Financial Statements of

VIKING GOLD EXPLORATION INC.
(A Development Stage Company)

December 31, 2010 and 2009

VIKING GOLD EXPLORATION INC.
(A Development Stage Company)

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McGovern, Hurley, Cunningham, LLP
Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Viking Gold Exploration Inc.
(A Development Stage Company)

We have audited the accompanying financial statements of Viking Gold Exploration Inc., which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of operations, comprehensive loss and deficit and statements of 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.

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 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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Viking Gold Exploration Inc. as at December 31, 2010 and 2009, and its financial performance and 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 to the financial statements, which describes that the Company is in the development stage and will require additional financing to fund the development of its properties. This condition indicates the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 27, 2011

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VIKING GOLD EXPLORATION INC.

(A Development Stage Company)

BALANCE SHEETS

AS AT DECEMBER 31

		2010		2009
ASSETS				
CURRENT				
Cash and cash equivalents	$	1,099,517	$	171,496
Sundry receivables and prepaid expenses (Note 4a))		44,045		14,328
		1,143,562		185,824
EQUIPMENT (Note 3)		11,061		14,080
MINERAL PROPERTIES (Note 4)		3,611,604		3,128,041
INVESTMENT (Note 5)		1,250		1,250
	$	4,767,477	$	3,329,195
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities (Note 10)	$	96,912	$	72,874
FUTURE INCOME TAXES (Note 9)		311,000		256,200
		407,912		329,074
SHAREHOLDERS' EQUITY				
Share capital (Note 6)		4,942,706		3,820,173
Warrants (Note 7)		545,465		152,917
Contributed surplus (Note 8b))		1,372,277		1,025,787
Deficit		(2,500,883)		(1,998,756)
		4,359,565		3,000,121
	$	4,767,477	$	3,329,195

Continuance of Operations (Note 1)
Commitments and Contingencies (Notes 4 and 11)
Subsequent Events (Note 14)

APPROVED ON BEHALF OF THE BOARD:

Signed "MARK EDWARDS" , Director

Signed "JOHN HANSULD" , Director

See accompanying notes to the financial statements.

VIKING GOLD EXPLORATION INC.

(A Development Stage Company)

STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

FOR THE YEARS ENDED DECEMBER 31

	2010	2009
INTEREST INCOME	$ -	$ 716
EXPENSES		
Management fees (Note 10)	83,120	47,649
Stock-based compensation (Note 8a))	321,000	-
Property acquisition consulting	1,870	-
Professional and regulatory fees	54,067	38,239
Office and administration	57,685	50,758
Interest and bank charges	367	302
Part XII.6 tax	9,023	-
Amortization	3,445	4,490
	530,577	141,438
LOSS BEFORE INCOME TAXES	(530,577)	(140,722)
Future income tax recovery (Note 9)	28,450	88,100
NET LOSS AND COMPREHENSIVE LOSS	(502,127)	(52,622)
DEFICIT, BEGINNING OF YEAR	(1,998,756)	(1,946,134)
DEFICIT, END OF YEAR	$ (2,500,883)	$ (1,998,756)
Basic and diluted loss per common share (Note 6f))	$ (0.01)	$ (0.00)
Weighted average number of common shares - basic and diluted	54,190,538	35,124,274

See accompanying notes to the financial statements.

VIKING GOLD EXPLORATION INC.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2010	2009
OPERATING ACTIVITIES		
Net loss	$ (502,127)	$ (52,622)
Items not involving cash		
Stock-based compensation	321,000	-
Amortization	3,445	4,490
Future income tax recovery	(28,450)	(88,100)
	(206,132)	(136,232)
Changes in non-cash working capital		
(Increase) in sundry receivables and prepaid expenses	(29,717)	(5,260)
Increase (decrease) in accounts payable and accrued liabilities	(23,295)	31,137
	(259,144)	(110,355)
FINANCING ACTIVITIES		
Issuance of private placement units	1,670,000	495,010
Issue costs of private placement units (i)	(59,346)	(29,720)
Exercise of warrants	40,000	-
Exercise of options	20,500	-
	1,671,154	465,290
INVESTING ACTIVITIES		
Purchase of equipment	(426)	-
Mineral property expenditures	(483,563)	(300,018)
	(483,989)	(300,018)
INCREASE IN CASH AND CASH EQUIVALENTS	928,021	54,917
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	171,496	116,579
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,099,517	$ 171,496

	2010	2009
Supplementary cash flow information:		
Interest paid	$ 9,390	$ 302
(i) Accrued share issue costs	47,333	-
As at December 31, cash and cash equivalents is comprised of:		
Cash	$ 599,517	$ 171,496
GIC bearing interest at 0.9%, cashable at any time without penalty	500,000	-
	$ 1,099,517	$ 171,496

See accompanying notes to the financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

On February 13, 2004, Copper Hill Corporation filed Articles of Amendment changing its name to Viking Gold Exploration Inc. ("the Company") and consolidated all outstanding common shares on a 4:1 basis. As a result, the Company's new trading symbol on the TSX-V became "VGC" and its share consolidation was effective February 17, 2004.

The Company has not generated any operating revenue since its reorganization and is considered to be a development stage company as contemplated under the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline No. 11. The Company is devoting all of its efforts to raising capital and exploring and developing its interests in mineral properties.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, and political uncertainty.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. Such adjustments could be material.

