ACREX VENTURES LTD.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2010 AND 2009

MANNING ELLIOTT
CHARTERED ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Acrex Ventures Ltd.

We have audited the accompanying financial statements of Acrex Ventures Ltd. which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the 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, the financial statements present fairly, in all material respects, the financial position of Acrex Ventures 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 indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

April 27, 2011

ACREX VENTURES LTD.

BALANCE SHEETS

AS AT DECEMBER 31, 2010 AND 2009

		2010		2009
ASSETS				
Current				
Cash and cash equivalents (Note 4)	$	974,072	$	1,696,970
Marketable securities		10,858		9,366
Amounts receivable		36,546		3,085
Prepaid expenses		4,606		1,998
		1,026,082		1,711,419
Reclamation bond		5,000		5,000
Mineral properties (Note 5)		1,332,286		1,145,038
	$	2,363,368	$	2,861,457
LIABILITIES				
Current				
Accounts payable and accrued expenses	$	57,472		39,976
SHAREHOLDERS' EQUITY				
Share capital (Note 6)		8,966,791		8,960,791
Contributed surplus (Note 7)		725,112		674,548
Deficit		(7,386,007)		(6,813,858)
		2,305,896		2,821,481
	$	2,363,368	$	2,861,457

NATURE AND CONTINUANCE OF OPERATIONS (Note 1)

SUBSEQUENT EVENT (Note 13)

Approved on behalf of the Board:

"Malcolm Powell" — Malcolm Powell, Director

"Carl Jonsson" — Carl Jonsson, Director

(The Accompanying Notes are an Integral Part of These Financial Statements)

ACREX VENTURES LTD.

STATEMENT OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
EXPENSES		
Management fees	$ 108,000	$ 108,000
Investor relations	99,995	64,982
Promotion and travel	51,793	19,045
Stock based compensation	50,564	–
Office and general	40,774	10,287
Accounting and audit fees	30,500	37,000
Consulting	25,500	500
Legal	24,086	21,335
Advertising	15,760	13,148
Rent	15,385	16,680
Transfer agent fees	8,549	9,088
Filing fees	5,968	6,160
Donations	3,000	–
Insurance	700	295
	480,574	306,520
LOSS BEFORE OTHER ITEMS	(480,574)	(306,520)
OTHER ITEMS		
Interest income, net	14,585	18,110
Mineral properties written-off (Note 5)	(107,652)	(460,357)
Loss on sale of mineral property (Note 5)	–	(491,389)
Unrealized gain on marketable securities	1,492	610
	(91,575)	(933,026)
NET LOSS AND COMPREHENSIVE LOSS	(572,149)	(1,239,546)
DEFICIT, BEGINNING OF YEAR	(6,813,858)	(5,574,312)
DEFICIT, END OF YEAR	$ (7,386,007)	$ (6,813,858)
LOSS PER SHARE – BASIC AND DILUTED	$ (0.01)	$ (0.03)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	40,707,570	40,660,447

(The Accompanying Notes are an Integral Part of These Financial Statements)

ACREX VENTURES LTD.

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss for the year	$ (572,149)	$ (1,239,546)
Items not involving cash:		
Stock-based compensation	50,564	–
Mineral property written-off	107,652	460,357
Loss on sale of mineral property	–	491,389
Unrealized loss on marketable securities	(1,492)	(610)
	(415,425)	(288,410)
Changes in non-cash working capital balances:		
(Increase) decrease in amounts receivable	(33,461)	6,421
Increase in prepaid expenses	(2,608)	(333)
Increase (decrease) in accounts payable and accrued liabilities	17,496	(7,872)
	(433,998)	(290,194)
FINANCING ACTIVITY		
Issuance of shares	–	–
INVESTING ACTIVITIES		
Increase in mineral properties	(308,843)	(4,088)
B.C. mining and exploration tax credit	19,943	–
Proceeds from sale of mineral property	–	1,000,000
	(288,900)	995,912
INCREASE (DECREASE) IN CASH	(722,898)	705,718
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,696,970	991,252
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 974,072	$ 1,696,970

	2010	2009
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for:		
Interest	$ –	$ –
Income taxes	$ –	$ –
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Shares issued for mineral properties	$ 6,000	$ –

(The Accompanying Notes are an Integral Part of These Financial Statements)

1. NATURE OF OPERATIONS

Acrex Ventures Ltd. (the “Company”), incorporated in British Columbia, is a public company listed on the TSX Venture Exchange and trades under the symbol AKV.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production or proceeds from the disposition thereof.

