ONA POWER CORP.

Consolidated Financial Statements

September 30, 2010

DALE MATHESON
CARR-HILTON LABONTE LLP
DMCL CHARTERED ACCOUNTANTS

Partnership of:
Vancouver: Robert J. Burkart, Inc. | James F. Carr-Hilton Ltd. | Kenneth P. Chong Inc. | Alvin F. Dale Ltd. | Barry S. Hartley, Inc. | Reginald J. LaBonte Ltd. | Robert J. Matheson, Inc. | Rakesh I. Patel Inc.
South Surrey: Michael K. Braun Inc. | Peter J. Donaldson, Inc.
Port Coquitlam: Wilfred A. Jacobson Inc. | Fraser G. Ross, Ltd. | Brian A. Shaw Inc.

AUDITORS' REPORT

To the Shareholders of Ona Power Corp.

We have audited the consolidated balance sheet of Ona Power Corp. as at September 30, 2010 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these [consolidated] financial statements present fairly, in all material respects, the financial position of the Company as at date1 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The audited financial statements at September 30, 2009 and for the year then ended were examined by other auditors who expressed an opinion without reservation on those statements in their report dated January 27, 2010.

/s/ DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
January 18, 2011

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ONA POWER CORP.
CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30,

		2010		2009
ASSETS				
Current assets				
Cash	$	199,549	$	543,610
Prepaid expenses and other receivable		-		8,777
Assets from discontinued operations		-		2,807,045
Total current assets		199,549		3,359,432
Equipment (Note 3)		1,043		3,099
Assets from discontinued operations		-		47,185,730
Total Assets	$	200,592	$	50,548,261
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$	270,255	$	1,024,484
Due to related parties (Note 7)		2,423		17,473
Liabilities from discontinued operations		-		21,883,725
Total current liabilities		272,678		22,925,682
Convertible debentures (Note 4)		-		5,770,414
Liabilities from discontinued operations		-		12,560,000
Total liabilities		272,678		41,256,096
Non-controlling interest-discontinued operations		-		2,438,060
SHAREHOLDERS' EQUITY (DEFICIENCY)				
Share capital (Note 5b)		22,581,024		21,771,680
Contributed surplus (Note 5e)		6,165,546		5,390,889
Accumulated other comprehensive income		-		2,040,485
Deficit		(28,818,656)		(22,348,949)
Total shareholders' equity (deficiency)		(72,086)		6,854,105
Total liabilities and shareholders' equity	$	200,592	$	50,548,261

Going concern (Note 1)
Subsequent events (Note 11)
Approved by the Board of Directors:

"Lucky Janda"
Director

"Sandeep Poonia"
Director

See accompanying notes to the Consolidated financial statements

ONA POWER CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED SEPTEMBER 30,

		2010		2009
Expenses				
Amortization	$	2,055	$	2,055
Consulting and management fees		104,387		228,102
Investor relations		-		4,191
Office and general		23,065		176,094
Occupancy and administration		55,000		60,000
Professional fees		90,085		377,462
Stock based compensation		-		20,634
Transfer agent and filing fees		18,774		22,173
Travel and accommodation		4,781		93,995
Loss from continuing operations		(298,147)		(984,706)
Discontinued operations (Note 6)				
Loss from discontinued operations, net of taxes		(1,579,448)		(7,544,152)
Loss from disposition of YPPC		(4,592,112)		-
		(6,171,560)		(7,544,152)
Loss for the year		(6,469,707)		(8,528,858)
Deficit, beginning of year		(22,348,949)		(13,820,091)
Deficit, end of year	$	(28,818,656)	$	(22,348,949)
Loss per share from continuing operations, basic and diluted	$	(0.26)	$	(0.10)
Loss per share from discontinued operations, basic and diluted	$	(0.08)	$	(0.76)
Weighted average number of shares outstanding, basic and diluted		18,985,450		9,903,104