As at December 31, 2010, the Company had working capital of $1,046,650, which amount included $940,000 of funds set aside to satisfy its flow-through expenditure obligations. The excess working capital of $106,650 is sufficient to enable the Company to fund its current activities. However, long-term continuing operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management believes that sufficient working capital will be obtained from external financing to meet the Company's current and future liabilities and commitments as they become due, although there is a risk that additional financing may not be available on a timely basis or on terms acceptable to the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applied on a basis consistent with that of the previous year, except where disclosed below. The functional and reporting currency of the Company is the Canadian dollar.

b) 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 reporting period. Significant financial statement items that involve the use of estimates include the valuation of mineral properties, stock-based compensation and warrants, asset retirement obligations and contingent liabilities, and future income tax asset valuation allowances. Actual results may differ from those estimates.

c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank balances and other highly liquid investments with an original maturity date of less than three months or guaranteed investment certificates that are cashable at anytime without penalty. All deposits are held in Canadian chartered banks or a financial institution controlled by a Canadian chartered bank.

Continued...

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial Instruments

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading" or "available-for-sale" financial assets, and "held-to-maturity", "loans and receivables" or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet or impairment is assessed as other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.

e) Equipment

Equipment is recorded at cost. Amortization of equipment is provided on a declining-balance basis over the estimated useful lives at the following annual rates: vehicles - 30%; field and office equipment - 20%. The Company recognizes an impairment loss on equipment when events or changes in circumstances cause its carrying value to be less than its estimated fair value through use and eventual disposition.

f) Mineral Properties

All costs related to the acquisition and exploration of mineral properties are capitalized until either commercial production is established or the property is abandoned. Once commercial production has commenced, the net costs of the applicable property are charged to operations using the unit-of-production method based on estimated proven and probable recoverable reserves. The net costs related to abandoned properties are charged to operations. Office and administrative costs are not considered directly related to any of the mineral properties and so are expensed as incurred.

The cost of mineral properties includes any cash consideration paid and the fair market value of shares issued, if any, on the acquisition of property interests. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The carrying value of the mineral properties is reduced by option proceeds received until such time as the acquisition and exploration costs are reduced to nominal amounts and any excess is included in operations. The recorded amounts of property claim acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company reviews capitalized costs on its mineral properties on a periodic basis and will recognize impairment in value based upon current exploration or production results, if any, and upon management's assessment of the future probability of profitable revenues from the property or from sale of the property. Management's assessment of the property's estimated current value is also based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review. Management has determined that as at December 31, 2010 and 2009, the investment in mineral properties is not impaired.

Continued...

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Asset Retirement Obligations
The fair values of asset retirement obligations are recorded as liabilities on a discounted basis when incurred. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets. As at December 31, 2010 and 2009, the Company was not aware of any material asset retirement obligations.

h) Long-term Investments
Investments that do not have a quoted market price in an active market are recorded at cost. Downward adjustments to the carrying value of investments are made when there is evidence of a permanent decline in value.

i) Flow-through Shares
The Company has financed its exploration activities primarily through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares are credited to capital stock and the related exploration costs are charged to mineral properties.

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation reduce share capital and warrants.

In accordance with the Canadian Accounting Standards Board (“AcSB”) Accounting Abstract EIC-146, Flow-through Shares, the Company records the flow-though renunciation on the date on which it files its renouncement documents, which is generally in the calendar year after the related flow-through financings have occurred.

j) Stock-based Compensation
The Company accounts for its grants under stock-based compensation plans using the Black-Scholes fair value option-pricing model (hereafter “the Black-Scholes model”), and the compensation expense is based on the estimated fair value at the grant date and recognized over the vesting period. When stock options are exercised, the proceeds received, together with any amounts in contributed surplus are credited to share capital. The Company's stock option plan is described in Note 8a).

k) Warrants
The Company issues share purchase warrants from time to time. These warrants are measured and recorded at fair value using the Black-Scholes model, net of issue costs. When warrants are exercised, the proceeds received, together with the warrant value are credited to share capital.

l) Income Taxes
The Company follows the asset and liability method of accounting for income taxes. Using this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the enacted or substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Loss Per Share

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

n) Joint Ventures

A portion of the Company's exploration activities is conducted jointly with others wherein the Company enters into agreements that provide for specified percentage interests in mineral properties. Expenditures on these properties are capitalized to mineral properties. Joint venture accounting, which reflects the Company's proportionate interest in mineral properties, is applied by the Company only when the parties have earned their respective interests and enter into formal comprehensive agreements for ownership and exploration participation.

o) New Accounting Standards

The Company did not choose to early adopt in 2010 any new accounting standards changes that are effective in future periods.

On February 13, 2008 the Accounting Standards Board ("AcSB") confirmed January 1, 2011 as the mandatory changeover date to International Financial Reporting Standards ("IFRS") for all Canadian publicly accountable enterprises. Specifically, the Company will prepare IFRS financial statements for its interim periods and fiscal year ends commencing on January 1, 2011 with comparative information for 2010 restated under IFRS.

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling interests. These new standards are effective for fiscal years beginning on or after January 1, 2011. Management believes that these new standards, if adopted, would not have a material impact on the Company's Canadian GAAP financial statements. The Company will not be required to adopt these new CICA accounting standards prior to its changeover to IFRS.

