**SHANE RESOURCES LTD.**
**Suite 212 – 116 Research Drive**
**Saskatoon, SK**
**S7N 3R3**

# SHANE RESOURCES LTD.

## Annual Financial Statements

## for the year ended December 31, 2010

To the Shareholders of
Shane Resources Ltd.

We have audited the accompanying financial statements of Shane Resources Ltd. which comprise the balance sheet as at December 31, 2010 and the statements of operations, comprehensive loss and deficit, 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.

***Auditors' 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 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

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

***Other Matters***

The financial statements of Shane Resources Ltd. for the year ended December 31, 2009 were audited by another auditor who expressed an unmodified opinion on those statements on April 7, 2010.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada — Chartered Accountants

April 27, 2011



1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6
Telephone (604) 687-0947 Fax (604) 687-6172

**SHANE RESOURCES LTD.**

**BALANCE SHEETS AS AT DECEMBER 31,**

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash and equivalents | $ | 115,970 | $ | 276,533 |
| Marketable securities (cost $29,017 and $1,250, respectively) | | 3,255 | | 31 |
| Receivables | | 58,368 | | 28,800 |
| Prepaid expenses | | 15,144 | | 17,165 |
| | | 192,737 | | 322,529 |
| **Property and equipment** (Note 5) | | - | | 1,862 |
| **Mineral properties** (Note 6) | | 435,100 | | 435,100 |
| | $ | 627,837 | $ | 759,491 |
| **LIABILITIES** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | $ | 22,264 | $ | 40,510 |
| | | 22,264 | | 40,510 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital (Note 7) | | 6,670,238 | | 6,670,238 |
| Contributed surplus (Note 7) | | 502,503 | | 360,680 |
| Deficit | | (6,567,168) | | (6,311,937) |
| | | 605,573 | | 718,981 |
| | $ | 627,837 | $ | 759,491 |

**Going concern** (Note 1)
**Measurement of uncertainty** (Note 6)
The accompanying notes are an integral part of the financial statements.

Approved by the Board:

"KYLE KOZUSKA"
Director

"STEVE ROGOSCHEWSKY"
Director

**SHANE RESOURCES LTD.**

**STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT**
**FOR THE YEARS ENDED DECEMBER 31,**

| | 2010 | 2009 |
|---|---|---|
| **Administration costs** | | |
| Amortization | $ 481 | $ 660 |
| Annual meetings | - | 1,961 |
| Bank charges | 968 | 993 |
| Filing fees | 13,375 | 17,675 |
| Insurance | 15,131 | 15,750 |
| Management fees | 79,150 | 82,678 |
| Office expense | 7,315 | 1,333 |
| Premises expense | 11,600 | 13,601 |
| Professional fees | 22,689 | 26,634 |
| Promotion | 6,735 | 4,430 |
| Stock-based compensation | 141,823 | - |
| Telephone | 2,549 | 2,972 |
| Transfer agent | 4,405 | 7,665 |
| Travel and accommodation | 877 | 1,223 |
| **Operating costs for the year** | (307,098) | (177,575) |
| Interest income | 24 | 281 |
| Unrealized loss on marketable securities | (24,776) | (11) |
| Management fee income | 50,000 | 50,000 |
| Other income | 28,000 | 28,000 |
| Write down of property and equipment | (1,381) | - |
| Mineral property costs abandoned or lapsed | - | (395,505) |
| **Net loss and comprehensive loss for the year** | (255,231) | (494,810) |
| **Deficit, beginning of the year** | (6,311,937) | (5,817,127) |
| **Deficit, end of year** | $ (6,567,168) | $ (6,311,937) |
| **Loss per share - basic and diluted** | $ (0.010) | $ (0.019) |
| **Weighted average common shares** | 26,240,750 | 26,240,750 |