ONA POWER CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30,

	2010	2009
CASH PROVIDED BY (USED IN)		
Operating Activities		
Net loss for the year from continuing operations	$ (298,147)	$ (984,706)
Adjusted for items not involving cash:		
Amortization	2,055	2,054
Stock based compensation	-	20,634
Write-off of equipment & oil and gas property	-	1,254
Changes in non-cash working capital items:		
Amounts receivable and prepaid expense	8,777	91,314
Accounts payable and accrued liabilities	330,241	667,473
Cash used in operating activities of continuing operations	42,926	(201,977)
Cash used in operating activities of discontinued operations	(526,829)	(308,795)
	(483,903)	(510,772)
Investing Activities		
Purchase of equipment	-	(1,033)
Disposition of discontinued operations	(7,199)	-
Cash used in investing activities of continuing operations	(7,199)	(1,033)
Cash used in investing activities of discontinued operations	(56,239)	(701,350)
	(63,438)	(702,383)
Financing Activities		
Due to related parties	2,423	-
Due from related parties	-	17,437
Net proceeds from share issuance and exercise of options (Note 5b)	1,584,001	1,547,407
Repayment of loans and convertible debentures (Note 4 and 6)	(1,500,000)	(900,000)
Cash used provided by financing activities of continuing operations	86,424	664,844
Cash used provided by financing activities of discontinued operations	102,923	(968,173)
	189,347	(303,329)
Decrease in cash during the year	(357,994)	(1,516,484)
Effect of exchange rate changes on cash	(1,113)	216,133
Cash, beginning of year	558,656	1,859,007
Cash, end of year	199,549	558,655
Represented by:		
Cash - continuing operations	$ 199,549	$ 543,610
Cash - discontinued operations	-	15,046
	$ 199,549	$ 558,656
Supplementary Cash Flow Information		
Cash paid for income taxes	$ -	$ -
Cash paid for interest	$ 661,916	$ 861,761

ONA POWER CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

FOR THE YEARS ENDED SEPTEMBER 30,

		2010		2009
Net Loss	$	(6,469,707)	$	(8,258,858)
Other Comprehensive Income :				
Unrealized gain on translation of self-sustaining subidiary		-		539,186
Loss on translation of self-sustaining subidiary upon disposition		(2,040,485)		-
Comprehensive Loss	$	(8,510,192)	$	(7,719,672)

ONA POWER CORP.
CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)
FOR THE YEARS ENDED SEPTEMBER 30,

	2010	2009
Balance, beginning of year	$ 2,040,485	$ 1,501,299
Other Comprehensive Income :		
Unrealized translation adjustments	(2,040,485)	539,186
Balance, end of year	$ -	$ 2,040,485

Ending balance of accumulated other comprehensive income comprises of:		
Unrealized translation adjustments	$ -	$ 2,040,485
Balance, end of year	$ -	$ 2,040,485

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Ona Power Corp. (the "Company") was incorporated under the Business Corporation Act of Alberta on August 31, 1998 and was continued to a British Columbian company on January 30, 2006. The Company changed its name to ONA Power Corp. on July 16, 2009 (formerly Ona Energy Inc.). The Company's shares are publicly traded on the Frankfurt Exchange and Canadian National Stock Exchange ("CNSX").

The Company is a Canadian-based international energy company focusing on the acquisition and development of power generation in China. On August 31, 2010, the Company entered into an agreement to dispose all of its 60% ownership of its operating subsidiary, Yongxing Power Plant Corporation ('YPPC") (Notes 4 and 6). As a result of the disposition of YPPC, the Company does not currently have any operations and is currently actively seeking other business opportunities.

Going concern

The Company has incurred a net loss of $6,469,707 for the year ended September 30, 2010 and had an accumulated deficit of $28,818,656. The Company had a working capital deficiency of $73,129 as at September 30, 2010 and does not have sufficient funds to sustain operations over the next year. In order to improve the Company's liquidity, the Company has completed settlements with various creditors for payment of outstanding debts and recorded a gain from debt settlement in discontinued operations of $510,206 in year ended September 30, 2010. Management is considering all possible financing alternatives, including equity and debt financing to finance the future operations. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. These circumstances lead to substantial doubt as to the ability of the Company to meet its obligations as they become due and, accordingly, as to the appropriateness of the use of accounting principles applicable to a going concern.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which assumes that the Company will continue in operation for a reasonable period of time and will be able to realize its assets and discharge its liabilities in the normal course of operations. These consolidated financial statements do not include any adjustments to the recoverability and classification of certain recorded asset amounts and classification of certain liabilities that might be necessary if the Company were unable to continue as a going concern. The ability to continue operating as a going concern is dependent on raising additional funding to acquire a new business venture.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its inactive wholly owned subsidiaries, Ona Power and Energy, Callinview Capital Corporation and YPPC until the date of disposition. All intercompany transactions and balances have been eliminated.

