		
Sales tax receivable	(8,566)	(1,249)
Prepaid expenses	-	1,250
Accounts payable and accrued liabilities	(14,990)	17,781
	(593,045)	(437,257)
Investing activities		
Investment and advancement	(29,420)	-
Financing activities		
Notes payable	95,000	-
Issuance of common shares	703,780	588,000
	798,780	588,000
Increase (decrease) in cash and cash equivalents	176,315	150,743
Cash and cash equivalents, beginning of year	151,466	723
Cash and cash equivalents, end of year	$ 327,781	$ 151,466

Supplemental disclosure with respect to cash flows:

Cash paid during the year for interest	$ -	$ -
Cash paid during the year for income tax	$ -	$ -

The accompanying notes are an integral part of these financial statements

1. Nature and Continuance of Operations

The Company was in the development stage relating to exploration and development of petroleum, natural gas and mineral properties and had not generated any revenues from its planned operations. The deficit has been accumulated during these development stages. On October 24, 2002, the Company continued from Alberta to British Columbia. On December 12, 2006, the Company received shareholder approval for the consolidation of its shares on the basis of 1 new share for each 3 old shares, and a proposed change of the Company's name. Since then, the Company has taken no action to proceed with either the consolidation of the shares or the name change. During the year and on September 18, 2009 the Company was granted the exclusive right to negotiate for the acquisition of a business which is in the process of completing a new environment for broadcasting digital video content over the internet using Internet Protocol. The exclusive right takes effect following a due diligence period of up to six months, and consequently during the fiscal year ended December 31, 2009 the Company expanded its scope of operations to the research and development of technologies related to broadcasting digital video content over the internet using Internet Protocol. On December 31, 2010, management terminated any and all agreements and/or contract with regard to this project. The Company is currently looking for new projects.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and on a going concern basis, which assumes the realization of assets and the liquidation of liabilities in the normal course of business. The Company has incurred losses since inception of $8,549,179 (2009: $8,092,189) and has working capital of $319,243 (2009: 101,872). These factors cause uncertainty as to the Company's ability to continue as a going concern. If the going concern presumption is not appropriate then assets may be realized at amounts significantly lower than the current carrying value. The application of the going concern concept is dependent on the Company's ability to obtain a viable operation and receive continued financial support from its shareholders and from external financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments.

2. Significant Accounting Policies

Basis of Presentation

These financial statements are presented in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

These financial statements include the accounts and operations of the Company and its Variable Interest Entity as follows:

Megasoft Digital Video Broadcast Services Corp. ("MDVB") was incorporated under the laws of British Columbia on July 15, 2009 and was a variable interest entity to the Company. This was determined by the management of the Company as the Company was considered to be the primary beneficiary of MDVB.

All significant inter-company accounts and transactions have been eliminated upon consolidation.

As a result of the termination by management of all agreements and /or contracts with regard to the MDVB project, the Company has deconsolidated MDVB as of December 31, 2010. The statements of operations, comprehensive loss and deficit, for the year ended December 31, 2010, included the financial results of MDVB up to December 31, 2010, which is the point of termination. Upon the termination of agreement / contract with MDVB, the net liability of MDVB was assigned to the Company which the Company recognized $Nil loss/gain upon the termination and deconsolidation of MDVB.

2. Significant Accounting Policies (continued)

Estimates, Assumptions and Measurement Uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Areas requiring significant management estimates relate to the determination of impairment of mineral properties, valuation of marketable securities, expected tax rates for future income tax assets, fair value of stock-based payments and useful lives for amortization of long-lived assets.

Financial Instruments

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of the financial instruments depends on their initial classification.

The Company's financial instruments consist of cash and cash equivalents, marketable securities, advances receivable, accounts payable and accrued liabilities and notes payable.