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3. EQUIPMENT

As at December 31, 2010	Cost	Accumulated Amortization	Net Book Value
Field equipment	$ 13,203	$ 6,443	$ 6,760
Office equipment	726	232	494
Vehicle - ATV	19,021	15,214	3,807
	$ 32,950	$ 21,889	$ 11,061

As at December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Field equipment	$ 13,203	$ 4,753	$ 8,450
Office equipment	300	108	192
Vehicle - ATV	19,021	13,583	5,438
	$ 32,524	$ 18,444	$ 14,080

4. MINERAL PROPERTIES

The Company has six (2009 – five) mineral properties that comprise its “Morris Lake Project” – a block of contiguous leases and unpatented claims situated approximately 73 kilometres north of Yellowknife, Northwest Territories, as follows:

Properties	Note 4 Below	Mineral Tenure	2010 Claims/ Leases	2009 Claims/ Leases
Northwest Territories (NT)				
Viking Yellowknife	a)	Leases (joint venture)	3	3
Max Lake	b)	Leases	2	2
ML Properties	c)	Claims	5	5
Peregrine	d)	Claims (joint venture)	5	5
Maguire Lake	e)	Claims	3	3
LM Claims	f)	Claims	3	-
			21	18

Continued...

4. MINERAL PROPERTIES (Continued)

As at December 31, 2010 and 2009, accumulated costs incurred on mineral properties consists of:

	Viking Yellowknife a)	Max Lake b)	ML Properties c)	Peregrine d)	Maguire Lake e)	LM Claims f)	Total
2010 Summary							
Acquisition costs							
Opening balance	$ 123,500	$ 29,700	$ 8,359	$ -	$ 10,967	$ -	$ 172,526
Additions for year	-	-	-	-	-	8,277	8,277
Ending balance	123,500	29,700	8,359	-	10,967	8,277	180,803
Deferred exploration expenditures							
Opening balance	1,840,393	510,826	104,634	498,942	720	-	2,955,515
Mining leases	1,631	1,843	-	-	-	-	3,474
Wages and fees	-	-	-	68,543	-	-	68,543
Training, permits and first aid	-	-	-	55	-	-	55
Transportation	-	-	-	5,618	-	-	5,618
Camps, accommodations and meals	-	-	-	54,228	-	-	54,228
Fuel, drilling and heat	-	-	-	4,068	-	-	4,068
Drilling	-	-	-	262,272	-	-	262,272
Assays, core logging and sampling	-	-	128	23,026	-	-	23,154
Geophysical, geochemical and geological	-	-	-	25,546	-	-	25,546
Equipment rentals	-	-	-	19,517	-	-	19,517
Expediting, communications, other	-	-	-	9,567	-	-	9,567
40% share of 2009 expenditures attributable to JV partner	(653)	-	-	-	-	-	(653)
Administrative fees earned	(103)	-	-	-	-	-	(103)
Additions for year	875	1,843	128	472,440	-	-	475,286
Ending balance	1,841,268	512,669	104,762	971,382	720	-	3,430,801
Total accumulated costs – ending	$1,964,768	$ 542,369	$ 113,121	$ 971,382	$ 11,687	$ 8,277	$ 3,611,604
2009 Summary							
Acquisition costs							
Opening balance	$ 123,500	$ 29,700	$ 8,359	$ -	$ -	$ -	$ 161,559
Additions for year	-	-	-	-	10,967	-	10,967
Ending balance	123,500	29,700	8,359	-	10,967	-	172,526
Deferred exploration expenditures							
Opening balance	1,833,602	507,610	103,582	221,670	-	-	2,666,464
Mining leases	1,631	1,843	-	-	-	-	3,474
Wages and fees	870	67	167	85,235	-	-	86,339
Training, permits and first aid	-	275	-	357	-	-	632
Transportation	-	-	-	36,320	-	-	36,320
Camps, accommodations and meals	794	-	-	51,062	-	-	51,856
Fuel, drilling and heat	-	-	-	590	-	-	590
Drilling	-	-	-	76,186	-	-	76,186
Assays, core logging and sampling	3,310	-	-	12,266	-	-	15,576
Geophysical, geochemical and geological	461	194	802	5,927	720	-	8,104
Equipment rentals	3,750	-	-	2,250	-	-	6,000
Expediting, communications, other	1,310	837	83	7,079	-	-	9,309
40% share of 2009 expenditures attributable to JV partner	(4,850)	-	-	-	-	-	(4,850)
Administrative fees earned	(485)	-	-	-	-	-	(485)
Additions for year	6,791	3,216	1,052	277,272	720	-	289,051
Ending balance	1,840,393	510,826	104,634	498,942	720	-	2,955,515
Total accumulated costs - ending	$1,963,893	$ 540,526	$ 112,993	$ 498,942	$ 11,687	$ -	$ 3,128,041

Continued...

4. MINERAL PROPERTIES (Continued)

a) Viking Yellowknife

The Company owns a 60% interest in the Viking Yellowknife Joint Venture (the “Joint Venture”), an unincorporated entity formed on January 1, 2008 to conduct exploration activities on three mining leases that comprise the Joint Venture property. Viking Yellowknife Gold Mines Limited (“Viking Yellowknife”), a 78.8%-owned subsidiary of Lakota Resources Inc., owns the remaining 40% interest in the Joint Venture.