Basis of presentation

The consolidated financial statements are presented in Canadian dollars and prepared in accordance with ("GAAP").

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts recorded in the consolidated financial statements. Significant areas requiring the use of estimates relate to the assessment of the amounts and classification of the elements of discontinued operations, provision for income taxes, determination of fair value on share based payments in transactions where shares and share purchase warrants are issued as a consideration and fair value of stock-based compensation, the assessment of the impairment and useful lives of intangible assets, property, plant and equipment and other long-lived assets, and the determination of the accrued liabilities. The reported amounts and note disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions. Actual results may materially differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

The inventory balance represents oil, coal and supplies which is valued at the lower of cost and net realizable value. Inventory cost is determined using the weighted average method. The cost of the inventory includes all costs to purchase and other costs incurred in bringing the inventory items to its existing location and condition.

Revenue Recognition

Revenue is recognized upon delivery of electricity to the Hunan Electricity Power Corporation (the “Grid”) as metered at the point of interconnection with the transmission system in accordance with the YPPC’s Electricity Purchase Agreement with the Grid.

Comprehensive Income

Comprehensive income consists of net earnings and Other Comprehensive Income (‘OCI’). OCI includes items that would not normally be included in net earnings such as unrealized gains and losses on available-for-sale investments, and unrealized foreign currency gain or loss arising from the translation of the self-sustaining foreign operation. Amounts included in OCI are shown net of tax.

Convertible Debentures

The Company’s convertible debentures were segregated into their debt and equity components at the date of issuance, in accordance with the substance of the contractual agreements. The debt component of the instruments was classified as a liability, and recorded at the present value of the Company’s obligations to make future interest payments and settle the redemption value of the instruments. The carrying value of the debt component was accreted to the original face value of the instruments, over the term of the convertible debentures, using the effective interest rate method. The value of the conversion option makes up the equity component of the instruments. The conversion option was recorded using the residual method. Upon settlement of the debt, the unamortized amount allocated to the beneficial conversion feature was fully recognized through income.

Financial Instruments

Financial instruments are initially recognized at fair value and must be classified in one of the following categories: held for trading financial assets and financial liabilities, loans and receivables, held to maturity investments, available for sale financial assets, and other financial liabilities. Subsequent measurement of the financial instruments is based on their classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method. Transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are added to the cost of the instrument at its initial carrying amount except for held-for-trading items in which case they are expensed as incurred.

The Company has made the following classifications: Cash is classified as a financial asset held for trading and is measured at fair value. Gains and losses related to periodical revaluation are recorded in net income. Accounts receivable and other receivable are classified as loan and receivable and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. Accounts payable, due to related parties, convertible debentures and long-term debt (including current portion) are classified as other liabilities and are initially measured at fair value. Subsequent measurement is recorded at amortized cost using the effective interest rate method.

Foreign currency translation

The Company's functional and reporting currency is Canadian dollars and the functional currency of the discontinued operations in YPPC was Chinese Renminbi ("RMB"). The accounts of YPPC, all of which were considered to be self-sustaining foreign operations in prior years, were translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the year-end exchange rates. Revenue and expenses are translated at the average rate during the year and included in discontinued operations. Translation adjustments are reflected in other comprehensive income and accumulated other comprehensive income in shareholders’ equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant, and equipment

Property, plant, and equipment are recorded at cost. Amortization is provided for over the estimated useful life of the assets commencing when the asset is brought into use, using a 5 year straight-line bases with a 3% residual for furniture and fixtures.