The Company has classified its cash and cash equivalents and marketable securities as held for trading, which is measured at fair value. Investment and advancement is classified as loans and receivable. Accounts payable and accrued and notes payable are classified as other financial liabilities, which are initially measured at fair value and subsequently measured at amortized costs.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgements, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Fair value hierarchy

The Company categorizes its financial assets and liabilities measured at the fair value into one of three different levels depending on the observability of the inputs used in the measurement. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The carrying value of cash and cash equivalent, marketable securities, accounts payable and accrued liabilities and notes payable approximates their fair value because of the short-term nature of these instruments. Cash and cash equivalents and marketable securities have been valued based on level one of the fair value hierarchy. The carrying value of investment and advancement approximates its fair value based on the discounted cash flow at market rate.

Financial risk factors

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

2. Significant Accounting Policies (continued)

Credit risk

Credit risk is the risk of loss associated with a payee's inability to fulfill its payment obligations to the Company. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and marketable securities. The Company's credit risk with respect to its cash and marketable securities are minimal as they are held with high-credit quality financial institutions. The receivables owed to the Company are owed from the Federal Government of Canada as a result of sales tax refunds. The Company believes it has no significant credit risk.

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 had a cash and cash equivalents balance of $327,781 (2009: $151,466) to settle current liabilities of $125,620 (2009: $51,665). All of the Company's financial liabilities 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 foreign exchange rates.

a) Interest rate risk:

   The Company has cash and cash equivalents balances and no interest-bearing debt. The Company believes it has no significant interest rate risk.

b) Foreign exchange risk:

   As at December 31, 2010 and 2009, the Company's expenditures are in Canadian dollars, any future equity raised is expected to be predominantly in Canadian dollars. The Company believes it has no significant foreign exchange rate risk.

   The Company does not hold balances in foreign currencies which would give rise to exposure to foreign exchange risk.

Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents. There were no cash equivalents at December 31, 2010 and 2009.

Marketable Securities

Marketable securities are classified as held for trade securities and are recorded at market value. Unrealized holding gains and losses on hold for trade securities are included in the statement of operations in accordance with the Company's designation of marketable securities as held for trading assets.

2. Significant Accounting Policies (continued)

Stock-based compensation

The Company accounts for stock options granted using CICA Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". Under this Handbook section, the Company is required to expense, over the vesting period, the fair value of the options and awards granted. Accordingly, the fair value of the options at the date of grant is accrued and charged to operations, with a corresponding credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

Stock Option Plan

The Company has a stock option plan whereby it is authorized to grant stock options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of issued and outstanding shares of the Company.

Comprehensive income (loss)

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income comprises items recognized in comprehensive income, but excluded from net income calculated in accordance with Canadian GAAP.

Future income taxes

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that the substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future income tax asset will be recovered, it provides a valuation allowance against the excess.

Earnings (Loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury method. The treasury method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. Diluted loss per share is equal to the basic loss per share as the outstanding options and warrants are anti-dilutive.

Research and Development Costs

All research and development costs are expensed when incurred unless they meet specific criteria for deferral and amortization. The Company reassesses whether it has met the relevant criteria for deferral and amortization at each reporting date. Development costs deferred are not amortized until completion of the related development project.

2. Significant Accounting Policies (continued)

Mineral Property

All costs related to the acquisition, exploration and development of mineral properties, less option payments received, are capitalized by property. If economically recoverable reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. If the Company transfers its right, title and interest in a property to a third party, a disposition is recorded. The proceeds less the accumulated costs related to the acquisition, exploration and development of the property is recognized as a gain or loss.

The amount shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Impairment of Long-Lived Assets

The Company follows the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3063, "Impairment of Long-Lived Assets". Section 3063 establishes standards for recognizing, measuring and disclosing impairment of long-lived assets held for use. The Company conducts its impairment test on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is recognized when the carrying amount of an asset to be held and used exceeds the undiscounted future net cash flows expected from its use and disposal. If there is an impairment, the impairment amount is measured as the amount by which the carrying amount of the asset exceeds its fair value, calculated using discounted cash flows when quoted market prices are not available.

Asset Retirement Obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. This would include obligations related to future removal of property and equipment, and site restoration costs. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company currently does not have any significant asset retirement obligations.

