GULFSIDE MINERALS LTD.

FINANCIAL STATEMENTS

DECEMBER 31, 2010

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Gulfside Minerals Ltd.

We have audited the accompanying financial statements of Gulfside Minerals Ltd. (the "Company") which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of operations and deficit and cash flows for the years 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained in our audits 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 Gulfside Minerals Ltd. as at December 31, 2010 and 2009 and 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 describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Gulfside Minerals Ltd.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

May 2, 2011

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GULFSIDE MINERALS LTD.
BALANCE SHEETS
AS AT DECEMBER 31

	2010	2009
ASSETS		
Current		
Cash	$ 133,335	$ 214,117
Receivables	7,068	5,925
	140,403	220,042
Equipment (Note 3)	2,022	1,849
Mineral property advances	-	22,848
Mineral properties (Note 4)	-	4,722,863
	$ 142,425	$ 4,967,602
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable and accrued liabilities	$ 282,832	$ 275,190
Note payable (Note 5)	74,595	77,425
	357,427	352,615
Shareholders' equity (deficiency)		
Capital stock (Note 8)	16,769,445	16,769,445
Contributed surplus (Note 8)	2,433,478	2,433,478
Deficit	(19,417,925)	(14,587,936)
	(215,002)	4,614,987
	$ 142,425	$ 4,967,602

Nature of operations and going concern (Note 1)

Subsequent events (Note 16)

On behalf of the Board:

"Robert Card" Director *"John Jenks"* Director

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

GULFSIDE MINERALS LTD.
STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED DECEMBER 31

	2010	2009
EXPENSES		
Administration fees	$ 86,000	$ 61,000
Amortization	532	462
Business development and investor relations	67,115	294,842
Consulting fees	143,407	192,592
Foreign exchange gain	(3,486)	(18,454)
Interest	1,699	6,552
Office	11,826	11,465
Professional fees	93,561	143,773
Property investigation fees	-	22,530
Rent	11,381	12,518
Regulatory fees	20,615	55,598
Stock-based compensation (Note 8)	-	442,095
Travel	30,460	85,800
Loss before other items	(463,110)	(1,310,773)
OTHER ITEMS		
Recovery from property settlement (Note 9)	534,555	-
Litigation costs (Note 9)	(5,094)	(234,204)
Write-off of mineral properties (Note 4)	(4,896,340)	-
Shares issued pursuant to terminated option agreement (Note 6)	-	(120,000)
	(4,366,879)	(354,204)
Loss and comprehensive loss for the year	(4,829,989)	(1,664,977)
Deficit, beginning of year	(14,587,936)	(12,922,959)
Deficit, end of year	$ (19,417,925)	$ (14,587,936)
Basic and diluted loss per common share	$ (0.12)	$ (0.05)
Basic and diluted weighted average number of common shares	39,081,367	34,395,648

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

GULFSIDE MINERALS LTD.
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (4,829,989)	$ (1,664,977)
Items not affecting cash:		
Amortization	532	462
Stock-based compensation	-	442,095
Write-off of mineral properties	4,896,340	-
Unrealized foreign exchange gain on note payable	(2,830)	(15,013)
Shares issued pursuant to terminated option agreement	-	120,000
Changes in non-cash working capital items:		
Increase in receivables	(1,143)	(2,818)
Increase in accounts payable and accrued liabilities	119,789	41,763
Net cash provided by (used in) operating activities	182,699	(1,078,488)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital stock issued for cash	-	3,012,900
Share issue costs	-	(215,521)
Note payable	-	92,438
Net cash provided by financing activities	-	2,889,817
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral properties	(262,776)	(1,897,437)
Equipment	(705)	-
Mineral property advances	-	(22,848)
Net cash used in investing activities	(263,481)	(1,920,285)
Decrease in cash during the year	(80,782)	(108,956)
Cash, beginning of year	214,117	323,073
Cash, end of year	$ 133,335	$ 214,117
Cash paid during the year for:		
Income taxes	$ -	$ -
Interest	-	-

Supplemental disclosure with respect to cash flows (Note 11)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Gulfside Minerals Ltd. (the "Company") was incorporated under the laws of British Columbia, Canada. The Company is primarily engaged in the acquisition and exploration of mineral properties and is considered to be in the exploration stage.