The Company has incurred losses since its inception and had an accumulated deficit of $7,386,007 at December 31, 2010 which has been funded primarily by issuance of shares. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing or maintaining continued support from its shareholders and creditors, and generating profitable operations in the future.

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of estimates - The preparation of financial statements in conformity with Canadian generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the years reported. Significant areas requiring the use of management estimates include the determination of impairment of mineral properties, asset retirement obligations, future income tax assets and liabilities, and assumptions used in valuing options and warrants in stock-based compensation calculations. Actual results could differ from these estimates.

Financial instruments - The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor’s carrying amount or exchange amount in accordance with the Canadian Institute of Chartered Accountant (“CICA”) Handbook Section 3840, “Related Party Transactions”.

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income. The Company has elected to account for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments.

Cash equivalents - The Company considers deposits with banks or highly liquid short-term interest bearing securities that are readily convertible to known amounts of cash and those that have maturities of three months or less when acquired to be cash equivalents.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral properties - All costs related to the acquisition, exploration and development of mineral properties are capitalized as mineral properties. If economically recoverable reserves are developed, capitalized costs of the related property are reclassified as mining assets and upon commencement of commercial production, are amortized using the units of production method over estimated recoverable reserves. Management annually assesses carrying values of non-producing properties and properties for which events and circumstances may indicate possible impairment. Impairment of a property is generally considered to have occurred if the property has been abandoned, there are unfavourable changes in the property economics, there are restrictions on development, or when there has been an undue delay in development, which exceeds three years. If management determines that the carrying values cannot be recovered or the carrying values are related to properties that are allowed to lapse, the unrecoverable amounts are expensed in the period that this determination is made.

The recoverability of mineral properties and capitalized exploration and development costs is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete the development of the reserves, and the profitability of future operations. The Company has not yet determined whether or not any of its future mineral properties contain economically recoverable reserves. Amounts capitalized to mineral properties as exploration and development costs do not necessarily reflect present or future values.

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

Asset retirement obligations - The Company follows CICA Handbook Section 3110, “Asset Retirement Obligations” which establishes standards for asset retirement obligations and associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at December 31, 2010, the Company has not incurred any asset retirement obligation related to the exploration and development of its mineral properties.

Government assistance - B.C. mining exploration tax credits for certain exploration expenditures incurred in B.C. are treated as a reduction of the exploration and development costs of the respective mineral property.

Income taxes - The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Stock-based compensation - The Company follows the recommendations of CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", which provides standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. In accordance with these recommendations, stock options are recorded at their fair value on the date of grant as compensation expense, and agents’ options and warrants issued in connection with common share placements are recorded at their fair value on the date of issue as share issuance costs. On the exercise of stock options and agents’ options and warrants, share capital is credited for consideration received and for fair value amounts previously credited to contributed surplus. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based compensation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per share - Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The Company applies the treasury stock method in calculating diluted loss per share. Diluted loss per share excludes all dilutive potential common shares if their effect is anti-dilutive.

Comprehensive loss - Comprehensive loss reflects net loss and other comprehensive income (loss) for the period. Other comprehensive income (loss) includes changes in unrealized foreign currency translation amounts arising from self-sustaining foreign operations, unrealized gains and losses on available-for-sale assets and changes in the fair value of derivatives designated as cash flow hedges to the extent they are effective.

Flow-through shares - The Company has financed a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related exploration expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers.

The Company follows the recommendations of the Emerging Issues Committee (“EIC”) of the Canadian Institute of Chartered Accountants with respect to flow-through shares, as outlined in EIC-146. The application of EIC-146 requires the recognition of the foregone tax benefit on the date the Company renounces the tax credits associated with the exploration expenditures, provided there is reasonable assurance that the expenditures will be made.

Share issue costs - Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred share issue costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred share issue costs related to financing transactions that are not completed are charged to expenses.

3. RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In January 2009, the Accounting Standards Board ("AcSB") issued CICA Handbook Section 1582, “Business Combinations”, which replaces Section 1581, “Business Combinations”. The AcSB also issued Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”, which replace Section 1600, “Consolidated Financial Statements”. These new sections are based on the International Accounting Standards Board’s (“IASB”) International Financial Reporting Standard 3, “Business Combinations”. These new standards replace the existing guidance on business combinations and consolidated financial statements. These new standards require that most assets acquired and liabilities assumed, including contingent liabilities, to be measured at fair value and all acquisition costs to be expensed. These new standards also require non-controlling interests to be recognized as a separate component of equity and net earnings to be calculated without a deduction for non-controlling interests. The objective of these new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. The Non-Controlling Interests standard should be applied retrospectively except for certain items. The Company does not expect the adoption of this standard will have a significant impact of its financial statements.

3. RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED (continued)

In August 2009, the AcSB issued amendments to Section 1625, Comprehensive Revaluation of Assets and Liabilities, for consistency with new Section 1582, Business Combinations. The amendments require that, when push-down accounting is used following the acquisition of an enterprise, the assets and liabilities are to be measured at the values used in accounting for the purchase transaction or transactions in accordance with Section 1582. The amendments also require that, when a future income tax asset that arose prior to the date of a comprehensive revaluation and that was not recognized in the comprehensive revaluation is subsequently recognized, the benefit should be recognized in accordance with Section 1582 and Section 3465, Income Taxes.

The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Early adoption is permitted as of the beginning of a fiscal year. An entity adopting this Section for a fiscal year beginning before January 1, 2011 also adopts Section 1582.

Also in August 2009, the AcSB issued amendments to Section 3251, *Equity*, as a result of issuing Section 1602, *Non-controlling Interests*. The amendments require non-controlling interests to be recognized as a separate component of equity.

The amendments apply only to entities that have adopted Section 1602.

In February 2008, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This 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. In July 2008 AcSB announced that early adoption will be allowed in 2009 subject to seeking exemptive relief. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include redeemable guaranteed investment certificates (“GICs”) with interest rates of 1.15% (2009 - 0.40% and 1.00%) per annum. At December 31, 2010, the fair value of the GICs was $972,000 (2009 - $1,696,000).

5. MINERAL PROPERTIES

December 31, 2010:

	Spanish Mountain	Grizzly Kellar	Total
Acquisition costs			
Balance, beginning of year	$ 177,334	$ –	$ 177,334
Option payment	–	21,000	21,000
Other costs	2,492	–	2,492
Balance, end of year	179,826	21,000	200,826
Exploration costs			
Balance, beginning of year	967,704	–	967,704
Assays	36,405	6,276	42,681
Geological	69,229	80,376	149,605
Drilling	99,065	–	99,065
Mining and exploration tax credit	(19,943)	–	(19,943)
Balance, end of year	1,152,460	86,652	1,239,112
Write-off	–	(107,652)	(107,652)
	$ 1,332,286	**$ –**	**$ 1,332,286**

December 31, 2009:

	Michaud	Spanish Mountain	Don's Lake	Total
Acquisition costs				
Balance, beginning and end of the year	$ 75,000	$ 177,334	$ 39,500	$ 291,834
Exploration costs				
Balance, beginning of year	1,416,389	967,704	416,769	2,800,862
Consulting	–	–	4,088	4,088
Balance, end of year	1,416,389	967,704	420,857	2,804,950
Sale of property	(1,000,000)	–	–	(1,000,000)
Write-off	(491,389)	–	(460,357)	(951,746)
	$ –	**$ 1,145,038**	**$ –**	**$ 1,145,038**

Spanish Mountain claims, British Columbia – On July 23, 2005, the Company entered into an Option Agreement (the "Agreement") to acquire a 100% interest in the Spanish Mountain property, consisting of 8 mineral claims covering approximately 1,350 hectares located near Likely in Northeastern British Columbia. On September 22, 2008, the Company completed its obligations for payment of cash totalling $90,000 and issuance of 200,000 common shares in aggregate, and exercised the option to acquire the 100% interest in the Spanish Mountain property.

The Company is to issue 200,000 common shares upon receipt of a positive feasibility study.

The Agreement is subject to a 3% net smelter return ("NSR"). The Company has the right to purchase 66.67% of the NSR for $1,000,000 upon commencement of commercial production of the property.