Total accumulated costs of $1,597,819 incurred prior to January 1, 2008, on this formerly optioned property, were 100% attributable to the Company. Costs incurred thereafter are attributable to the Joint Venture partners in their proportionate interests.

The Company accounts for its 60% interest in the Joint Venture using the proportionate consolidation method of accounting. The following amounts are included in the financial statements and represents the Company’s proportionate share of the assets, liabilities, revenues, expenses and cash flows of the Joint Venture:

Financial Statement Item	2010	2009
Balance Sheet - Mineral properties	$ 385,478	$ 384,499
Statement of Cash Flows - Cash (Used in) Investing Activities		
Deferred mineral property expenditures	(979)	(7,276)

The Joint Venture has not generated any revenue or expenses since inception.

Sundry receivables and prepaid expenses as at December 31, 2010 includes $8,511 (2009 – $7,755) due from Viking Yellowknife. This amount is unsecured, non-interest bearing and is due on demand.

For the Joint Venture property, there are three leases two of which expire in December 2022 and one which expires in April 2031.

b) Max Lake

Pursuant to an arm’s length option agreement with Aur Resources Inc. dated September 15, 2004, the Company earned a 100% interest in two mining leases located in the Northwest Territories (the “Max Lake Gold Property”), subject to a 2% net smelter return royalty (“NSR”). The Company has the right to purchase 50% of the NSR for $1,000,000. These leases expire in May 2018.

c) ML Properties

This group of contiguous properties is comprised of five claims staked by the Company, which are all in good standing as a result of receiving government approval of the Company’s Limnic Survey Report in January 2011. This report was filed in May 2009 to attest to the completion of assessment work. Expenditures of approximately $3,500 will be required over the next three years in order to keep these claims in good standing.

Continued…

4. MINERAL PROPERTIES (Continued)

d) Peregrine
The Company has an agreement with Peregrine Diamonds Ltd. ("Peregrine") with respect to certain lands held by Peregrine. The optioned property consists of five claims.

Under the original agreement, the Company had a four year right to explore for minerals other than diamonds, subject to completing an airborne geophysical survey in 2006 (completed) and maintaining the property in good standing under the Mining Act (NWT). If the Company completed $1 million of exploration work by September 9, 2011 (modified from April 21, 2010 by way of an Amending Agreement dated April 9, 2009), it would earn a 60% joint venture interest with Peregrine owning the other 40%. The Amending Agreement contains a dilution formula in the event either joint venture partner fails to fund approved programs, and a conversion clause requiring an automatic conversion to a 2% NSR should a partner's joint venture interest fall to below 15%. The Amending Agreement also acknowledges that BHP Billiton currently holds a 2% NSR, which may be purchased for fair market value as determined by a third party valuator acceptable to the parties.

As of May 31, 2010, the Company believed it had satisfied its earn-in expenditure commitment (with the permitted inclusion of a calculated allowance for overhead) though this was not confirmed by Peregrine until March 2011. The Company now holds a 60% joint venture interest and may, at any time, submit a joint exploration program for approval by Peregrine, as previously explained.

The Peregrine claims are presently all in good standing as a result of receiving government approval of the Company's Limnic Survey Report, as previously explained in Note 4c). In February 2011, the Company fulfilled additional reporting obligations to the government and to Peregrine, with the filing of a comprehensive technical report and supporting cost analysis, covering the years 2009 and 2010.

The joint venture has the right to explore the properties covered by the five Peregrine mineral claims until November 7, 2012, at which time the individual claims must be brought to lease or they will expire and the joint venture will lose its right to continue exploration. The process of bringing one or more of the Peregrine claims to lease would require a land survey to be performed at an estimated average cost to the joint venture of $60,000 per claim.

Total accumulated costs of $971,382 incurred to December 31, 2010 on the Peregrine property are 100% attributable to the Company.

e) Maguire Lake
This group of three contiguous claims lies to the north of, and adjoins, the Peregrine property described above. The Company staked these claims in April 2009. Parts of these claims fall within a one kilometre area of influence defined by the original Peregrine Option agreement.

The next reporting date for assessment credits on these claims is in May 2011 whereby a minimum of $4.00 per acre (approximately $18,000 of total exploration expenditures) should have been incurred by the Company. Although only $720 of exploration work has been performed on these claims to date, the Company anticipates that excess assessment credits from two adjacent Peregrine claims will be available to cover the Maguire Lake requirements.

f) LM Claims
In May 2010, the Company staked three claims on new lands adjacent to ML Properties, Max Lake and Peregrine at a cost of $8,277. Parts of these claims fall within the one kilometre area of influence of the original Peregrine Option agreement.

Continued...

5. INVESTMENT

	2010	2009
Investment in Copper Hill Resources Inc. ("CHRI") - 10% interest, at cost	$ 1,250	$ 1,250

CHRI is a privately owned mineral exploration company that owns a 100% interest in the Powderhorn Lake and Turk's Gut properties located in Newfoundland and Labrador, Canada. Prior to 2006, CHRI was a wholly owned subsidiary of the Company.