Licenses and permits

License and permits represents permission received to allow the Company to produce and sell electricity in China. License and permits are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment is assessed through a comparison of the carrying amount with its fair value. When assessing fair value, management is required to make estimates of future cash flows and business performance. When the fair value is less than its carrying amount, license and permit is considered to be impaired. On September 30, 2009, the Company tested the license and permit for impairment and concluded that the licenses and permits were required to be fully impaired. As a result, the Company recorded a write down expense of $5,542,247 and a future income tax recovery of $1,385,562 accordingly in 2009.

Stock-based compensation

The Company uses the fair value method for stock-based compensation granted to employees and non-employees of the Company and all direct awards of stock, in accordance with the CICA Handbook Section 3870 “Stock-Base Compensation and Other Stock-based Payments”. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-fee interest rates, dividend yields, volatility factors of the expected market price of the company’s common shares and an expected life of the options. The fair value of direct awards of stock is determined by the quoted market price of the Company’s stock.

Impairment of long-lived Assets

Long-lived assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable from the future undiscounted net cash flows expected to be generated by the asset. If the asset is not fully recoverable, an impairment loss would be recognized in that period for the difference between the carrying value of the asset and its estimated fair value based on discounted net future cash flows or quoted market prices.

Loss per share

Basic loss per share is calculated using the weighted-average number of shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year Diluted loss per share is equal to the basic loss per share for the periods presented because the conversion of outstanding stock options, convertible debentures, and warrants into common shares would be anti-dilutive in current year. However, they may be dilutive in the future.

Income taxes

The Company accounts for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. 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 assets are recognized. Such an allowance has been applied to all potential income tax assets of the Company.

Comparative Information

Certain comparative balances have been reclassified to conform to the current year’s presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements Not Yet Adopted

International Financial Reporting Standards

In 2006, the Accounting Standards Board of Canada ("ACSB") ratified a strategic plan that will result in the convergence of Canadian GAAP, as used by publicly accountable entities, with International Financial Reporting Standards ("IFSR") over a transition period. The ACSB has developed and published a detailed implementation plan, with changeover required for fiscal years beginning on or after January 1, 2011. The Company will adopt IFRS commencing October 1, 2011, and the adoption of IFRS will require the restatement for comparative purposes of amounts reported by the Company for the year ending September 30, 2011. The Company is in the process of executing an IFRS conversion plan.

Business Combination

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations, 1601 – Consolidated Financial Statements and 1602 – Non-controlling Interests which replace CICA Handbook Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time. The Company believes there are no material impacts on adoption of these accounting standards.

3. EQUIPMENT

The Company's equipment used in continuing operations is as follows:

		September 30, 2010	
	Cost	Accumulated Amortization	Net Book Value
Equipment	$10,812	$ 9,769	$1,043

		September 30, 2009	
	Cost	Accumulated Amortization	Net Book Value
Equipment	$10,812	$7,713	$3,099

4. CONVERTIBLE DEBENTURES

On June 9, 2008, the Company amended the $5 million convertible debenture (the "$5 Million CD") originally issued on July 31, 2007. Under the initial debenture the Company received $5 million in exchange for a debenture convertible into units at a conversion price of $3.75 per unit. Each unit consisted of one common share and one share purchase warrant. During the year ended September 30, 2008, the Company amended the terms of the debenture agreement. $1,008,000 of the principal of the original $5 Million CD was repaid. With the amendments of June 9, 2008, the maturity date was extended to October 31, 2009. This amendment was accounted for as a modification in accordance with CICA Handbook Section 3855 and EIC-88. On June 30, 2008, the Company completed a $2,065,000 convertible debenture financing (the "$2.065 Million CD"). The total proceeds were allocated as follows: the fair value of the liability component was estimated by discounting future payments. The residual carrying value of $104,388 and $122,934 was allocated to the equity component of the $5 Million CD and $2.065 Million CD, respectively.