Variable Interest Entity ("VIE")

A VIE is defined as an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. The Company consolidates a VIE when the Company has a variable interest that absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, in compliance with the Accounting Standards Board's ("AcSB") Accounting Guideline 15 ("AcG15") "Consolidation of Variable Interest Entities".

2. Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements

On February 13, 2008, Canada's Accounting Standard Board confirmed January 1, 2011 as the effective date for complete convergence of Canadian GAAP to International Financial Reporting Standards ("IFRS"). While the conceptual framework for IFRS and Canadian GAAP are similar, there are significant differences in recognition, measurement and disclosure requirements. The Company has completed its assessment of IFRS accounting policies. The implementation phase, which includes updating its data systems, internal controls over financial reporting and business activities such as financing and compensation arrangements, has been completed and the Company is in position to prepare IFRS compliant financial statements for its quarter ended March 31, 2011.

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests" which replace Section 1600 "Consolidated Financial Statements. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations".

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption.

The Company is currently assessing the future impact of these amendments on its financial statements.

3. Marketable Securities

During the fiscal year ended December 31, 2010 the Company disposed of its Georgia River Mineral Property to Auramex Resource Corp. ("Auramex"), a company listed on the TSX Venture Exchange. As consideration, on August 26, 2010 the Company received 2,500,000 Auramex common shares. The shares are recorded at fair value of $0.06 per share for a total of $150,000. The market value of the shares held by the Company, as at December 31, 2010 was $112,500. The loss in market value has been recorded in the statements of operations in accordance with the Company's designation of the marketable securities as held for trading assets.

4. Investment and Advancement

In fiscal year 2010, the Company signed a Memorandum of Understanding ("MOU") the negotiation of the potential acquisition of Media Link Technology Corporation ("Media Link"). Media Link, a British Columbia, private company, has developed the technology for the distribution of existing television over the open Internet to wired and wireless devices. This new distribution technology, through Internet Protocol Television ("IPTV") Set-top Boxes, will allow wireless devices such as iPhones, iPads, Slate PCs, Netbooks, etc. to receive conventional TV programming. As at December 31, 2010, the Company advanced money to Media Link of $29,420. A major shareholder of Media Link is a director and officer of the Company. The amount is unsecured, non-interest bearing and due on demand.

5. Georgia River Mineral Property

As at December 31, 2009, the Company owned twenty mineral claims, located in the Skeena Mining Division, British Columbia. The claims were recorded at a nominal carried value of $1. During the fiscal year ended December 31, 2010 the Company disposed of the claims and recorded a gain on disposal of $149,999. (See Note 3)

6. Research and Development

On September 18, 2009 the Company entered into a letter agreement with Kofi Obiri-Yeboah (“Kofi”), Megasoft Engineering Corporation (“Megasoft”) and MDVB pursuant to which the Company agreed to assist and fund and potentially acquire the business of creating an environment for broadcasting digital video content over the internet to Internet Protocol Television. The terms of the agreement included the payment of $50,000 upon execution of the agreement (paid) and the additional funding over a six month period of up to $400,000 (fully paid subsequent to December 31, 2009) by way of non-interest bearing loans to MDVB to support the operational and developmental program of such technologies, such loans being repayable one year from the date of the agreement. Subject to a due diligence, the Company will, for a period of up to one year, have in its sole discretion, the exclusive right to negotiate a legally binding agreement for the acquisition of the technologies, which is contemplated to consist of the issuance by the Company of 15,000,000 shares to the current shareholders of MDVB in exchange for 100% of their shares and the additional payment of $150,000 to Kofi. As at December 31, 2010, the Company had advanced funding of $740,554 (2009: $307,563) pursuant to the above.

The costs incurred prior to and after the agreement were determined to be the in-process research and development costs, which were expensed as at December 31, 2010 and 2009.

On December 31, 2010, management terminated any and all agreements and/or contract with regard to this project.

7. Notes Payable

The notes payable are non-interest bearing, unsecured and due on demand.

