Consolidated financial statements of

Grenville Gold Corp.

(formerly Grenville Gold Corporation)
(a development stage company)

December 31, 2010 and 2009
(Expressed in Canadian dollars)

Grenville Gold Corp.

(formerly Grenville Gold Corporation)
(a development stage company)

December 31, 2010 and 2009

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Independent Auditor's Report

To the Shareholders of Grenville Gold Corp. (formerly Grenville Gold Corporation)

We have audited the accompanying consolidated financial statements of Grenville Gold Corp. (formerly Grenville Gold Corporation) (the "Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income (loss) and comprehensive income (loss), shareholders' equity and cash flows for the years then ended, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Grenville Gold Corp. (formerly Grenville Gold Corporation) 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 consolidated financial statements which indicates that the Company has incurred losses since inception of $7,220,665, and as of December 31, 2010, the Company has a working capital deficiency of $405,817. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

(Signed) Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
April 26, 2011

Grenville Gold Corp.

(formerly Grenville Gold Corporation)

(a development stage company)

Consolidated statements of income (loss) and comprehensive income (loss) years ended December 31, 2010 and 2009

(Expressed in Canadian dollars)

	2010	2009
	$	$
Expenses		
Management and administration	**117,221**	134,927
Professional fees	**50,934**	89,614
Filing, transfer agent and reporting fees	**25,782**	22,330
Consulting	**21,109**	114,300
Office and miscellaneous	**20,540**	64,742
Investor relations	**9,683**	167,899
Rent expense	**1,369**	19,863
Amortization	**1,093**	21,263
Stock-based compensation (Note 6)	**-**	26,346
Write-down of mineral properties (Note 4)	**-**	25,000
Write-down of equipment and machinery (Note 3)	**-**	11,121
	247,731	697,405
Other (income) expense		
Debt settlement	**(415,035)**	-
Foreign exchange gain	**(31,270)**	(348)
Gain on sale of marketable securities	**-**	(6,639)
	(446,305)	(6,987)
Net income (loss) and comprehensive income (loss)	**198,574**	(690,418)
Basic and diluted earnings (loss) per share	**0.04**	(0.14)
Weighted average number of common shares outstanding, basic and diluted	**5,556,936**	4,840,936

See accompanying notes to the consolidated financial statements.

Grenville Gold Corp.

(formerly Grenville Gold Corporation)

(a development stage company)

Consolidated balance sheets
as at December 31, 2010 and 2009

(Expressed in Canadian dollars)

	2010	2009
	$	$
Assets		
Current assets		
Cash	**38,678**	14,820
Sundry receivables	**85,607**	119,881
Prepaid expenses	**22,888**	28,625
	147,173	163,326
Equipment and machinery (Note 3)	**255**	1,348
Mineral properties (Note 4)	**4,121,400**	4,080,049
	4,268,828	4,244,723
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**485,854**	763,920
Due to related parties (Note 5)	**67,136**	68,344
	552,990	832,264
Future income tax liability (Note 7)	**547,595**	559,715
	1,100,585	1,391,979
Shareholders' equity		
Share capital (Note 6)	**7,698,655**	7,581,730
Warrants (Note 6)	**210,997**	347,814
Contributed surplus	**2,479,256**	2,342,439
Accumulated deficit	**(7,220,665)**	(7,419,239)
	3,168,243	2,852,744
	4,268,828	4,244,723

Nature of operations and going concern (Note 1)

Commitment (Note 11)

Subsequent events (Note 12)

Approved on behalf of the Board

(Signed) Thomas R. Tough

Thomas R. Tough

(Signed) Jack Bal

Jack Bal

Grenville Gold Corp.