4. CONVERTIBLE DEBENTURES (continued)

On August 13, 2009, the maturity dates of the $5 Million CD and $2.065 Million CD were extended to December 30, 2010. The Company agreed to pay the convertible debenture holders $900,000 principal from the proceed of a private placement completed on August 11, 2009 and to pay an additional $900,000 from any future financing from private placement, brokered finance, warrant exercises, rights offerings or option exercise. The Company issued 1,000,000 2-year share purchase warrants with an exercise price of $0.40 per share as the consideration of the extension. This amendment was accounted for as a modification. The revised effective interest rate of the $5 Million CD and $2.065 Million CD were determined to be 16% and 19% respectively. Using the Black-Scholes fair value model, the Company calculated the warrant component to be $610,000 which was credited to contributed surplus and debited to the carrying value of the convertible debenture.

On August 31, 2010, the Company reached an agreement with Foothills Enterprises Ltd. ("Foothill"), the holder of the $5 Million CD and $2.065 Million CD (collectively the "CD") whereby the Company will pay $1,500,000 cash and assign its 60% interest in YPPC to Foothill in exchange for full settlement of the CDs. This settlement was completed before the year ended September 30, 2010 (Note 6). The continuity is as follows:

$5 Million Convertible debenture	
Carrying value at September 30, 2008	$ 4,475,507
Principal repayment	(590,000)
Issuance of share purchase warrants	(399,550)
Accrued interest	393,105
Accretion	86,292
Carrying value at September 30, 2009	3,965,354
Accrued interest	311,890
Accretion	376,453
Carrying value at August 31, 2010	4,653,697
Principal repayment	(1,062,000)
Settlement by assignment of YPPC's 60% interest (Note 6)	(3,591,697)
Carrying value at September 30, 2010	$ -

$2.065 Million Convertible debenture	
Carrying value at September 30, 2008	$ 2,015,606
Principal repayment	(310,000)
Issuance of share purchase warrants	(210,450)
Accrued interest	203,538
Accretion of interest	106,366
Carrying value at September 30, 2009	1,805,060
Accrued interest	160,885
Accretion of interest	204,114
Carrying value at August 31, 2010	2,170,059
Principal repayment	(438,000)
Settlement by assignment of YPPC's 60% interest (Note 6)	(1,732,059)
Carrying value at September 30, 2010	$ -

5. SHARE CAPITAL

The Company consolidated the outstanding common shares on a five to one (5:1) basis on July 16, 2009. The disclosure of share capital, weighted average number of shares outstanding, loss per share, warrants, convertible debenture, and stock options in the financial statements have been adjusted to account for the share consolidation.

a) Authorized

The authorized capital consists of unlimited voting common shares without par value and unlimited preference shares without par value.

b) Issued and outstanding:

	Number of shares		Amount
Balance, at September 30, 2008	8,459,273	$	20,964,569
Private placement	10,333,300		807,111 (A)
Balance, at September 30, 2009	18,792,573	$	21,771,680
Private placement	23,466,666		809,344 (B)
Balance, at September 30, 2010	42,259,239	$	22,581,024

(A) Net of value allocated to warrants of $740,296 and share issue cost of $2,588
(B) Net of value allocated to warrants of $774,657 and finder's fee of $175,999

The Company completed a non-brokered private placement on September 28, 2010 of issuing 23,466,666 units ("Unit") at a price of $0.075 per Unit for aggregate gross proceeds of $1,760,000. Each Unit consists of one common share and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one common share at $0.075 for a two-year period ending September 27, 2012. A finder's fee of $175,999 was paid and was offset against total proceeds.

The Company allocated $809,344 to common shares and $774,657 to contributed surplus to account for the valuation of Warrants. The allocation was calculated using the relative fair value method.