6. SHARE CAPITAL

a) Share Capital Composition and Changes
The Company's share capital, and changes therein, is as follows:

Authorized
Unlimited number of voting common shares without nominal or par value
Issued

	Note 6 Below	# of Shares	Amount
Balance, December 31, 2008		33,031,870	$ 3,502,940
Issued pursuant to flow-through private placements	b)	6,657,500	451,000
Issued pursuant to non-flow-through private placements	b)	834,000	44,010
Value of warrants issued in private placements	b)	-	(120,000)
Share issue costs	b)	-	(22,777)
Renunciation of flow-through shares – future tax effect	e)	-	(35,000)
Balance, December 31, 2009		40,523,370	3,820,173
Issued pursuant to flow-through private placements	b)	11,833,332	1,150,000
Issued pursuant to non-flow-through private placements	b)	8,150,000	520,000
Value of warrants issued in private placements	b)	-	(456,000)
Share issue costs, net of future tax benefit of $23,500	b)	-	(59,587)
Share issue costs – brokers' warrants	b)	-	(22,000)
Exercise of warrants	c)	200,000	42,000
Exercise of options	d)	150,000	34,870
Renunciation of flow-through shares – future tax effect	e)	-	(86,750)
Balance, December 31, 2010		60,856,702	$ 4,942,706

Continued...

6. SHARE CAPITAL (Continued)

b) Non-Brokered Private Placements
Information about non-brokered private placements in 2009 and 2010 follows:

2009 Private Placements

Issue Date	# of Units/Shares Issued	Unit Price	Gross Proceeds	Proceeds Attributed to Warrants	# of Warrants Issued	Exercise Price of Warrants/ Exercise Period
Flow-through						
June 30, 2009	3,937,500	$ 0.08	$ 315,000	$ 69,300	3,937,500	$0.20 – 3 years
December 31, 2009	2,720,000	0.05	136,000	38,400	2,720,000	$0.20 – 3 years
Non-flow-through						
June 30, 2009	154,000	0.065	10,010	2,700	154,000	$0.20 – 3 years
December 31, 2009	680,000	0.05	34,000	9,600	680,000	$0.20 – 3 years
	7,491,500		$ 495,010	$ 120,000	7,491,500	

Issue costs consist of legal, filing and finder's fees. Total issue costs of $29,720 for 2009, were allocated $22,777 to shares and $6,943 to warrants. In 2009, 666,500 units were acquired by officers and directors for gross proceeds of $45,010.

2010 Private Placements

Issue Date	# of Units/Shares Issued	Unit Price	Gross Proceeds	Proceeds Attributed to Warrants	# of Warrants Issued	Exercise Price of Warrants/ Exercise Period
Flow-through						
January 27, 2010	9,600,000	$ 0.05	$ 480,000	$ 183,800	9,600,000	$0.20 – 3 years
December 30, 2010	2,233,332	0.30	670,000	76,000	1,116,666	$0.50 – 1 year
Non-flow-through						
January 27, 2010	4,400,000	0.05	220,000	84,200	4,400,000	$0.20 – 3 years
November 2, 2010	3,750,000	0.08	300,000	112,000	3,750,000	$0.15 – 2 years
	19,983,332		$ 1,670,000	$ 456,000	18,866,666	

Issue costs of $106,679 for 2010, were allocated $83,087 to shares and $23,592 to warrants. In 2010, 170,000 units were acquired by officers and directors for gross proceeds of $29,000.

On November 2, 2010, the Company issued, as additional finders' fees, 110,000 brokers' compensation warrants to acquire an equal number of common shares at a price of $0.08 per share until November 1, 2012. The Black-Scholes value of these warrants at the time of issue was $12,000.

On December 30, 2010, the Company issued, as additional finders' fees, 142,333 brokers' compensation warrants to acquire an equal number of common shares at a price of $0.30 per share until December 29, 2011. The Black-Scholes value of these warrants at the time of issue was $10,000.

Units issued pursuant to the above-noted private placements are subject to a 4-month restricted sale period.

Continued…

6. SHARE CAPITAL (Continued)

c) Exercise of Warrants

On December 2, 2010, the Company issued 200,000 common shares to an investor, upon the exercise of 200,000 warrants at an exercise price of $0.20 per share, for total proceeds of $40,000. The warrants were originally issued on December 31, 2009 and had an assigned value of $2,000, net of issue costs and future taxes.

d) Exercise of Stock Options

On December 10, 2010, the Company issued 150,000 common shares to a director, upon the exercise of 150,000 stock options, for total proceeds of $20,500. The options were exercised as to 50,000 options at $0.15 per share (originally granted on March 4, 2006) and 100,000 options at $0.13 per share (originally granted on January 26, 2007).

The options had an aggregate grant date fair value of $14,370 and this amount was transferred from contributed surplus to share capital on the date of exercise. The total increase in share capital resulting from the exercise of these options was $34,870.

e) Renunciation of Flow-through Expenditures

In 2009, the Company renounced $157,500 of flow-through expenditures creating a future income tax liability of $54,000, which amount was recorded in 2009 as a $35,000 reduction of share capital and a $19,000 reduction of warrants. The effective date of renunciation for investors was December 31, 2008. The renounced expenditures were incurred as follows: 2009 – $103,813; 2008 – $53,687.