(formerly Grenville Gold Corporation)

(a development stage company)

Consolidated statements of shareholders' equity

(Expressed in Canadian dollars)

	Number of shares	Amount	Share capital to be issued	Warrants	Contributed surplus	Accumulated deficit	Total
		$	$	$	$	$	$
Balance, December 31, 2008	4,267,650	6,903,149	406,245	711,102	1,741,808	(6,728,821)	3,033,483
Shares issued on private placements (Note 6 (b))	1,002,222	290,113	-	210,997	-	-	501,110
Shares issued for acquisition of mineral properties (Note 6 (d))	66,667	406,245	(406,245)	-	-	-	-
Expiry of warrants	-	-	-	(574,285)	574,285	-	-
Share issue costs	-	(17,777)	-	-	-	-	(17,777)
Stock-based compensation	-	-	-	-	26,346	-	26,346
Net loss and comprehensive loss	-	-	-	-	-	(690,418)	(690,418)
Balance December 31, 2009	5,336,539	7,581,730	-	347,814	2,342,439	(7,419,239)	2,852,744
Shares issued for debt settlement (Note 6 (b))	233,850	116,925	-	-	-	-	116,925
Expiry of warrants	-	-	-	(136,817)	136,817	-	-
Net income and comprehensive income	-	-	-	-	-	198,574	198,574
Balance December 31, 2010	**5,570,389**	**7,698,655**	**-**	**210,997**	**2,479,256**	**(7,220,665)**	**3,168,243**

See accompanying notes to the consolidated financial statements.

Grenville Gold Corp.

(formerly Grenville Gold Corporation)

(a development stage company)

Consolidated statements of cash flows
years ended December 31, 2010 and 2009

(Expressed in Canadian dollars)

	2010	2009
	$	$
Operating activities		
Net income (loss) for the year	198,574	(690,418)
Items not involving cash		
Debt settlement	(415,035)	-
Gain on sale of marketable securities	-	(6,639)
Stock-based compensation	-	26,346
Write-down of mineral properties	-	25,000
Write-down of equipment and machinery	-	11,121
Unrealized foreign exchange loss	(12,120)	(36,561)
Amortization	1,093	21,263
Change in non-cash working capital		
Sundry receivables	24,201	(2,675)
Prepaid expenses	5,737	62,725
Accounts payable and accrued liabilities	263,967	151,980
	66,417	(437,858)
Investing activities		
Other deposits	-	(555)
Mineral properties	(41,351)	(130,496)
	(41,351)	(131,051)
Financing activities		
Proceeds on disposal of marketable securities	-	30,000
(Repayment) receipt from related parties	(1,208)	46,699
Issue of share capital	-	501,110
Share issue costs	-	(17,777)
	(1,208)	560,032
Net cash inflows (outflows)	23,858	(8,877)
Cash, beginning of year	14,820	23,697
Cash, end of year	38,678	14,820

1. Nature of operations and going concern

Grenville Gold Corp. (formerly Grenville Gold Corporation) (the "Company") was incorporated as a private company under the laws of the province of Ontario by articles of incorporation effective November 17, 1994. By articles of amendment effective December 15, 1999, the private company restrictions were deleted from the articles. On June 19, 2009, the Company completed a continuance of business from Ontario to British Columbia. The Company is listed on the TSX Venture Exchange ("TSX-V:GVG"), the Frankfurt Stock Exchange in Germany ("Frankfurt:F9I"), and a pink sheet listing in the United States ("OTCPP:GVLGF").

The Company's principal business activities include acquiring and developing mineral resource properties. The Company is primarily engaged in exploration of a group of properties in Peru. The Company has not determined whether these mining properties contain ore reserves that are economically recoverable.

The consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes the realization of assets and the settlement of liabilities in the normal course of business. The appropriateness of the going concern assumption is dependent upon the Company's ability to reach future profitable operations and/or generate continued financial support through the issuance of additional capital. To date, the Company has not generated any revenues from its operations. The Company has a working capital deficiency and a deficit at December 31, 2010 as described in the table below. Management believes that sufficient working capital will be obtained from public share offerings to meet the Company's liabilities and commitments as they come due (Note 12). Uncertainty relating to these events and conditions casts significant doubt on the Company's ability to continue as a going concern. These financial statements do not reflect any adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classification that would be necessary if the going concern assumption were not appropriate and such adjustments could be material.