The Company is in the process of acquiring its mineral properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

	December 31, 2010	December 31, 2009
Working capital (deficiency)	$ (217,024)	$ (132,573)
Deficit	(19,417,925)	(14,587,936)

As at December 31, 2010, the Company has negative working capital of $217,024 (December 31, 2009 – $132,573) and intends to raise funds through share issuances and support from creditors and related parties. If such funds are not available, the Company may cease operations.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements are prepared in accordance with Canadian GAAP. All amounts, unless specifically indicated otherwise, are presented in Canadian dollars.

Use of estimates

The preparation of financial statements 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 amount of revenues and expenses during the year. Significant estimates include the carrying value of mineral properties, stock-based compensation and future income taxes. Actual results could differ from the estimates.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments

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

The Company has classified its cash as held-for-trading; receivables are classified as loans and receivables; and accounts payable and accrued liabilities and notes payable are classified as other financial liabilities.

The Company provides disclosure that enables users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

The Company also discloses financial instruments and non-financial derivatives classified from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

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

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

Equipment

Equipment, consisting of office equipment, is carried at cost. Amortization is calculated using the declining balance method applying a 30% annual rate.

Mineral properties

All costs related to the acquisition and exploration of mineral properties are capitalized by property. If economically recoverable ore 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Mineral properties (cont'd…)

The amounts shown for mineral properties and deferred exploration costs 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.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the period 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.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

Foreign currency translation

The accounts of subsidiaries, which are integrated operations, are translated using the temporal method. Under the method, monetary assets and liabilities are translated at the year end exchange rates while non-monetary assets and liabilities are transferred using historical rates of exchange. Revenue and expenses are translated at the rates of exchange prevailing on the dates such items are recognized in earnings. Exchange gains and losses are included in the statement of operations.

The monetary assets and liabilities of the Company denominated in foreign currencies are translated into Canadian dollar equivalents at the rate of exchange in effect at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at rates approximating those on the transaction date. Exchange gains or losses arising on translation are included in the statement of operations.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Stock-based compensation

The Company uses the fair value based method of accounting for stock options granted to employees and directors. Under this method, the fair value of the stock options at the date of the grant, as determined using the Black-Scholes option pricing model, is recognized to expense over the vesting period. If the stock options or agent warrants are exercised, the proceeds are credited to share capital and the fair value of the options exercised is reclassified from contributed surplus to share capital.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments on its loss per share. Under this method, the dilutive effect on basic loss per share is calculated assuming that all proceeds that could have been obtained through the exercise of stock options, warrants and/or similar instruments would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Loss per share is calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year.

Future income taxes

Future income taxes are recorded using the asset and liability method, whereby future 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 tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to be in effect when the asset is realized or the liability is settled. The effect on future tax assets and liabilities of a change in tax rates is recognized as either income or expense in the year in which the enactment or substantive enactment occurs. In the event that the Company has determined that it is likely the future tax asset will not be fully recovered, a valuation allowance is recorded to reduce the amount of the future tax asset to its estimated recoverable value.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

Recent accounting pronouncements

International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Recent accounting pronouncements (cont'd…)

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-Controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These sections are applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning on or after January 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

3. EQUIPMENT

	December 31, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	$ 3,915	$ 1,893	$ 2,022	$ 3,210	$ 1,361	$ 1,849
	$ 3,915	$ 1,893	$ 2,022	$ 3,210	$ 1,361	$ 1,849

4. MINERAL PROPERTIES

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

4. MINERAL PROPERTIES (cont'd…)

2010	Onjuul Mongolia	Black Hole Mongolia	Buleen Hundii Mongolia	Brown Valley Mongolia	Total
Acquisition costs					
Balance, December 31, 2009	$ 2,716,780	$ 1,261,558	$ -	$ -	$ 3,978,338
Additions during the period					
Cash payments	-	-	10,092	10,092	20,184
Other	312	1,862	990	923	4,087
	312	1,862	11,082	11,015	24,271
Total acquisition costs	2,717,092	1,263,420	11,082	11,015	4,002,609
Exploration costs					
Balance, December 31, 2009	102,670	641,855	-	-	744,525
Additions during the year					
Field supervision and report preparation	5,493	23,269	-	-	28,762
Field work	21,257	99,187	-	-	120,444
	26,750	122,456	-	-	149,206
Total exploration costs	129,420	764,311	-	-	893,731
Written off during the year	(2,846,512)	(2,027,731)	(11,082)	(11,015)	(4,896,340)
Balance, December 31, 2010	$ -	$ -	$ -	$ -	$ -