The assumptions used in determining the fair value of the warrants by using the Black-Scholes Option Pricing Model are:

Risk-free interest rate	1.45%
Dividend yield	nil
Expected volatility	285%
Expected life	2 years

The Company completed a private placement on August 11, 2009 and issued 10,333,300 units at a price of $0.15 per unit for proceeds of $1,549,995. Each unit consists of one common share and one common share purchase warrant. Each whole share purchase warrant entitles the holder thereof to acquire one additional common share of Ona Power Corp. for a period of 24 months at an exercise price of $0.20 per share subject to forced conversion if the Company's common shares trade above $0.40 per share for 20 consecutive days after August 11, 2009. The Company allocated $807,111 (net of $2,588 share issuance costs) to common shares and $740,296 to contributed surplus to account for the valuation of warrants. The allocation was calculated by determining the relative fair value of the common shares and warrants. The assumptions used in valuing the fair value of the warrants by using the Black-Scholes Option Pricing Model are:

Risk-free interest rate	1.5%
Dividend yield	0%
Expected volatility	188%
Expected life	2 years

5. SHARE CAPITAL (Continued)

c) Warrants outstanding

During the year ended September 30, 2010, the Company has issued 23,466,666 stock purchase warrants at a private placement completed on September 28, 2010 (Note 5b). An amount of$774,657 was recorded to the contributed surplus to account for the issuance of these warrants. The status of the Company's share purchase warrants outstanding in 2010 are as follows:

Expiry Date	Exercise Price	Balance: September 30, 2009	Issued	Balance: September 30, 2010
March 10, 2011	$ 2.50	3,506,553	-	3,506,553
March 10, 2011	$ 3.75	761,051	-	761,051
August 11, 2011	$ 0.20	10,333,300	-	10,333,300
August 13, 2011	$ 0.40	1,000,000	-	1,000,000
September 27, 2012	$ 0.075	-	23,466,666	23,466,666
Total		15,600,904	23,466,666	39,067,570
Weighted Average Exercise Price		$ 0.90	$ 0.08	$ 0.41

In March 2009, the Company amended the exercise price and expiry date of 3,506,553 share purchase warrants with exercisable price varying between $3.70 and $7.50, and expiring at various dates between April, 2009 and July 2009. Each amended warrant is exercisable into one common share of the Company at an exercise price of $2.50 until March 10, 2011.

In March 2009, the Company amended the expiry date of the 761,051 warrants with an exercise price of $3.75 and expiry date varying between April 2009 and July 2009. The expiry date of each amended warrant is March 10, 2011. The status of the Company's share purchase warrants outstanding in 2009 are as follows:

Expiry Date	Exercise Price	Balance September 30, 2008	Issued	Balance September 30, 2009
March 10, 2011	$ 2.50	3,506,553	-	3,506,553
March 10, 2011	$ 3.75	761,051	-	761,051
August 11, 2011	$ 0.20	-	10,333,300	10,333,300
August 13, 2011	$ 0.40	-	1,000,000	1,000,000
Total		4,267,604	11,333,300	15,600,904
Weighted average Exercise Price		$ 2.72	$ 0.22	$ 0.90

On September 30, 2010, the weighted average remaining life of outstanding warrants was 1.5 years (2009: 1.75 years).

5. SHARE CAPITAL (Continued)

d) Stock options

The Company has cancelled all the outstanding options on September 2, 2009 and has not issued any option since then. As at September 30, 2010, there were no options outstanding.

e) Contributed surplus

		2010		2009
Opening balance, beginning of year	$	5,390,889	$	4,019,959
Stock based compensation		-		20,634
Warrants-extension of the term of the convertible debenture (Note 4)		-		610,000
Warrants -private placement (Note 5a and c)		774,657		740,296
Closing balance, end of year	**$**	6,165,546	**$**	5,390,889

6. DISCONTINUED OPERATIONS

In July 2010, Foothill issued a notice of default to the Company requesting an immediate repayment of principal and accrued interest, on the convertible debentures, totaling approximately $6,700,000. The Company did not have the liquidity and financial resources to meet the repayment demand, the Company reached an agreement with Foothill to fully settle the convertible debentures by assigning its 60% interest in YPPC and outstanding loans receivable from YPPC of approximately of $9,050,000 and paying $1,500,000 cash to Foothill. The settlement was completed on August 31, 2010. The net carrying value of the convertible debentures of YPPC was $5,323,756.. The Company has also recorded a foreign currency translation gain of $2,092,695 relating to the discontinued operations. As a result, the Company has recorded a loss of disposition of discontinued operations of $4,592,112 for the year ended September 30, 2010. The assets and liabilities of YPPC at the date of disposition are as follows:

Current assets	$	386,329
Property , plant and equipment		45,678,752
		46,065,081
Current Liabilities		20,333,448
Long-term debt		12,504,000
Non-controlling interest		1,219,070
Net book value	$	12,008,563

		Year ended September 30, 2010		Year ended September 30, 2009
Revenue	$	1,053,009	$	11,285,866
Loss from discontinued operations	$	(6,171,560)	$	(7,544,152)

Included in the loss from discontinued operations is an impairment charge on YPPC's permits and licenses in the amount of $Nil (September 30, 2009 - $4,180,332(net of taxes of $1,385,562)).

In the event of a successful sale of YPPC, Foothill will pay the Company the proceeds of the sale minus the following: (i) the amount of the Foothills Debenture plus accrued interest as at July 31, 2010 less the $1,500,000 cash payment paid by the Company; and (ii) an administrative fee of CAD $100,000.

7. DUE TO/FROM RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Related party transactions for the current year that are not otherwise disclosed elsewhere in these consolidated financial statements are as follows:

a) Included in accounts payable are $nil (2009 – $189,126) due to companies controlled by the directors of the Company, and payables of $nil (2009 - $75,022) due to companies controlled by the officers of the Company. These debts are non-secured, non-interest bearing, and have no specific terms of repayment.

b) For the year ended September 30, 2010, management fees of $30,000 (2009 –$60,000) and occupancy cost of $55,000 (2009-$60,000) were charged by a company with a common director of the Company.

c) During the year ended September 30, 2010, management fees of $45,000 (2009-$15,000) was charged by a company controlled by the Chief Executive Officer of the Company

d) As at September 30, 2010, the Company had borrowed $Nil from a shareholder (September 30, 2009 - $1,886,510), $Nil from a company controlled by a director (September 30, 2009 - $1,208,900) and RMB nil (2009-RMB4.3 million or $675,100) from a company controlled by a shareholder of its ex-subsidiary, YPPC. Interest expense of $343,860 (2009-$390,015) on these loans were accrued. All these loans are unsecured and are due on October 1, 2010, at an interest rate of 10% per annum pursuant to the loan agreement. These loans and accrued interest were disposed when the Company passed on its 60% interest in YPPC to Foothill on August 31, 2010(Note 6)

e) The Company owed $2,423 (2008-$17,473) to various shareholders of the Company as at the year ended September 30, 2010. The loans are unsecured, non-interesting bearing and without specific terms of repayment.

The above transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

8. INCOME TAXES

The Company is subject to Canadian federal and provincial income taxes at an approximate rate of 28.88% (2009 – 30.13%).

The reconciliation of the recovery for income taxes at the Canadian statutory rate compared to the Company's income tax expense as reported is as follows:

		2010		2009
Loss from continued operations for the year before taxes	$	(298,147)	$	(984,706)
Statutory tax rate		28.88%		30.13%
Expected income tax recovery at the statutory rate		(86,090)		(296,692)
Non-deductible items and other permanent differences		(2,205,583)		(1,582,992)
Expiration of non-capital losses		63,342		40,021
Effect of change in tax rates		299,039		-
Change in valuation allowance		1,929,292		1,246,279
Total income tax recovery	**$**	**-**	**$**	**-**

8. INCOME TAXES (continued)

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred assets and liabilities as of September 30, 2010 and 2009 are as follows:

		2010		2009
Future income tax assets (liabilities):				
Future income tax assets:				
Non-capital losses carry-forward	$	1,184,742	$	1,096,745
Capital loss carry-forward		1,855,342		-
Mineral properties		84,193		84,193
Cumulative eligible capital		66,786		66,786
Others		106,154		120,201
Total future income tax assets		3,297,217		1,367,925
Less: Valuation allowance		(3,297,217)		(1,367,925)
Net future income tax assets	**$**	**-**	**$**	**-**