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

**SHANE RESOURCES LTD.**

**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31,**

| | 2010 | 2009 |
|---|---|---|
| **Cash flows used in operating activities** | | |
| Operations | | |
| Net loss for the year | $ (255,231) | $ (494,810) |
| Items not involving cash | | |
| Amortization | 481 | 660 |
| Stock-based compensation | 141,823 | - |
| Unrealized loss on marketable securities | 24,776 | 11 |
| Write-off of mineral properties | - | 395,505 |
| Write-off of property and equipment | 1,381 | - |
| Cash invested in non-cash working capital | | |
| Increase in receivables | (29,568) | (10,065) |
| Decrease in prepaids | 2,021 | 77,029 |
| Increase (decrease) in accounts payable and accrued liabilities | (18,246) | 23,537 |
| | (132,563) | (8,133) |
| **Cash flows used in investing activities** | | |
| Purchase of marketable securities | (28,000) | - |
| Deferred exploration expenses | - | (82,943) |
| | (28,000) | (82,943) |
| **Decrease in cash and cash equivalents** | (160,563) | (91,076) |
| **Cash and cash equivalents, beginning of year** | 276,533 | 367,609 |
| **Cash and cash equivalents, end of year** | $ 115,970 | $ 276,533 |
| **Cash and cash equivalents comprised of:** | | |
| Cash | $ 115,970 | $ 276,533 |

There were no non-cash transactions for the years ending December 31, 2010 or 2009.

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

## 1. Going Concern

These financial statements have been prepared on a going-concern basis which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future. Accordingly, it does not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than normal course of business and at amounts which may differ from those shown in the financial statements.

The Company's ability to continue as a going concern is contingent on its ability to obtain additional equity financing. However, the low price of the Company's common shares makes it difficult to raise funds by private placements of shares.

The amounts shown as mineral properties and related deferred costs represent costs net of recoveries to date, less amounts written off, and do not represent present or future values. Recoverability of the amounts shown for mineral properties is dependent upon the discovery of economically recoverable mineral reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain financing necessary to complete the exploration and development of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests.

## 2. Nature of Operations

Shane Resources Ltd. is a corporation continued under the laws of Saskatchewan and has its Common Shares listed on the TSX Venture Exchange.

The Company is in the process of exploring its mineral properties and has not determined whether these properties contain ore reserves which are economically recoverable.

Ownership in mineral interests 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 characteristic of many mineral interests. The Company has investigated ownership of its mineral interests and, to the best of its knowledge, such ownership interests are in good standing.

To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

## 3. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

Mineral Properties and Rights, and Deferred Exploration Costs

The Company follows the accepted accounting practice of capitalizing acquisition, exploration and development costs applicable to properties held. If the properties become productive the costs will be amortized over the anticipated production of the property. If the property is abandoned, the applicable costs will be written off.

Depletion of costs capitalized to properties will be recorded using the unit of production method based on estimated proven reserves as determined by independent engineers.

Management has determined each property or project to be a cost centre.

The costs capitalized represent those costs incurred to date and do not necessarily reflect present or future values.

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as a resource property cost or recoveries when the payments are made or received.

Management of the Company reviews and evaluates the carrying value of each mineral property for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. If the total estimated future cash flow on an undiscounted basis is less than the carrying value of the asset, an impairment loss is measured and the asset is written down to fair value which is normally based on the discounted value of future cash flows. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether carrying value can be recovered by considering alternative methods of determining fair value. When it is determined that a mineral property is impaired, it is written down to its estimated fair value.

## 3. Significant Accounting Policies – continued

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is provided using the following basis and annual rates:

| Equipment | Basis | Rate |
|---|---|---|
| Computer | Declining balance | 30% |
| Equipment | Declining balance | 20% |

One half of the above rates are used in the year of acquisition.

Cash Equivalents

Cash equivalents consist of highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased.