8. Share Capital

(a) Authorized:

Unlimited number of common shares with no par value.

8. Share Capital (continued)

(b) Issued and outstanding:

	Number of Shares	Stated Capital
		$
Balance, December 31, 2008	9,222,832	7,518,151
Shares issued for cash	11,760,000	575,500
Balance, December 31, 2009	20,982,832	8,093,651
Shares issued for cash	1,000,000	100,000
Shares issued upon exercise of stock options	40,000	4,400
Shares issued upon exercise of warrants	5,993,800	599,380
Reallocated from contributed surplus	-	4,531
Balance, December 31, 2010	28,016,632	8,801,962

On January 28, 2009 the Company issued 250,000 units at a price of $0.05 per unit pursuant to a non-brokered private placement. Each unit consisting of one common share and one share purchase warrant entitling the holder to acquire one additional common share at a price of $0.10 per share, exercisable on or before January 28, 2010. The Company applied the residual approach which allocates the net proceeds to the common shares up to their fair value and the balance to the attached warrants. Based on this, the Company allocated $10,000 to common shares and $2,500 to warrants.

On May 1, 2009 the Company issued 500,000 units at a price of $0.05 per unit pursuant to a non-brokered private placement. Each unit consisting of one common share and one share purchase warrant entitling the holder to acquire one additional common share at a price of $0.10 per share, exercisable on or before May 1, 2010. The Company applied the residual approach which allocates the net proceeds to the common shares up to their fair value and the balance to the attached warrants. Based on this, the Company allocated $15,000 to common shares and $10,000 to warrants.

On July 20, 2009 the Company issued 500,000 units at a price of $0.05 per unit pursuant to a non-brokered private placement. Each unit consisting of one common share and one share purchase warrant entitling the holder to acquire one additional common share at a price of $0.10 per share, exercisable on or before July 20, 2010. The Company applied the residual approach which allocates the net proceeds to the common shares up to their fair value and the balance to the attached warrants. All of the proceeds from the above private placement have been allocated to the common shares.

On November 17, 2009, the Company issued 10,510,000 units at a price of $0.05 per unit for proceeds of $525,500. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire one additional common share at a price of $0.10 per share, exercisable on or before November 17, 2010, subject to early expiry if the shares trade at $0.30 or more for ten consecutive days. The Company applied the residual approach which allocates the net proceeds to the common shares up to their fair value and the balance to the attached warrants. All of the proceeds from the above private placement have been allocated to the common shares.

8. Share Capital (continued)

On January 8, 2010 the Company issued shares pursuant to a non-brokered private placement of 1,000,000 units at $0.10 per unit totalling $100,000. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire one additional common share at a price of $0.10 per share, exercisable on or before January 8, 2011. The Company applied the residual approach which allocates the net proceeds to the common shares up to their fair value and the balance to the attached warrants. All of the proceeds from the above private placement have been allocated to the common shares.

On October 15, 2010 the Company issued 40,000 shares pursuant to the exercise of stock options at a price of $0.11 per share for proceeds in the amount of $4,400. $4,531 was reallocated from contributed surplus to share capital in connection with the exercise of stock options.

During the fiscal year ended December 31, 2010 the Company issued 5,993,800 shares pursuant to the exercise of warrants at $0.10 per share.

(c) Warrants

As at December 31, 2010 the following warrants were outstanding:

	Number of warrants	Weighted-average exercise price
		$
Balance, December 31, 2008	375,000	0.11
Expiring during the year	(375,000)	0.11
Issued and expiring on or before January 28, 2010	250,000	0.10
Issued and expiring on or before May 1, 2010	500,000	0.10
Issued and expiring on or before July 20, 2010	500,000	0.10
Issued and expiring on or before November 17, 2010	10,510,000	0.10
Balance, December 31, 2009	11,760,000	0.10
Expired	(5,766,200)	0.10
Issued and expiring on or before January 8, 2011	1,000,000	0.10
Exercised	(5,993,800)	0.10
Balance, December 31, 2010	1,000,000	0.10

11,760,000 warrants were issued during the fiscal year ended December 31, 2009. See Note 8b for details.