	December 31 2010	December 31 2009
	$	$
Working capital deficiency	**(405,817)**	(668,938)
Deficit	**(7,220,665)**	(7,419,239)

2. Significant accounting policies

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Company, wholly-owned subsidiaries, Grenville Silveria Ltd. and Grenville Espanola Holdings Ltd., both incorporated under the laws of British Columbia; and their subsidiaries, Minera Grenville S.A.C. (formerly Inversiones Mineras Alexander S.A.C.) and Minera Espanola S.A.C., both incorporated under the laws of Peru. Significant intercompany balances and transactions have been eliminated upon consolidation.

2. Significant accounting policies (continued)

(a) Principles of consolidation (continued)

The Company applies consolidation principles to those entities that are subject to control on a basis other than voting interests. A variable interest entity ("VIE") is defined as any legal structure not controlled by voting equity, but rather by contractual or other financial arrangements. Where the Company is considered the primary beneficiary of a VIE, consolidation is required. As at December 31, 2010, the Company has determined that it does not have any VIEs which require to be consolidated.

(b) Foreign currency translation

The accounts of integrated foreign operations are translated into Canadian dollar equivalents using the temporal method whereby all monetary assets and liabilities are translated at the rate of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Income and expenses are translated at rates approximating those at the transaction dates. Gains and losses are recognized in the statement of operations.

(c) Mineral properties

The Company capitalizes mineral property acquisition costs on a property-by-property basis. Mineral property acquisition costs include cash consideration and the fair market value of common shares issued for mineral property interests, based on the trading price of the shares at the time the acquisition is closed and shares issued pursuant to the terms of the relevant agreement. Payments relating to a property acquired under an option or joint venture agreement, where such payments are made at the sole discretion of the Company, are recorded in the accounts upon payment.

The Company defers exploration expenses relating to mineral properties and areas of geological interest until the properties to which they relate are placed into production, sold or abandoned. These costs will be amortized over the proven reserves available on the related property following commencement of production.

Development expenditures incurred subsequent to a development decision, to increase production, or to extend the life of existing production are capitalized. Acquisition costs and deferred development expenditures are amortized over the estimated life of the property, or written off to operations if the property is abandoned, allowed to lapse, or if there is little prospect of further work being carried out by the Company or its option to joint venture partners.

The amount presented for mineral property interests represents costs incurred to date and accumulated acquisition costs, less write-downs, and does not necessarily reflect present or future values.

2. Significant accounting policies (continued)

(d) *Measurement of uncertainties*

The preparation of financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and judgments 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 amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of environmental obligations, valuation of mineral properties, valuation of amounts payable, rates for depletion and amortization and stock-based compensation. Actual results could differ from those estimates. The Company had significant discussions with debtors during the year and, as a result, certain amounts which had been outstanding previously were settled for less than the carrying value which has resulted in a recovery during the year.

(e) *Asset retirement obligation*

The Company records a liability for legal obligations associated with the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. A liability for an asset retirement obligation is recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made. Furthermore, a corresponding asset retirement cost should be recognized by increasing the carrying amount of the related long-lived asset. The asset retirement cost is subsequently allocated in a rational and systematic method over the underlying asset's useful life. The initial fair value of the liability is accreted, by charges to operations, to its estimated future value. The Company has no asset retirement obligation at December 31, 2010 (2009 - $Nil).

(f) *Equipment and machinery*

Equipment and machinery are carried at cost less accumulated amortization. Amortization is calculated using a rate of 20% per year for office equipment.

(g) *Future income taxes*

The Company follows the asset and liability method of accounting for income taxes whereby future income tax assets and liabilities are determined based on differences between the financial statement carrying value and the respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the substantively enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

2. Significant accounting policies (continued)

(h) Share issue costs

Professional, consulting and regulatory fees as well as other costs that are directly attributable to financing transactions are deferred until such time as the transactions are completed. Share issue costs are charged to share capital when the related shares are issued. Costs relating to financing transactions that are not completed are charged to operations.

(i) Impairment of long-lived assets

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flows from use or disposal. In the event that a long-lived asset is determined to be impaired, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

(j) Income (loss) per share

Basic income (loss) per share is calculated using the weighted average number of common shares outstanding during the period.