Future Income Taxes

Future income taxes are accounted for using the asset and liability method whereby future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Stock-Based Compensation

For stock option awards granted and all direct awards of stock, the Company applies the fair value method. The fair value of stock options is determined by the Black-Scholes Option Pricing Model which is recorded over the vesting period of the stock options.

Basic and Diluted Loss Per Share

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 recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the period presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted-average number of shares outstanding during the period.

## 3. Significant Accounting Policies – continued

Share Capital – Flow Through Shares

The Company finances a portion of its exploration activities through the issue of flow-through shares.

The Company provides certain share subscribers with a flow-through component for tax incentives available on qualifying Canadian exploration expenditures. The Company renounces the qualifying expenditures upon issuance of the respective flow-through common shares and accordingly is not entitled to the related taxable income deductions for such expenditures.

The shares issued require that the Company make certain qualifying expenditures for tax purposes on or before December 31, the deduction of which flow through to the shareholders.

Future income tax liabilities resulting from the renunciation of qualified mineral expenditures by the Company from the issuance of flow-through shares are recorded as a reduction in share capital. Any corresponding realization of future income tax benefits resulting in the utilization of prior year losses available to the Company not previously recorded, whereby the Company did not previously meet the criteria for recognition, are reflected as part of the Company's operating results during the year the expenses are renounced to the share subscribers.

Contributed Surplus

The fair value of certain stock options has been valued using the Black-Scholes option-pricing model. The fair value on the grant of these securities is added to contributed surplus. Upon exercise, the corresponding amount of contributed surplus related to the security is removed from contributed surplus and added to share capital.

Asset Retirement Obligations

Asset retirement obligations are recognized when a legal obligation arises. This liability is recognized at the fair value of the asset retirement obligation. When the liability is initially recorded the Company capitalizes the cost by increasing the carrying amount of the related long-lived assets. Over time the liability is accreted to its present value each period, and the capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or a loss upon settlement.

It is reasonably possible that the Company's estimates of its ultimate reclamation and site restoration liability could change as result of changes in regulations or cost estimates. The effect of changes in estimated costs is recognized on a prospective basis. Currently, the Company's projects are under option and at an exploration stage, and accordingly, no such obligations have arisen.

**3. Significant Accounting Policies – continued**

Financial Instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measures in the balance sheet either at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

The Company provides the required disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2 – Inputs other than quoted prices that are observable for assets and liabilities either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The Company has classified its cash and equivalents, and marketable securities as held-for-trading and is measured as a level 1 financial instrument under the fair value hierarchy. Receivables and accounts payable and accrued liabilities are classified as other assets or liabilities, which are measured at amortized cost. The fair value of accounts receivable and accounts payable and accrued liabilities approximate their carrying value due to their short term nature, which is the amount recorded on the balance sheet.

The Company has included the disclosure recommended by this section in Note 11 to these financial statements.

**4. Future Accounting Changes**

International financial reporting standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's existing GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. For the Company, the transition date will be January 1, 2010 and this will require the restatement for comparative purposes of amounts reported by the Company for each of the quarters for the year ending December 31, 2010. The Company has completed the diagnostic phase of planning for the implementation of IFRS. It has determined that the principal areas of impact will be IFRS 1 – first time adoption; presentation of financial statements; flow through shares and share-based payments, exploration costs; impairment of long-lived assets; asset retirement obligations and future income taxes. The Company expects its detailed analysis of relevant IFRS requirements and of IFRS 1 will be complete by the end of its fiscal quarter ending March 31, 2011, along with its determination of changes to accounting policies and choices to be made. The Company

**4. Future Accounting Changes – continued**

has not yet reached the stage where a quantified impact of conversion on its financial statements can be measured. The Company expects to complete its quantification of financial statement impacts by the end of its fiscal quarter ending March 31, 2011.

Business combinations, consolidated financial statements and non-controlling interest

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former 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. Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS international accounting Standards ("IAS") 27, Consolidated and Separate Financial Statements (January 2008).