4. MINERAL PROPERTIES (cont'd…)

2009	Onjuul Mongolia	Black Hole Mongolia	Total
Acquisition costs			
Balance, beginning of year	$ -	$ -	$ -
Additions during the year			
Cash payments	580,400	666,600	1,247,000
Shares	2,127,130	586,149	2,713,279
Other	9,250	8,809	18,059
	2,716,780	1,261,558	3,978,338
Total acquisition costs	2,716,780	1,261,558	3,978,338
Exploration costs			
Balance, beginning of year	-	-	-
Additions during the year			
Assays	2,000	18,001	20,001
Drilling	21,009	331,863	352,872
Field supervision and report preparation	50,476	109,920	160,396
Field work	21,537	139,264	160,801
Geophysical	3,905	35,145	39,050
Survey	3,743	7,662	11,405
	102,670	641,855	744,525
Total exploration costs	102,670	641,855	744,525
Balance, December 31, 2009	$ 2,819,450	$ 1,903,413	$ 4,722,863

Mongolia – Onjuul

During fiscal 2009, the Company entered into a Share Purchase Agreement ("SPA"), subsequently amended, to acquire a 100% interest in two coal licenses located in the Onjuul coal basin, of Mongolia. Pursuant to the amended agreement, to acquire its interest the Company was required to make cash payments aggregating US$1,500,000 and issue 3,500,000 common shares (as amended and subject to regulatory approval).

A finder fee of $647,750 was to be paid in stages, of which $132,130 was paid during fiscal 2009 through the issuance of 125,838 units (issued - fair valued at $132,130). Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $1.25 per share for a period of one year.

During the year ended December 31, 2010 all related property and deferred exploration costs in the amount of $2,846,512 has been written off due to uncertainty in advancing the Onjuul property.

4. MINERAL PROPERTIES (cont'd…)

Mongolia - Black Hole

During fiscal 2009 the Company entered into a SPA, subsequently amended, to acquire a 100% interest in a coal license located in the Onjuul coal basin, of Mongolia. Pursuant to the amended agreement, to acquire its interest the Company was required to make cash payments aggregating US$4,600,000 and issue 4,500,000 common shares (as amended and subject to regulatory approval)

A finder fee of $497,000 was to be paid in stages, of which $61,149 was paid during fiscal 2009 through the issuance of 58,237 units (issued - fair valued at $61,149). Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $1.25 per share for a period of one year.

During the year ended December 31, 2010 all related property and deferred exploration costs in the amount of $2,027,731 has been written off due to uncertainty in advancing the Black Hole project.

Mongolia – Buleen Hundii

During fiscal 2010 the Company entered into an Earn in Agreement to acquire 100% of a Mongolian company that holds an exploration license in the Onjuul coal basin of Mongolia. To acquire its interest the Company is required to pay US$750,000 (paid $10,000) and issue 2,500,000 common shares over time when certain conditions are met. This transaction is subject to TSX-V approval.

During the year ended December 31, 2010 all related costs in the amount of $11,082 have been written off due to uncertainty in advancing the Buleen Hundii project.

Mongolia – Brown Valley

During fiscal 2010 the Company entered into an Earn in Agreement to acquire 100% of a Mongolian company that holds an exploration license in the Onjuul coal basin of Mongolia. To acquire its interest the Company is required to pay US$500,000 (paid $10,000) and issue 2,000,000 common shares over time when certain conditions are met. This transaction is subject to TSX-V approval.

During the year ended December 31, 2010 all related property costs in the amount of $11,015 have been written off due to uncertainty in advancing the Brown Valley project.

5. NOTE PAYABLE

Pursuant to an agreement dated March 17, 2009, the Company was advanced a loan in the amount of US$75,000. Per the terms of the agreement a loan bonus of 10% of the principal (US$7,500) is payable on the maturity date, March 17, 2010. The note does not bear interest. This loan has not been repaid.