On February 7, 2007, the Company acquired a 100% interest of two mineral tenures immediately to the west and south of the Company's existing claim group. The purchase price of these claims was $10,000 and 200,000 shares.

5. MINERAL PROPERTIES (continued)

Grizzly Kellar property, Quebec – On April 20, 2010, the Company entered into an option agreement to acquire a 100% interest in the Grizzly Kellar property, consisting of 120 mineral claims covering approximately 6,270 hectares located in the northeast corner of Guettard Township, near the town of Chapais, Quebec. To earn its interest, the Company agreed to pay $140,000, issue 1,000,000 common shares and incur $1,000,000 of cumulative exploration expenditures. As at December 31, 2010, the Company has paid $15,000 and issued 100,000 shares. The fair value of these shares was $6,000.

The Company conducted a drill programme and the mineralization encountered was not up to the expectations of management. Accordingly, on December 22, 2010, the Company terminated the option agreement and wrote-off the cumulative exploration and acquisition costs totalling $107,652.

Michaud gold claims, Ontario – Pursuant to a series of agreements dating back to September 1, 2001 the Company acquired a 50% interest in a joint venture with Moneta Porcupine Mines Inc. ("Moneta") which owned all, or portions of, 68 mineral claims in Michaud Township, Ontario. The Company's total costs for the acquisition of the interests and for work conducted on the joint venture properties was $1,491,389. In the year ended December 31, 2009, the Company sold its interest in the joint venture for $1,000,000, and incurred a loss of $491,389 on the sale.

Don’s Lake gold claims, Ontario – On February 28, 2008, the Company entered into an Option Agreement (the "Agreement") to acquire a 100% interest in the Don’s Lake mineral property, consisting of 18 mineral claims covering approximately 1,344 hectares located near Sioux Lookout in northwestern Ontario. To earn its interest, the Company agreed to pay $190,000, issue 200,000 common shares and incur $1,300,000 of cumulative exploration expenditures.

On February 28, 2008, the Company issued 50,000 common shares and paid $34,000 for payment of the option obligations. The fair value of these shares was $5,500.

Effective November 24, 2009, the Company terminated its option on the Don’s Lake gold claims and wrote-off the cumulative exploration and acquisition costs totalling $460,357.

6. SHARE CAPITAL

The Company has authorized share capital of an unlimited number of common voting shares without par value. Issued share capital is as follows:

		2010		**2009**
	Number	Amount	Number	Amount
Balance, beginning of year	40,660,447	$ 8,960,791	40,660,447	$ 8,960,791
Shares issued for cash and other:				
Shares issued for mineral properties	100,000	6,000	–	–
Balance, end of year	40,760,447	$ 8,966,791	40,660,447	$ 8,960,791

On July 12, 2010 the Company issued 100,000 common shares as part payment on the Grizzly Kellar mineral property, as described in Note 5. The fair value of these shares was $6,000.

6. SHARE CAPITAL (continued)

Warrants - The following table summarizes the continuity of the Company's warrants, each warrant entitles the holder to acquire one common share of the Company:

	Number of Warrants	Exercise Price	Expiry Date
Balance, December 31, 2008	7,699,755		
Expired	(4,030,755)	$0.50	August 14, 2009
Expired	(624,000)	$0.23	August 14, 2009
Expired	(2,645,000)	$0.50	August 16, 2009
Expired	(400,000)	$0.23	August 16, 2009
Balance, December 31, 2009 and 2010	–	–	

There were no warrants issued in 2010 and 2009 and the Company has no share purchase warrants outstanding.

7. CONTRIBUTED SURPLUS

	2010	2009
Balance, beginning of year	$ 674,548	$ 674,548
Fair value of stock options granted and vested	50,564	–
Balance, end of year	$ 725,112	$ 674,548

8. STOCK OPTION PLAN AND STOCK-BASED COMPENSATION

The Company has established a stock option plan for directors, employees, and consultants. The following table summarizes the stock options outstanding and exercisable at December 31, 2010:

Price	Number Outstanding	Number Exercisable	Expiry Date
$0.30	100,000	100,000	June 19, 2011
$0.30	50,000	50,000	June 29, 2011
$0.20	100,000	100,000	February 7, 2012
$0.16	650,000	650,000	July 12, 2012
$0.16	1,400,000	1,400,000	December 17, 2012
$0.10	565,000	565,000	December 11, 2013
$0.10	100,000	100,000	January 12, 2015
$0.10	200,000	200,000	April 12, 2015
$0.10	485,000	485,000	July 19, 2015
$0.10	100,000	50,000	August 28, 2012
	3,750,000	3,700,000	

Under the Company's stock option plan, the exercise price of each option is determined by the Board, subject to the pricing policies of the TSX Venture Exchange. Options vest immediately when granted and expire five years from the date of the grant, unless the Board establishes more restrictive terms.

The aggregate number of shares issuable pursuant to options granted under the plan is limited to 10% of the Company's issued shares at the time the options are granted. The aggregate number of options granted to any one optionee in a 12-month period is limited to 5% of the issued shares of the corporation.

8. STOCK OPTION PLAN AND STOCK-BASED COMPENSATION (continued)

A summary of the changes in the Company's stock options for the year ended December 31, 2010 is presented below:

		2010		2009
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise price
Outstanding, beginning of year	3,550,000	$ 0.16	3,550,000	$ 0.16
Granted	885,000	$ 0.10	–	–
Expired	(685,000)	$ 0.12	–	–
Outstanding, end of year	3,750,000	$ 0.14	3,550,000	$ 0.16
Exercisable, end of year	3,700,000	$ 0.14	3,550,000	$ 0.16

The Company uses the Black-Scholes option pricing model to value the stock options granted during the year. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values.

A total of 885,000 options were granted during the year ended December 31, 2010. Of the options granted, 835,000 vested during the year. The fair value of the 835,000 options vested was $50,564 using the Black-Scholes model, and this comprised vested options with a fair value of $19,979 to consultants, $4,407 for investor relations work and $26,178 to Directors.

For purposes of the calculations, the following weighted average assumptions were used under the Black-Scholes model:

Risk free interest rate	2.56%
Expected dividend yield	0%
Expected stock price volatility	156%
Expected life of options	4.66 years

The weighted average grant date fair value of stock options granted during the year ended December 31, 2010 was $0.06 per option.

9. RELATED PARTY TRANSACTIONS

a) The following related party transactions were recorded at their exchange amounts as agreed upon by transacting parties and on terms and conditions similar to non-related parties:

   i) The Company incurred legal fees of $23,300 (2009 - $14,900) from a law firm of which a director is a principal.

   ii) The Company incurred management fees of $108,000 (2009 - $108,000) and equipment rental charges of $16,535 (2009 - $13,128) from a company owned by a director.

   iii) The Company incurred rent expense of $9,035 (2009 - $16,680) from a company which has a common director.

b) At December 31, 2010, accounts payable and accrued liabilities included $15,245 (2009 - $7,603) for amounts due to a law firm of which a director is a member, and $314 (2009 - $1,422) for amounts due to a company controlled by a director.

10. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

	2010	2009
Canadian statutory income tax rate	28.50%	30.00%
Expected income tax recovery	$ 163,000	$ 372,000
Non-deductible expenses and others	(18,000)	(2,000)
Expiry of loss	(95,000)	–
Rate change	(6,000)	(46,000)
Valuation allowance	(44,000)	(324,000)
Income tax recovery	$ –	$ –

Significant components of the Company's future income tax assets (liabilities) are as follows:

	2010	2009
Non-capital losses	$ 734,000	$ 699,000
Share issuance costs and others	28,000	46,000
Resource properties	36,000	9,000
Valuation allowance	(798,000)	(754,000)
Net future income tax assets	$ –	$ –

The Company has non-capital losses for income tax purposes of $2,935,000 which may be carried forward and offset against future taxable income. The non-capital losses expire as follows:

Year	Amount
2014	445,000
2015	509,000
2026	504,000
2027	551,000
2028	452,000
2030	474,000
	$ 2,935,000

As at December 31, 2010, the Company has approximately $1,475,000 (2009 - $1,180,000) resource expenditures that can be carry-forwarded indefinitely for tax purposes to reduce taxable income for future years.

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion of all of the future income tax assets will not be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future income tax assets considered realizable could change materially in the near term based on future taxable income during the carry forward period.

11. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the sourcing and exploration of mineral properties in Canada. The Company does not have any externally imposed capital requirements to which it is subject.

As at December 31, 2010, the Company had capital resources consisting of cash and cash equivalents. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of assets or adjust the amount of cash and cash equivalents.

The Company's investment policy is to invest its cash in investment instruments in high credit quality financial institutions with terms to maturity selected with regards to the expected time of exploration and development expenditures from continuing operations.

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

12. FINANCIAL INSTRUMENTS

Classification

The Company has classified its cash and cash equivalents and marketable securities as held-for-trading. Accounts payable is classified as other financial liabilities.

The following table summarizes information regarding the carrying values of the Company's financial instruments:

	2010	2009
Held for trading (i)	$ 984,930	$ 1,706,336
Other financial liabilities (ii)	57,472	39,976

(i) Cash and cash equivalents and marketable securities
(ii) Accounts payable

Fair value

As at December 31, 2010 the Company's financial instruments consist of cash and cash equivalents, marketable securities and accounts payable. The fair values of these financial instruments approximate their carrying values because of their current nature.

CICA 3862 "Financial Instruments – Disclosures", requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. CICA 3862 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. CICA 3862 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2 – Inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs (i.e. quoted prices for similar assets or liabilities).

Level 3 – Prices or valuation techniques that are not based on observable market data and require inputs that are both significant to the fair value measurement and unobservable.

12. FINANCIAL INSTRUMENTS (continued)

Fair value (continued)

The fair values of the Company's financial assets and liabilities as of December 31, 2010 were calculated as follows:

	Balance at December 31, 2010 $	Quoted Prices in Active Markets for Identical Assets (Level 1) $	Significant Other Observable Inputs (Level 2) $	Significant Unobservable Inputs (Level 3) $
Financial Assets:				
Cash and cash equivalents	974,072	974,072	–	–
Marketable securities	10,858	10,858	–	–

The Company believes that the recorded value of accounts payable approximate their current fair values because of their nature and relatively short maturity dates or durations.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents. To minimize the credit risk the Company places these instruments with a high credit quality financial institution.

Liquidity Risk

The Company ensures its holding of cash and cash equivalents is sufficient to meet its short-term exploration, development, and general and administrative expenditures. The Company's cash equivalents are invested in business guaranteed investment certificates which are immediately available on demand when required. The Company does not have investments in any asset backed deposits.

Foreign Exchange Risk

The Company does not have investments in foreign countries and is not exposed to foreign exchange risk.

Interest Rate Risk

The Company manages its interest rate risk by obtaining the best commercial deposit interest rates available in the market by the major Canadian financial institutions.

The Company has investments in guaranteed investment certificates. The following table summaries the impact of reasonable possible changes on interest rates for the Company at December 31, 2010 and 2009. The sensitivity analysis is based on the assumption that interest rate changes by 1% with all other variables remaining constant. The 1% sensitivity is based on reasonably possible changes over a financial year, using the observed range of historical rates for the preceding year.

	2010	**2009**
Impact on net loss:		
1% increase	$ 2,800	$ 3,400
1% decrease	$(2,800)	$(3,400)

12. FINANCIAL INSTRUMENTS (continued)

Market risk

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The sale of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity prices. The Company is exposed to market risk in trading its investments, and unfavourable market conditions could result in dispositions of investments at less than favourable prices. The Company's investments are accounted for at estimated fair values and are sensitive to changes in market prices, such that changes in market prices result in a proportionate change in the carrying value of the Company's investments. The Company's ability to raise capital to fund mineral resource exploration is subject to risks associated with fluctuations in mineral resource prices. Management closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

13. SUBSEQUENT EVENT

On March 25, 2011, the Company entered into a purchase agreement for a contiguous block of 52 non-patented mining claims located 40 kilometres east of Reno, in Washoe County, Nevada. The property known as "Rainbow Canyon" has an area of approximately 421 hectares. The purchase price of the claims is US$125,000 cash. A 3.0% NSR royalty is reserved to the Vendor subject to the Company's option to purchase up to a 2.0% NSR royalty by the payment of $500,000 for each 1.0% NSR royalty purchased. The purchase has not closed and is subject to acceptance for filing by the TSX Venture Exchange.