Section 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The adoption of these three sections will affect the Company's accounting for business combinations, if any, on or after January 1, 2011.

**5. Property and equipment**

Equipment consists of the following:

| | Cost | Accumulated Amortization | Net Book Value 2010 | Net Book Value 2009 |
|---|---|---|---|---|
| Computer | $ - | - | - | $ 1,089 |
| Equipment | - | - | - | 773 |
| | $ - | - | - | $ 1,862 |

During the current year, the Company wrote off all of its property and equipment.

## 6. Mineral Properties and Rights and Deferred Exploration Costs

The Company has acquired certain mineral properties and rights, the costs of which are as follows:

| | Brownell Lake | Fort a la Corne | James Smith | Magnes-Coriloma | Munroe Lake | Pine East | West Red Lake | Total |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Balance December 31, 2008 | **98,012** | **33,064** | **75,103** | **112,959** | **172** | **336,916** | **91,436** | **747,662** |
| SEM deposit | - | 82,943 | - | - | - | - | - | 82,943 |
| Write-off | - | (116,007) | (75,103) | (112,959) | - | - | (91,436) | (395,505) |
| Total for year | - | (33,064) | (75,103) | (112,959) | - | - | (91,436) | (312,562) |
| **Balance December 31, 2009 and 2010** | **98,012** | **-** | **-** | **-** | **172** | **336,916** | **-** | **435,100** |

| **Cumulative Totals** | Brownell Lake | Fort a la Corne | James Smith | Magnes-Coriloma | Munroe Lake | Pine East | West Red Lake | Total |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Acquisition costs | 39,202 | 25,899 | - | 112,959 | 172 | 78,149 | 22,823 | 279,204 |
| Drilling | 58,810 | - | 75,103 | - | - | 258,767 | 68,613 | 461,293 |
| Geology | - | 7,165 | - | - | - | - | - | 7,165 |
| SEM deposit | - | 82,943 | - | - | - | - | - | 82,943 |
| Write-off | - | (116,007) | (75,103) | (112,959) | - | - | (91,436) | (395,505) |
| **Balance December 31, 2010** | **98,012** | **-** | **-** | **-** | **172** | **336,916** | **-** | **435,100** |

**6. Mineral Properties and Rights and Deferred Exploration Costs-continued**

**A. Brownell Lake**

The Company owns a 100% interest in 2 claims in the Brownell Lake area of Saskatchewan. The property hosts a long zone of Copper-zinc mineralization which has been explored by several companies.

**B. Munroe Lake**

The Company owns an 8% interest in the Munroe Lake area of Saskatchewan. The property was optioned to Wescan Gold Fields Inc., which deals with the Company on an arm's length basis, and which earned a 92% interest in the property by spending $246,627 on the property in 2008. No exploration activities were conducted on the property in 2010.

**C. Pine East**

The Company owns a minimum 49% interest in this property, known as "Pine East" and Claude Resources Inc. ("Claude") owns a minimum 30% interest in the property, with the remaining interest subject to the terms of an option agreement dated June 7, 1999 (as amended). To date the Company has conducted a prospecting, stripping and trenching program on the property and Claude has conducted drill programs on this property.

**Measurement of Uncertainty**

The Company has not experienced any property specific adverse impact to date on its operations but has had difficulty in raising sufficient equity capital to effectively explore or develop the Company's mineral property interests.

One or more of the issues described, or other factors beyond management's control, in future periods could adversely affect the Company's operations and could result in future potential or total write downs of the Company's recorded mineral property total interest of $435,100 as at December 31, 2010. Such write-down amounts could be material.

**7. Share Capital and Contributed Surplus**

The Company did not issue any shares during the years ending December 31, 2010 and 2009.