In 2010, the Company renounced $451,000 of flow-through expenditures creating a future income tax liability of $112,750, which amount was recorded in 2010 as an $86,750 reduction of share capital and a $26,000 reduction of warrants. The effective date of renunciation for investors was December 31, 2009. The renounced expenditures were incurred as follows: 2010 – $265,762; 2009 – $185,238.

f) Loss Per Share

Loss per share is calculated using the basic and diluted weighted-average number of common shares outstanding during the year, which was 54,190,538 (2009 – 35,124,274). The determination of the weighted-average number of shares outstanding for the calculation of loss per share does not include the potential effect of 26,410,499 (2009 – 9,759,500) outstanding warrants and 3,975,000 (2009 - 2,795,000) outstanding options, as they are anti-dilutive.

See Notes 14a) and 14b), Subsequent Events, concerning additional common shares issued after December 31, 2010.

Continued...

7. WARRANTS

a) Outstanding Warrants

The balance of the Company's outstanding warrants, and changes therein, is as follows:

	Note	# of Warrants	Assigned Value	Weighted Average Exercise Price
Balance, December 31, 2008		5,000,121	$ 116,344	$ 0.31
Granted for cash	6b)	7,491,500	120,000	0.20
Issue costs	6b)	-	(6,943)	-
Renunciation of flow-through shares	6e)	-	(19,000)	-
Expired, unexercised	8b)	(2,732,121)	(57,484)	0.32
Balance, December 31, 2009		9,759,500	152,917	0.22
Granted for cash	6b)	18,866,666	456,000	0.21
Issue costs, net of future taxes of $6,000	6b)	-	(17,592)	-
Issue costs – brokers' warrants	6b)	252,333	22,000	0.20
Exercise of warrants	6c)	(200,000)	(2,000)	0.20
Renunciation of flow-through shares	6e)	-	(26,000)	-
Expired, unexercised	8b)	(2,268,000)	(39,860)	0.30
Balance, December 31, 2010		26,410,499	$ 545,465	$ 0.21

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

Expiry Date	# of Warrants Granted	Exercise Price	Issue Date	Issue Reference
December 29, 2011	1,116,666	$ 0.50	December 30, 2010	3rd issue – 2010
December 29, 2011	142,333	0.30	December 30, 2010	3rd issue – 2010
June 29, 2012	4,091,500	0.20	June 30, 2009	1st issue – 2009
November 1, 2012	3,750,000	0.15	November 2, 2010	2nd issue – 2010
November 1, 2012	110,000	0.08	November 2, 2010	2nd issue – 2010
December 30, 2012	3,200,000	0.20	December 31, 2009	2nd issue – 2009
January 26, 2013 (Note 14a))	14,000,000	0.20	January 27, 2010	1st issue – 2010
	26,410,499			

The 26,410,499 (2009 – 9,759,500) warrants outstanding and exercisable as at December 31, 2010 have a weighted average remaining contractual life of 1.8 years (2009 – 2.2 years).

The Company has the right to accelerate the expiry of the 14,000,000 warrants issued on January 27, 2010 if the Company's stock trades over $0.30 for 30 consecutive days. The Company has agreed that it will not exercise this right prior to October 7, 2011.

See Note 14a), Subsequent Events, concerning warrants exercised after December 31, 2010.

7. WARRANTS (Continued)

b) Black-Scholes Valuation of Warrants

The Company values warrants issued using the Black-Scholes model. The assumptions used for the valuation of warrants granted for the private placements (Note 6(a)) were as follows:

	2010	2009
Expected dividend yield	0% (all issues)	0% (all issues)
Expected volatility	157% (1st issue) 162% (2nd issue) 125% (3rd issue)	115% (all issues)
Risk-free interest rate	2.5% (1st issue) 1.39% (2nd issue) 1.68% (3rd issue)	3.0% (1st issue) 2.5% (2nd issue)
Expected life	3.0 years (1st issue) 2.0 years (2nd issue) 1.0 years (3rd issue)	3.0 years (all issues)

In 2010, the weighted-average issue date fair value was $0.02 (2009 – $0.02) per warrant.

Continued...

8. OPTIONS AND CONTRIBUTED SURPLUS

a) Stock Options

Under the Company's stock option plan, options may be granted to directors, officers, employees and consultants for up to 10% of the issued and outstanding common shares. The exercise price of the options is not less than the Company's closing market price on the day prior to the grant of the options, and will not otherwise be less than $0.10 per share. The maximum exercise period after the grant of the option is five years.

The balance of the Company's outstanding and exercisable stock options, and changes therein, is as follows:

	# of Options	Weighted Average Exercise Price
Balance, December 31, 2008	3,115,000	$ 0.19
Expired	(320,000)	0.30
Balance, December 31, 2009	2,795,000	0.18
Granted	3,100,000	0.13
Exercised	(150,000)	0.14
Expired	(1,770,000)	0.19
Balance, December 31, 2010	3,975,000	$ 0.14

2010 - 1st Issue

On February 4, 2010, the Company issued an aggregate total of 1,200,000 stock options to directors, officers and a consultant at an exercise price of $0.11 per share. The options vested immediately and expire on February 3, 2015.

2010 - 2nd Issue

On October 7, 2010, the Company issued an aggregate total of 1,200,000 stock options to directors, officers and a consultant at an exercise price of $0.125 per share. The options vested immediately and expire on October 6, 2015.