The Company uses the treasury stock method to calculate diluted income (loss) per share. Diluted loss per share considers the dilutive impact of the exercise of outstanding stock options, warrants and similar instruments as if the events had occurred at the beginning of the period or at time of issuance, if later. For the year ended December 31, 2010, and the year ended December 31, 2009, this calculation was not presented separately as the effect of outstanding stock options and warrants was anti-dilutive.

(k) Financial instruments

Financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are initially measured in the balance sheet at fair value. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost, held-for-trading financial assets and liabilities are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

The Company designated financial instruments as follows: cash as held-for-trading, sundry receivables as loans and receivables and accounts payable as other financial liabilities. The Company also designated its marketable securities as available-for-sale investments, which are measured at fair value and any unrealized gains and losses are recognized in other comprehensive income (“OCI”) unless the impairment is other than temporary.

2. Significant accounting policies (continued)

(l) *Stock-based compensation*

The Company accounts for stock options using the fair value method. Under the fair value method, options granted to employees and non-employees are charged against income over the period of vesting. The fair value of each option granted is estimated on the date of the grant using the Black-Scholes options pricing model. The Company has a stock-based compensation plan as disclosed in Note 6 whereby stock options are granted in accordance with the policies of regulatory authorities. Any consideration paid by employees and non-employees upon exercise of stock options is credited to share capital. The contributed surplus balance is reduced as the options are exercised and the amount initially recorded is credited to share capital. The effect of forfeitures of stock-based compensation for non-vested options is recorded as an adjustment to stock-based compensation expense in the period the stock-based compensation is forfeited. There is no adjustment made to stock-based compensation expense for forfeitures where the options have vested.

(m) *Changes in accounting policies*

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Sections 1582, *Business Combinations* ("Section 1582"), 1601, *Consolidated Financial Statements* ("Section 1601"), and 1602, *Non-Controlling Interests* ("Section 1602"), which replaced CICA Handbook Sections 1581, *Business Combinations*, and 1600, *Consolidated Financial Statements.* Section 1582 establishes standards for the accounting for business combinations that are equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS").

Section 1582 and Sections 1601 and 1602 are applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011 with early adoption of these sections permitted, provided all three sections are adopted at the same time. The Company has adopted these sections effective January 1, 2010. The adoption of these sections did not have a material impact on the Company.

(n) *Future changes in accounting standards*

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") will require all public companies to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will be required to prepare both current and comparative financial information using IFRS.

3. Equipment and machinery

			December 31, 2010
	Cost	**Accumulated amortization**	**Net book value**
	$	**$**	**$**
Office equipment	**48,416**	**48,161**	**255**

			December 31, 2009
	Cost	Accumulated amortization	Net book value
	$	$	$
Office equipment	48,416	47,068	1,348

During 2009, the Company wrote down equipment and machinery by $11,121.

4. Mineral properties

Expenditures on, and write-downs of, mineral properties were as follows:

	December 31, 2009	Exploration expenditures	Write-down	**December 31, 2010**
	$	$	$	**$**
Silveria property, Peru				
Acquisition	2,556,950	-	-	**2,556,950**
Exploration	1,453,613	20,848	-	**1,474,461**
Recovery of mineral costs				**-**
through joint venture				**-**
agreement	(477,890)	-	-	**(477,890)**
Espanola/Rosa Maria property,				**-**
Peru				**-**
Acquisition	457,502	-	-	**457,502**
Exploration	89,874	20,503	-	**110,377**
	4,080,049	41,351	-	**4,121,400**

	December 31 2008	Exploration expenditures	Write-down	December 31, 2009
	$	$	$	$
Silveria property, Peru				
Acquisition	2,556,950	-	-	2,556,950
Exploration	1,348,117	130,496	(25,000)	1,453,613
Joint Venture	(477,890)	-	-	(477,890)
Espanola/Rosa Maria property,				
Peru				
Acquisition	457,502	-	-	457,502
Exploration	89,874	-	-	89,874
	3,974,553	130,496	(25,000)	4,080,049

4. Mineral properties (continued)

(a) *Silveria property*

On January 17, 2007, the Company acquired four mines through its subsidiary, Minera Grenville S.A.C., in the San Mateo Mining District, Province of Huarochiri, Department of Lima, Peru, directly from the Peruvian government agency responsible for mining. The four mines, Pacococha, Millotingo, Silveria and Germania have all been grouped into one property. Additional claims have been purchased and added to this property bringing the total mineral concessions comprising the Silveria property to 6,122 hectares ("Ha").