The Company accrued $7,460 (US$7,500) in accounts payable and accrued liabilities relating to the fair value of interest on the loan. The fair value of interest on companies with a similar credit risk was determined to be 10%.

6. OBLIGATION TO ISSUE SHARES

As part of the option agreement relating to the Undurt, Khenti, and Gobi Altai ("Undurt") properties in Mongolia the Company was required to issue 200,000 on the second anniversary date of the agreement, May 25, 2008. The Company had been unable to comply with the terms of this agreement due to a cease trade order that was issued by the British Columbia Securities Commission on December 21, 2007, relating to the failure to issue a technical report for the Erdenetsogt property, and accordingly was still obligated to issue the shares. On June 4, 2009 the cease trade order was revoked and trading in the securities of the Company was resumed on August 12, 2009.

During the year ended December 31, 2009, the Company issued 200,000 common shares valued at $120,000 which have been recorded as an expense on the statement of operations as the related property was written off in fiscal 2008.

7. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) paid or accrued administration fees of $86,000 (2009 - $61,000) to a company controlled by a director.

b) paid or accrued consulting fees of $33,000 (2009 - $36,000) to a company controlled by an officer.

Included in accounts payable is $61,525 (2009 - $1,595) owed to companies controlled by an officer and a director.

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

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Amount	Contributed Surplus
Authorized			
100,000,000 common shares without par value			
Issued			
As at December 31, 2008	33,400,149	11,131,434	1,998,736
For cash on private placement	2,857,143	3,000,000	-
For cash on warrants exercised	10,000	2,700	-
For cash on options exercised	30,000	10,200	-
For mineral properties	2,600,000	2,640,000	-
For finder fees on property acquisition	184,075	193,279	-
Share issuance costs	-	(215,521)	-
Fair value of options exercised	-	7,353	(7,353)
Stock-based compensation	-	-	442,095
As at December 31, 2009 and 2010	39,081,367	$ 16,769,445	$ 2,433,478

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

During fiscal 2009, the Company issued 200,000 shares valued at $120,000 pursuant to a mineral property agreement (Note 6), 2,400,000 shares valued at $2,520,000 in consideration of the acquisition of mineral properties (Note 4) and 184,075 units valued at $193,279 as a finder's fee relating to the acquisition of mineral properties (Note 4). Each unit consists of one common share a one share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $1.25 per share expiring on October 23, 2010.

On October 23, 2009 the Company issued 2,857,143 units pursuant to a private placement at a price of $1.05 per unit for gross proceeds of $3,000,000. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $1.25 per share for a period of one year. The Company paid a $205,068 finder fee in connection with the private placement.

Stock options

The Company has a stock option plan in place under which it is authorized to grant options to directors, senior officers, employees, management company employees, and consultants to acquire up to 10% of the issued and outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of five years. Vesting is determined by the Board of Directors.

As at December 31, 2010, the Company had stock options outstanding enabling the holder to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
1,500,000	$0.10	January 19, 2011 (subsequently expired)
300,000	0.34	January 7, 2012
280,000	1.09	July 12, 2012
340,000	1.52	August 28, 2012
85,000	1.35	September 21, 2012
545,000	0.57	November 16, 2014
3,050,000		

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

Stock options (cont'd…)

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2008	3,185,000	$ 0.63
Options granted	757,000	0.57
Options cancelled	(25,000)	1.52
Options exercised	(30,000)	0.34
As at December 31, 2009	3,887,000	$ 0.61
Options granted	-	-
Options cancelled/expired	(837,000)	1.06
Options exercised	-	-
As at December 31, 2010	3,050,000	$ 0.49
Number of options currently exercisable	3,050,000	$ 0.49

During the year ended December 31, 2010, the Company granted Nil (2009 – 757,000) stock options and extended the terms on Nil (2009 – 145,000) stock options. Stock-based compensation expense under the Black-Scholes option pricing model was $Nil (2009 - $442,095). These amounts were recorded as contributed surplus on the balance sheet.