2010 - 3rd Issue

On November 16, 2010, the Company issued an aggregate total of 700,000 stock options to an officer and two consultants at an exercise price of $0.17 per share. The options vested immediately and expire on November 15, 2015.

No stock options were granted in 2009.

During the year, 1,770,000 (2009 – 320,000) options expired unexercised, of which 1,400,000 (2009 – 100,000) options expired early due to the optionee's departure from the Company.

Continued…

8. OPTIONS AND CONTRIBUTED SURPLUS (Continued)

a) Stock Options (Continued)

The $321,000 fair value of the options granted in 2010 (approximately $0.104 each) was used by the Company to record stock-based compensation expense (employees – $239,018; non-employees – $81,982), and was estimated on the dates of grant using the Black-Scholes model and the following assumptions:

	2010
Expected dividend yield	0% (all issues)
Expected volatility	122% (1st issue)
	149% (2nd issue)
	130% (3rd issue)
Risk-free interest rate	2.5% (1st issue)
	1.9% (2nd and 3rd issues)
Expected life	5.0 years (all issues)

The 3,975,000 (2009 – 2,795,000) options outstanding and exercisable as at December 31, 2010 have a weighted average remaining contractual life of 3.7 years (2009 - 2.1 years), and represent 6.5% (2009 - 6.9%) of the Company's outstanding common shares.

As at December 31, 2010, the following stock options are outstanding:

Expiry Date	# of Options Granted/ Exercisable	Exercise Price	Grant Date
March 2, 2011 (see Note 14b))	175,000	$ 0.15	March 3, 2006
June 18, 2011	50,000	0.15	June 19, 2006
January 25, 2012	250,000	0.13	January 26, 2007
January 7, 2013	50,000	0.135	January 8, 2008
April 8, 2013	550,000	0.16	April 9, 2008
September 11, 2013	100,000	0.115	September 12, 2008
February 3, 2015 (see Note 14b))	900,000	0.11	February 4, 2010
October 6, 2015	1,200,000	0.125	October 7, 2010
November 15, 2015	700,000	0.17	November 16, 2010
	3,975,000		

b) Contributed Surplus

The balance of the Company's contributed surplus, and changes therein, is as follows:

	Note	2010	2009
Balance - beginning of year		$ 1,025,787	$ 968,303
Stock-based compensation expense	8a)	321,000	-
Warrants expired, unexercised	7a)	39,860	57,484
Exercise of stock options	6d)	(14,370)	-
Balance - end of year		$ 1,372,277	$ 1,025,787

Continued...

9. INCOME TAXES

A reconciliation of the expected income tax recovery to the amounts recognized in the Statement of Operations, Comprehensive Loss and Deficit is as follows:

	2010	2009
Statutory income tax rate	31.0%	33.0%
Loss before income taxes	$ (530,577)	$ (140,722)
Expected tax recovery at statutory rate	$ (164,500)	$ (46,000)
Expiry of non-capital losses	14,200	6,000
Share issue costs	(3,500)	(7,000)
Stock-based compensation	99,500	-
Change in expected tax rates	10,300	(15,900)
Other	15,550	(4,700)
Change in valuation allowance	-	(20,500)
Effective tax recovery	$ (28,450)	$ (88,100)

The significant components of the Company's future income tax asset (liability), as at the end of the year, are as follows:

	2010	2009
Non-capital losses	$ 141,500	$ 141,900
Capital losses	127,800	127,800
Share issue costs	29,600	18,900
Other	21,900	16,600
Exploration properties	(504,000)	(433,600)
Future income tax (liability) before valuation allowance	(183,200)	(128,400)
Valuation allowance – capital losses	(127,800)	(127,800)
Future income tax (liability)	$ (311,000)	$ (256,200)

As at December 31, 2010, the Company has unclaimed share issue costs of $118,000 and capital losses of $1,022,000 which may be available to reduce future taxable income. The Company also has Canadian exploration expenditures of $1,176,000 (of which $940,000 was renounced after year-end under the Look-back Rule) and Canadian development expenses of $209,000, which under certain circumstances, may be utilized to reduce taxable income in future years.

As at December 31, 2010, the Company has non-capital loss carry forwards of $566,000, which may be applied to reduce taxable income in future years. These losses expire as follows: 2014 – $196,000; 2015 – $33,000; 2026 – $54,000; 2027 – $85,000; 2028 - $66,000; 2029 – $77,000; and 2030 – $55,000.

The benefits of the various unclaimed tax carry-forward balances reported above, other than the capital loss carry forward balances, are recorded in these financial statements as at December 31, 2010.

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10. RELATED PARTY TRANSACTIONS

During the year, the Company incurred management fees of $83,120 (2009 - $47,649), which were billed by officers (one of whom is also a director) of the Company. These fees were charged to operations as incurred. The Company also incurred geology fees of $23,000 (2009 - $32,950), which were billed by its former President and CEO prior to his retirement from the Company. The geology fees were capitalized to mineral properties as incurred.

Accounts payable and accrued liabilities as at December 31, 2010 includes $7,000 (2009 - $29,974) owing to officers. These amounts are unsecured, non-interest bearing and are due within 30 days.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. See also Note 6b) for participation in private placements by related parties.