In January 2009, also through its subsidiary, Minera Grenville S.A.C., the Company purchased all the common shares of Sociedad Minera de Responsabilidad Limitada Bella Rubia ("Bella Rubia"), a Peruvian association of mineral title holder.

On September 16, 2009, the Company entered into a letter of intent ("LOI") with Compania Minera Sunicancha S.A.C. to purchase 100% of 13 claims owned by Minera Sunicancha S.A.C. totalling 1,250 Ha. The purchase price was US$2,000,000. The Company paid US$25,000 upon signing an LOI. The Company had not paid the US$2,000,000 by December 27, 2009, and the US$25,000 payment was written off in 2009.

As at December 31, 2010, significant work has been carried out on this property and plans are being prepared for further exploration.

(b) *Espanola/Rosa Maria property*

Pursuant to six letters of intent entered into on July 20, 2006, the Company, through its subsidiary, Minera Grenville S.A.C., has acquired a 7,129 Ha parcel of land located 100 kilometres ("km") southeast of the city of Lima, in the province of Canete, Peru.

In February 2009, through its subsidiary Minera Espanola S.A.C., the Company entered into a joint venture agreement with American Silver Compania Minera S.A.C., a Peruvian company, to mine copper on its 400 Ha of its 7,129 Ha Espanola property. Minera Espanola will be paid 7% of American Silver's mining revenue from mining activities on these claims. The joint venture was terminated in November 2009.

5. Due to related parties

During the year ended December 31, 2010, the Company incurred expenses of $8,654 (2009 - $115,228) for management and administration costs to directors, officers, former officers and a spouse of a former director of the Company.

Amounts due to directors, companies owned by directors, former directors, the officers of the Company, and the spouse of a director of the Company are unsecured, non-interest bearing and with no fixed terms of repayment; accordingly, the fair value cannot be readily determined.

These transactions were carried out in the normal course of operations and have been recorded at the exchange amount, which is the amount agreed to by the related parties.

As at December 31, 2010, the Company owed $44,309 (2009 - $68,344) to related parties for the above services.

6. Share capital and contributed surplus

(a) *Authorized*

Unlimited common shares without par value

On October 7, 2010, the Company received shareholder approval to consolidate its shares on a 10 to 1 basis. This resulted in the outstanding shares of the company being consolidated from 55,703,389 to 5,570,339. All references to common shares, share purchase warrants, stock options, and per share amounts for all periods have been adjusted on a retrospective basis to reflect the common share consolidation.

(b) *Private placements*

On April 24, 2009, the Company completed a private placement consisting of 500,164 units at $0.50 per unit for total proceeds of $250,082. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of $1.00 for two years from the date of closing. No finders' fees were paid in connection with this private placement.

On September 9, 2009, the Company completed a private placement consisting of 502,058 units at $0.50 per unit for total proceeds of $251,028. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of $1.00 for two years from the date of closing. The first tranche was closed on July 28 and the second tranche was closed on September 9. Finders' fees of $17,777 were paid in connection with this private placement.

On January 21, 2010, the Company issued 233,850 common shares for settlement of accounts payable totaling $116,925 at a deemed price of $0.50 per share.

(c) *Acquisition of Inversiones Mineras Alexander S.A.C.*

On June 8, 2006, the Company entered into a share purchase agreement to acquire 90% of Inversiones Mineras Alexander S.A.C. ("IMA"), a company incorporated under the laws of Peru and renamed the subsidiary Minera Grenville S.A.C. On June 1, 2007, the Company received final regulatory approval on this transaction. In connection with the acquisition, over a two-year period, the Company issued 200,000 common shares to the two current shareholders of IMA (one of which was a former director of the Company) of which 66,666 shares were issued on June 15, 2007, a further 66,666 shares were issued on June 15, 2008 and 66,667 shares were issued on June 15, 2009.