The Company has non-capital losses of approximately $4,738,969 which are available to reduce future taxable income in Canada and which expire between 2014 and 2030. The Company has not recognized any future benefit for these tax losses and resource and other available deductions, as it is not considered likely that they will be utilized. The expiration of these losses will occur as follows:

Year		Amount
2014	$	178,006
2015		145,848
2026		610,913
2027		677,234
2028		1,352,301
2029		1,203,313
2030		571,354
Total	$	4,738,969

Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. The risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to a number of different financial risks arising from normal course business exposures as well as the Company's use of financial instruments. These risks are as follows:

a) Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows include:

i) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument, or cash flows associated with the instrument, will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk through its floating interest rate long-term debt which was owed by its discontinued operation YPPC. After the Company disposed YPPC, the Company is not exposed to interest rate risk.

ii) Foreign Exchange Risk

After the disposition of YPPC, the Company does not have significant assets and liabilities in a region out of Canada; and does not have revenue and operating expenses that are denominated in foreign currencies. As a result, the Company is not exposed to foreign exchange risk as at September 30, 2010.

b) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its financial obligations as and when they fall due. The Company plans to meet the current spending forecast through equity financing, and successfully completed private placements to raise net proceed of $1,584,001 on September 27, 2010 and $400,000 on January 5, 2011 respectively to ensure the Company has adequate liquidity to meet its obligation. The following is an analysis of the contractual maturities of the Company's financial liabilities as at September 30, 2010:

Year	Accounts payable	Due to related parties	Total
2011	270,254	$2,423	$272,678

c) Credit Risk

Credit risk relates to the risk that one party to a financial instrument will not fulfill some or all of its obligation, thereby causing the Company to sustain a financial loss. The Company may be exposed to credit risk from its cash. The carrying amount of the assets on the balance sheet represents the maximum credit exposure.

The Company's cash is maintained in a Canadian chartered bank which is considered to have high creditability. It is management's opinion that the credit risk with respect to cash and accounts receivable is limited.

d) Fair Value Measurement

The Canadian Institute of Chartered Accountants Handbook Section 3862 "Financial Instruments Disclosures" requires financial instruments measured at fair value classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – quoted prices in active markets for identical assets or liabilities.
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e.: as prices) or indirectly (i.e.: derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data.

The following table illustrates the classification of the Company's financial instruments recorded at fair value within the fair value hierarchy as at September 30, 2010:

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	Level 1	Level 2 and 3
Cash	$199,548	-
Accounts payable and accrued liabilities	$270,255	-

Balance Sheet Financial Instruments

The carrying value and the classification of the Company's financial instruments from continuing operations are as follows:

	2010 $	**2009** $
Held-for-trading financial assets		
Cash	199,548	543,610
Loan and receivable		
Other receivable	-	8,777
Other liabilities		
Accounts payable and accrued liabilities	270,255	1,024,483
Due to related parties	2,423	17,473
Convertible debentures	-	5,770,414

The fair values of cash and cash equivalent, other receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short term nature. The fair value of the convertible debentures approximate their carrying value because the carrying values were established with the up-to-date effective interest rate determined according to the market rate of comparable debts.

It is impractical to determine the fair value of the amounts due to and due from related parties with sufficient reliability due to the nature of the financial instruments, the absence of secondary markets and the significant cost of obtaining outside appraisals.

10. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:
(a) to maintain adequate levels of funding to support and grow its operations; and
(b) to safeguard its ability to continue as a going concern.
The management of capital includes the management of cash and cash equivalents, bank indebtedness and shareholders' equity comprised of capital stock, contributed surplus and retained earnings.
Addition capitals are obtained through debt and equity financing. There can be no assurance that the Company will be able to obtain sufficient capital in the case of continued operating cash deficits.
The Company is not exposed to any externally imposed capital requirements.

11. SUBSEQUENT EVENTS

Subsequent to the year ended September 30, 2010, the Company completed a private placement to raise gross proceeds of $400,000 by issuing 8,000,000 units in $0.05/unit. Each unit consists of one common share and one share purchase warrant of the Company. Each warrant entitles the holder to purchase a common share of the Company at $0.05 for a period of five years. The Company will use the proceeds for its operations.