The authorized share capital of the Company is an unlimited number of common shares and preferred shares issuable in series. As at December 31, 2010, the Company had 26,240,750 common shares outstanding, of which 150,000 were held in escrow. As at December 31, 2010, the Company's issued share capital was as follows:

### 7. Share Capital and Contributed Surplus - continued

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Number of shares | Amount | Contributed Surplus | Number of shares | Amount | Contributed Surplus |
| Common Shares | | | | | | |
| Balance beginning of year | 26,240,750 | $6,670,238 | $ 360,680 | 26,240,750 | $6,670,238 | $ 360,680 |
| Stock-based compensation | - | - | 141,823 | - | - | - |
| **Balance end of year** | 26,240,750 | $6,670,238 | $ 502,503 | 26,240,750 | $6,670,238 | $ 360,680 |

Stock Options

The Company has established a stock-based compensation plan pursuant to which options to purchase common shares may be granted to certain officers, directors, and contractors of the Company as well as persons providing ongoing services to the Company. The aggregate number of shares issuable under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. Unless otherwise determined by the board of directors of the Company (the "Board"), the exercise price of options equals at least the closing price of the Common Shares on the day prior to the date of the grant. Stock options vest in accordance with the determination of the Board at the time of the grant and may be granted for up to a ten year term in accordance with TSX Venture Exchange policy.

A summary of the status of the Company incentive stock option plan as at December 31, 2010 is as follows:

| | Number of Shares | Weighted Average Exercise Price $ |
|---|---|---|
| Outstanding December 31, 2009 and 2008 | 600,000 | 0.50 |
| Granted | 1,300,000 | 0.11 |
| Cancelled | (150,000) | 0.50 |
| Outstanding December 31, 2010 | 1,750,000 | 0.21 |
| Exercisable, December 31, 2010 | 1,750,000 | 0.21 |

### 7. Share Capital and Contributed Surplus - continued

| Number of Shares Under Option | Exercise Price $ | Expiry Date |
|---|---|---|
| 150,000 | 0.25 | December 18, 2012 |
| 150,000 | 0.50 | December 18, 2012 |
| 150,000 | 0.75 | December 18, 2012 |
| 1,300,000 | 0.11 | January 15, 2020 |
| 1,750,000 | | |

Options Granted

During the year ended December 31, 2010 the Company granted 1,300,000 options of the Company.

The Company accounted for the stock-based compensation expense of these options using the following assumptions: risk-free interest rate of 3.49%, dividend yield of 0.0%, volatility of 163%, and expected life of 10 years. The Company has recorded $141,823 in stock based compensation expenses on these 1,300,000 stock options during the period. The weighted average price of options granted in the period was $0.109 (2009 - $Nil).

Warrants

The Company has no outstanding share purchase warrants as at December 31, 2010 and 2009.

### 8. Future Income Taxes

A reconciliation of income taxes at statutory rates is as follows:

| | 2010 | 2009 |
|---|---|---|
| Loss before income taxes | $ (255,231) | $ (494,810) |
| Expected income tax recovery | (72,741) | (148,443) |
| Non-deductible items | 48,011 | 118,853 |
| Change in valuation allowance | 24,730 | 29,590 |
| **Total future income tax recovery** | **$ -** | **$ -** |

### 8. Future Income Taxes - continued

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

| | 2010 | 2009 |
|---|---|---|
| Non-capital losses carry forwards | $ 198,460 | $ 205,188 |
| Marketable securities | 3,220 | 152 |
| Property and equipment | 485 | 19 |
| Mineral property and related exploration expenditures | 8,432 | 8,423 |
| Valuation allowance for future tax assets | (210,597) | (213,782) |
| **Net future income tax assets** | **$ -** | **$ -** |

As at December 31, 2010 the Company has available for deduction against future taxable income non-capital losses of approximately $795,000. These losses, if not utilized, will expire through 2030. In addition, subject to certain restrictions, the Company also has resource deductions available to reduce taxable income in future years. Future tax benefits, which may arise as a result of these losses and resource expenditures, have not been recognized in these financial statements, and have been offset by a valuation allowance due to the uncertainty of their realization.