The fair value of the options granted during the 2009 fiscal year was $363,480 or $0.48 per option.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year:

	December 31, 2010	December 31, 2009
Risk-free interest rate	-	2.23%
Expected life of options	-	4.7 years
Annualized volatility	-	119.78%
Dividend rate	-	0.00%

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

Warrants

As at December 31, 2010, the Company had share purchase warrants outstanding enabling the holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
2,857,143	$0.15	October 23, 2011

Warrant transactions are summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
As at December 31, 2008	4,700,000	$	0.88
Warrants issued	3,041,218		1.25
Warrants exercised	(10,000)		0.27
As at December 31, 2009	7,731,218	$	1.02
Warrants issued	-		-
Warrants expired	(4,874,075)		0.90
Warrants exercised	-		-
As at December 31, 2010	2,857,143	$	0.15
Number of warrants currently exercisable	2,857,143	$	0.15

During fiscal 2010, the Company extended the expiry date by one year for 2,857,143 warrants originally expiring on October 23, 2010 and reduced the exercise price from $1.25. If the closing price for the Company's shares is $0.1875 or greater for a period of 10 consecutive trading days, then the warrant holders will have 30 days to exercise their warrants; otherwise the warrants will expire on the 31st day. These warrant extensions were considered non-compensatory in nature.

During fiscal 2009, the Company extended the expiry date by one year for 1,200,000 warrants originally expiring on June 29, 2009 and 2,500,000 warrants originally expiring on August 16, 2009. These warrant extensions were considered non-compensatory in nature.

9. RECOVERY FROM PROPERTY SETTLEMENT

During fiscal 2007, the Company acquired an option, subsequently amended, for the acquisition of up to a 49% interest in a company that held a coal license located in Mongolia, referred to as the Erdenetsogt project.

9. RECOVERY FROM PROPERTY SETTLEMENT (cont'd…)

During fiscal 2008, the Company initiated civil proceedings against the vendor of the Erdenetsogt property, alleging that the vendor did not comply with the terms of the purchase agreement by selling 100% of the company holding title to the property to another party (the "Acquiring Party"). Additionally, the Company initiated arbitration proceedings against the Acquiring Party alleging violation of the Company's agreement to acquire a 49% interest in the company holding title to the property.

During fiscal 2009, the Company won its civil proceedings and received shares representing 5% of ECM LLC ("ECM") the Mongolian company which owns the exploration License to the Erdenetsogt coal project ("Erdenetsogt").

The Company filed a writ, in Mongolia, seeking to rescind the transfer of shares of ECM to the Acquiring Party. The Company contends as the holder of a 5% interest in ECM it holds the right of first refusal on any offer of sale, and that the vendor breached this right. Under the writ, the Company is seeking to have 95% of ECM currently held by the Acquiring Party returned to Mongolia and offered to the Company.

During fiscal 2010, the Company signed a SPA with Mangreat Group Ltd. ("Mangreat"), the majority owner of ECM providing for the sale of the Company's 5% interest in ECM. The Company will receive up to US$3,000,000 under certain conditions. Mangreat has paid US$500,000 with a balance of US$1,500,000 due within one year. The Company will transfer its 5% interest in ECM and terminate its current litigation in Mongolia upon receipt of the first US$2,000,000. If the property is sold or joint ventured to a third party for a value greater than US$40,000,000 the Company will receive an additional US$1,000,000. Under the SPA the parties have also agreed to abandon all litigation over the property and the license.

The Company incurred costs during fiscal 2010 of $5,094 (2009 - $234,204) in connection with the litigation and all such costs have been expensed.

10. INCOME TAXES

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

	2010	2009
Loss before income taxes	$ (4,829,989)	$ (1,664,977)
Expected income tax recovery	$ 1,376,547	$ 499,493
Non-deductible expenses	(1,215,227)	(137,404)
Unrecognized benefit of non-capital losses	(161,320)	(362,089)
Total income tax expense recovery	$ -	$ -

10. INCOME TAXES (cont'd…)

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

	2010	2009
Future income tax assets:		
Non-capital loss carryforwards	$ 1,082,000	$ 1,076,000
Mineral property and exploration costs	1,820,000	560,000
Capital loss carryforwards	77,000	144,000
Financing costs	48,000	74,000
	3,027,000	1,854,000
Valuation allowance	(3,027,000)	(1,854,000)
Total future income tax assets	$ -	$ -

The Company has non-capital losses of approximately $4,329,000 available for deduction against future taxable income. These losses, if not utilized, will expire through to 2030. The Company has capital losses of approximately $618,000 available for deduction against future capital gains and, if not utilized, will carry forward indefinitely. In addition the Company has exploration and development expenditures of approximately $7,280,000 available to reduce taxable income of future years. Future tax benefits which may arise as a result of these losses have not been recognized in these financial statements and have been offset by a valuation allowance.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions during the year ended December 31, 2010 consisted of the reclassification of $22,848 from mineral property advances to deferred exploration costs.