During the fiscal ended December 31, 2010, 1,000,000 warrants were issued, all of which were subsequently expired unexercised on January 8, 2011. There were 5,766,200 warrants expired unexercised and 5,993,800 warrants exercised at $0.10 per warrant. See Note 8b for details.

8. Share Capital (continued)

(d) Stock Options

	Number of options	Weighted Average exercise price
Balance, December 31, 2009 and 2008	785,002	$ 0.11
Expired	(16,544)	0.10
Exercised	(40,000)	0.10
Balance, December 31, 2010	728,458	$ 0.11

Stock Options outstanding and exercisable as at December 31, 2010:

Expiry Date	Weighted Average Exercise Price	Weighted Average Number of Shares	Weighted Average Remaining Contractual Life (Years)
August 8, 2011	$0.11	268,458	0.60
September 24, 2012	$0.11	460,000	1.73
	$0.11	728,458	1.32

Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

(e) Contributed Surplus

Balance, December 31, 2008	$ 87,911
Warrants issued	12,500
Balance, December 31, 2009	100,411
Issuance of shares – exercise of options	(4,531)
Balance, December 31, 2010	$ 95,880

9. Related Party Transactions

During the fiscal year ended December 31, 2010, the Company entered into the following transactions with related parties:

a) Paid or accrued management fees of $30,000 (2009 - $30,000) to a Director and Chief Executive Officer of the Company. Included within accounts payable and accrued liabilities is $14,882 owing to him as at December 31, 2010 (2009 - $18,479).

b) Paid or accrued professional fees of $12,988 (2009 - $6,967) to a law firm of which directors of the Company are partners. Included within accounts payable and accrued liabilities is $1,582 owing to the law firm as at December 31, 2010 (2009 - $Nil).

c) Paid professional fees of $10,000 (2009 - $10,000) to the Company's Chief Financial Officer for providing accounting services.

d) See Note 4.

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. Income Taxes

The Company does not have any income tax liabilities during the current year and, accordingly, no income taxes are recorded. The potential income tax benefits associated with losses incurred by the Company have not been recorded in the accounts as future taxation as they are offset by valuation reserves due to uncertainty of utilization of tax losses. These losses may be available to reduce taxable income in the future years.

	2010	2009
Canadian basic statutory rate	28.5%	30%
Loss before income taxes	$ 456,990	$ 470,040
Income tax recovery at statutory rates	130,200	83,400
Non-deductible items for tax purpose	17,100	(3,700)
Other items	(42,700)	-
Unrecognized benefits of non-capital losses	(104,600)	(79,700)
Total income tax recovery	$ -	$ -

Future income taxes assets result principally from temporary differences in the recognition of loss carry forwards and expense items for financial and income tax reporting purposes. Significant components of the company's future tax assets as of December 31, 2010 and 2009 are as follows:

Future income tax assets	2010	2009
Non-capital loss carry forwards	$ 401,000	$ 298,700
Valuation allowance for future income tax assets	(401,000)	(298,700)
Future income tax assets	$ -	$ -

10. Income Taxes (continued)

The loss carry forward for tax purposes which has not been recognized in the financial statements amounts to approximately $1,605,800 at December 31, 2010 (2009 - $1,224,000) and is available to reduce future income taxes payable. These losses expire beginning in the year 2014 to 2030.

Year		Amount
2014	$	213,100
2015	$	118,500
2026	$	115,400
2027	$	132,800
2028	$	112,000
2029	$	115,000
2030	$	799,000
	$	1,605,800

11. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue its intended business operations and to maintain flexible capital structure for its projects for the benefit of its stakeholders. In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents.

The Company manages the capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. As at December 31, 2010, the Company has not entered into any debt financing.

The Company is dependent on the capital markets as its sole source of operating capital.

12. Comparative Figures

Certain 2009 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2010.

13. Subsequent Events

See Note 8c.