11. COMMITMENTS AND CONTINGENCIES

a) Flow-through Shares

Subsequent to year-end, the Company renounced $1,150,000 of tax benefits to flow-through share investors with an effective date of December 31, 2010. As at December 31, 2010, $940,000 of this amount remains to be spent on eligible exploration expenditures prior to January 1, 2012. The Company has agreed to indemnify the subscribers of its flow-through shares for any tax-related amounts that become payable by them, if the Company fails to meet it's expenditure commitments.

b) Environmental Contingencies

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company has made, and expects to make in the future, appropriate expenditures to comply with such laws and regulations.

12. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of components of shareholders' equity. 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 is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or 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. There were no changes in the Company's approach to capital management during the years ended December 31, 2010 and 2009. The Company is not subject to externally imposed capital requirements.

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13. FINANCIAL RISK FACTORS

There have been no changes in the risks, objectives, policies and procedures of the Company from the previous period. The Company's risk exposures and the impact on its financial instruments are summarized below:

Credit risk
The Company's credit risk is primarily attributable to guaranteed investment certificates and receivables included in current assets. The Company has no significant concentration of credit risk arising from operations.

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 $1,099,517 (2009 – $171,496) to settle current liabilities of $96,912 (2009 – $72,874). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company is also committed to spending $940,000 on mineral exploration expenditures by December 31, 2011. If the Company does not spend these funds in compliance with the Government of Canada flow-through regulations, it may be subject to litigation from various counterparties. The Company intends to fulfill all flow-through commitments within the given time constraints.

Market risk
i) Interest rate risk
The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in guaranteed investment certificates issued by its banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its bank.

ii) Foreign currency risk
The Company's functional currency is the Canadian dollar and all purchases are transacted in Canadian dollars. The Company has no foreign operations and thus has no foreign exchange risk derived from either currency conversions or from holding foreign currencies. The Company does not speculate in the foreign currency market nor does it have any need to acquire foreign currency hedges.

iii) Price risk
The Company is exposed to some price risk with respect to commodity prices; however, this is limited since the Company is not a producing entity. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Financial Instruments and Sensitivity Analysis
The Company has designated its cash equivalents as held-for-trading assets, which are measured at fair value. Financial instruments included in sundry receivables, cash and prepaid expenses are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at December 31, 2010, the carrying and fair value amounts of the Company's financial instruments are approximately the same. In addition, the Company’s financial instruments that are carried at fair value consist of cash equivalents and are classified as “Level 2” within the fair value hierarchy.

Management believes that sensitivity analysis on the Company’s financial instruments is presently unnecessary, since in subsequent months, its cash equivalents and sundry receivables are likely to be converted to cash which will be used to pay accounts payable and accrued liabilities. The Company will reassess whether sensitivity analysis should be performed at the end of its next reporting period.

Continued...

14. SUBSEQUENT EVENTS

a) Exercise of Warrants

Subsequent to year-end, the Company issued a total of 546,000 common shares to investors upon the exercise of 546,000 warrants at an exercise price of $0.20 per share, for total proceeds of $109,200. The warrants were originally issued on January 27, 2010 (see Note 7a)).

b) Exercise and Expiry of Stock Options

On February 25, 2011, the Company issued 125,000 common shares to a director, upon the exercise of 125,000 stock options at $0.15 per share, for total proceeds of $18,750. These options were originally granted on March 3, 2006 (see Note 8a)).

On March 3, 2011, 50,000 stock options expired. These options were originally issued on March 3, 2006 (see Note 8a)).

On April 25, 2011, the Company issued 250,000 common shares to a consultant (who was a former officer and director) upon the exercise of 250,000 stock options at $0.11 per share, for total proceeds of $27,500. These options were originally granted on February 4, 2010 (see Note 8a)).

c) Letter Agreement

On April 12, 2011, the Company signed a Letter Agreement in which it will be granted an option to earn a 100% undivided interest in certain mining claims located near Thunder Bay, Ontario known as the “Venton Lake Project.” The precise terms of the transactions contemplated in the Letter Agreement will be contained in a “Definitive Agreement” to be entered into between the parties.

The Letter Agreement provides that the Company (as Optionee) will earn a 100% interest in the property by making an initial $75,000 cash payment followed by three additional annual cash payments of $75,000 each from the “Effective Date” which is defined as the date the TSX-V approves the transaction plus 10 days. Each respective cash payment is also to be accompanied by the issuance of common shares of the Company to the Optionor, as follows – 150,000 shares (initial), 50,000 shares (after the first year), 50,000 shares (after the second year) and 100,000 shares (after the third year), for a total of 350,000 shares.

Upon the exercise of the option, the Optionor will retain a 2.5% NSR on output from the properties following the commencement of commercial production. For the period commencing on the date that is 60 months following the Effective Date and ending on the commencement of commercial production, the Company is required to pay an advance minimum royalty of $15,000 per year to the Optionor within 30 days of the start of each year, which aggregate amounts shall be deducted from the subsequent 2.5% NSR payments.

The Company is entitled to purchase up to 0.5% of the 2.5% NSR at a price of $500,000, for a period of 20 years from the Effective Date.

The Company may abandon the option granted to it by giving 30 days notice prior to abandonment, provided that the mineral rights have been in good standing for at least the six months following the date of abandonment.