The significant non-cash transactions during the year ended December 31, 2009 consisted of:

a) the issuance of 2,400,000 common shares valued at $2,520,000 for the acquisition of mineral properties and 200,000 common shares valued at $120,000 for a terminated option agreement.

b) the issuance of 184,075 units, each containing one common share and one common share purchase warrant (Note 8), valued at $193,279 for finder fees on mineral property acquisitions.

c) the recognition of a fair value component of $7,353 in respect of options exercised.

d) the accrual of $112,147 of deferred exploration costs in accounts payable.

12. SEGMENTED INFORMATION

As at December 31, 2010, the Company has one reportable operating segment being the acquisition and exploration of resource properties in Canada. Geographic information is as follows:

	2010	2009
Capital assets		
Canada	$ 2,022	$ 1,849
Mongolia	-	4,722,863
	$ 2,022	$ 4,724,712

13. COMMITMENT

The Company had entered into an operating lease agreement for premises. During the year the operating lease agreement for premises was assumed by a third party.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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 judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of cash is measured at Level 1 of the fair value hierarchy. The carrying value of receivables, accounts payable and accrued liabilities and note payable approximate their fair value because of the short-term nature of these instruments.

Financial risk factors

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

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and receivables. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote and has deposited cash in high credit quality financial institutions, as well as in a lawyers trust accounts in Mongolia.

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 of December 31, 2010 the Company had cash balance of $133,335 (2009 - $214,117) to settle current liabilities of $357,427 (2009 - $352,615). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

Financial risk factors (cont'd…)

Market risk

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

Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term investments issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to assets and liabilities that are denominated in US Dollars (US). Amounts exposed to foreign currency risk include cash of US$128,791 as of December 31, 2010.

Price risk

The Company is exposed to price risk with respect to commodity and 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. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

15. CAPITAL MANAGEMENT

The Company defines capital that it manages as shareholders' equity, consisting of issued common shares, stock options and warrants.

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 properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital restrictions.

16. SUBSEQUENT EVENTS

Subsequent to December 31, 2010 the Company:

- Received TSX-V approval on the 100% acquisition of certain gold claims referred to as the Northern Treasure group, located in the Atlin Mining Division in British Columbia, Canada. In order to acquire the interest in the project, the Company must make cash payments totaling $30,000 ($10,000 paid upon signing the agreement), incur $225,000 in work over three years and issue 400,000 common shares (200,000 common shares issued and an additional 200,000 common shares to be issued after three years), and complete the work commitments. In addition, the Company has agreed to issue a further 400,000 common shares on the property going into commercial production. The vendor retains a 1% net smelter return royalty ("NSR") which the company may purchase for $1,000,000.

- Received TSX-V approval on the 100% acquisition of certain claims referred to as the Bryer Group, located in the Atlin Mining Division in British Columbia, Canada. In order to acquire a 100% interest in the project, the Company must make cash payments totaling $15,000 ($5,000 paid upon signing the agreement), incur $225,000 in work over three years and issue 300,000 common shares of the Company, (100,000 common shares issued and an additional 200,000 common shares to be issued after three years and completion of the work commitments). In addition, the Company has agreed to issue a further 400,000 common shares upon the property going into commercial production. The vendor retains a 1% NSR.

- Granted 2,200,000 incentive stock options at $0.10 per option for a period of five years to various directors, officers, employees and consultants.

- Completed a non-brokered private placement and issued 3,100,000 flow through units and 5,140,000 non-flow through units a price of $0.10 per unit, for gross proceeds of $824,000. Each flow through unit consisted of one common share and one half share purchase warrant exercisable at a price of $0.15 per share expiring on April 13, 2012. Each non-flow through unit consisted of one common share and one whole share purchase warrant, exercisable at a price of $0.15 per share expiring on April 13, 2012. The Company paid a $61,680 finder's fee in connection with the private placement.