### 9. Related Party Transactions

During the year ended December 31, 2010 the Company incurred charges from directors or companies sharing common directors as follows:

| | 2010 | 2009 |
|---|---|---|
| Management fees | $ 75,000 | $ 75,000 |
| Office expenses | 6,960 | 13,000 |
| Premises expense | 11,000 | 11,000 |
| Professional fees | 2,678 | - |
| Travel | 877 | - |
| | $ 96,515 | $ 99,000 |

During the period the Company received funds from companies sharing common directors as follows:

| | 2010 | 2009 |
|---|---|---|
| Management and office administrative income | $ 78,000 | $ 78,000 |

Included in accounts payable and accrued liabilities is $2,678 (2009 - $Nil) owing for professional fees to a limited liability partnership of which a director is an employee.

As at December 31, 2010 the accounts receivable includes $30,713 (2009 - $10,238) due from United Uranium Corp. and $27,300 (2009 - $17,064) from Star Uranium Corp; companies sharing common directors.

The amounts charged to and from the Company for the services provided have been determined by negotiations among the parties. These transactions were in the normal course of operations and were measured at the exchange value which represented the amounts of consideration established and agreed by the related parties.

The amounts due to and from the related parties are non-interest bearing, with no fixed terms of repayment. The fair values of the amounts due to and from the related parties cannot be determined as there are no specific terms of repayment.

## 10. Management of Capital Risk

The Company's objectives in managing its capital are to ensure the Company's ability to continue as a going concern to meet its capital expenditures in the exploration of its claims and to maintain a flexible capital structure of equity and debt financing to optimize the costs of capital with minimal risks. In the management of capital, the Company considers components of shareholder's equity and cash and equivalents to be capital.

The Company manages its capital structure with ongoing reviews and will modify the structure in light of economic conditions and operating environments. In adjusting its capital structure, the Company may need to issue new shares or debt instruments, bring in joint venture partners or make changes to its strategic investment assets.

To manage its capital, the Company prepares annual capital and operational budgets which are updated as necessary to account for changes the risk factors in the mining industry and economic conditions in the jurisdiction the Company operates.

There were no changes to the Company's approach to capital management during the year ended December 31, 2010. The Company is not subject to externally imposed capital requirements.

## 11. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, receivables and accounts payable and accrued liabilities. The fair value of the Company's receivables and accounts payable and accrued liabilities approximate their carrying value, due to their short-term maturities or ability of prompt liquidation. The Company's other financial instruments, cash and cash equivalents, under the fair value hierarchy are based on level one quoted prices in active markets for identical assets or liabilities.

The Company is exposed to a variety of financial instrument related risks, which are as follows:

<u>Credit risk</u>

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash and equivalents are held at a large Canadian financial institution in interest bearing accounts. The Company has no investments in asset-backed commercial paper.

The Company's receivables consist mainly of GST and HST receivable due from the Government of Canada. The Company does not believe it is exposed to significant credit risk.

## 11. Financial Instruments - continued

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 endeavors to manage liquidity risk by maintaining sufficient cash and short-term investment balances for settlement of its obligations. Liquidity requirements are managed based on expected cash flow to ensure there is sufficient capital in order to meet short-term obligations.

Market Risk

The Company currently maintains investments in certain marketable securities. There can be no assurance that the Company can exit these positions if required, resulting in proceeds approximating the carrying value of these securities.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk that the Company will realize a loss as a result of a decline in the fair value its marketable securities is minimal since the Company has minimal investments, with a fair market value of only $3,000.

(b) Price risk

The Company is exposed to price risk with respect to commodity prices, particularly uranium. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

(c) Currency risk

As at December 31, 2010, the Company's expenditures are predominantly in Canadian dollars, and any future equity raised is expected to be predominantly in Canadian dollars. As a result, the Company believes its currency risk to be minimal.

## 12. Comparative Figures

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