6. Share capital and contributed surplus (continued)

(d) Share purchase warrants

As at December 31, 2010, the Company had outstanding warrants enabling the holders to acquire one common share for each warrant as follows:

Number of warrants	Exercise price	Expiry date
	$	
500,164	1.00	April 23, 2011
353,700	1.00	July 27, 2011
148,358	1.00	September 8, 2011
1,002,222		

	December 31, 2010		December 31, 2009	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted average exercise price
		$		$
Balance outstanding, beginning of year	**2,002,222**	**1.00**	1,480,453	2.86
Warrants issued	**-**	**-**	1,002,222	1.00
Warrants expired	**(1,000,000)**	**1.00**	(480,453)	6.74
Balance outstanding, end of year	**1,002,222**	**1.00**	2,002,222	1.00

The fair value of the warrants issued as part of the private placements in 2009 was determined using the Black-Scholes model and the following weighted average assumptions:

	2009
Risk free interest rate	1.13%
Expected dividend yield	-
Expected warrant life (years)	2.00
Expected stock price volatility	115%
Weighted average fair value of warrants granted	$0.16

6. Share capital and contributed surplus (continued)

(e) *Stock options*

The Company has a stock option plan ("2006 Plan") whereby a maximum of 10% of the issued and outstanding common shares of the Company may be reserved for issuance pursuant to the exercise of options. The term of the stock options granted is fixed by the board of directors and is not to exceed five years. The exercise prices of the stock options granted may not be less than the minimum then specified by the rules of the TSX Venture Exchange. Vesting periods are determined by the board of directors.

Option transactions are summarized as follows:

	Number of options	Weighted average exercise price
		$
Outstanding, December 31, 2008	348,000	2.80
Granted	60,000	1.00
Expired	(65,000)	1.60
Outstanding, December 31, 2009	343,000	2.80
Expired	(110,000)	4.20
Outstanding, December 31, 2010	233,000	2.48

At December 31, 2010, the Company had outstanding and exercisable options enabling the holders to acquire common shares as follows:

Number of options	Exercise price	Expiry date	Weighted average remaining life (years)
	$		
11,000	4.00	October 17, 2011	0.79
5,000	5.00	January 9, 2012	1.04
2,500	5.20	February 15, 2012	1.21
14,500	6.00	June 4, 2012	1.43
13,000	6.00	August 27, 2012	1.67
72,000	3.00	January 14, 2013	2.04
45,000	1.00	August 8, 2013	2.66
45,000	1.00	December 8, 2013	3.24
25,000	1.00	April 20, 2014	3.54
233,000			2.34

6. Share capital and contributed surplus (continued)

(e) Stock options (continued)

The fair value of the options was determined using the Black-Scholes model and the following weighted average assumptions:

	2009
Risk free interest rate	0.97%
Expected dividend yield	-
Expected option life (years)	5
Expected stock price volatility	127%
Weighted average fair value of options granted	$0.44

7. Income taxes

A reconciliation of income taxes at statutory rates with the reported taxes for the most recently completed year ends is as follows:

	2010	2009
	$	$
Income (loss) before income taxes	**198,574**	(690,418)
Statutory income tax rate	**28.5%**	30.0%
Expected tax expense (recovery) at statutory rates	**56,594**	(207,125)
(Increase) decrease resulting from		
Non-deductible items for tax purposes	**87**	8,542
Permanent differences	**15,103**	80,054
Benefits of tax losses recognized	**(56,102)**	-
Effect of change in tax rates	**-**	89,490
Change in valuation allowance	**(15,682)**	29,039
Income tax provision	**-**	-

7. Income taxes (continued)

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

	2010	2009
	$	$
Future income tax assets		
Share issuance costs	**5,217**	21,999
Equipment	**28,103**	27,984
Mineral properties	**173,189**	173,188
Non-capital loss carryforwards	**926,291**	925,251
	1,132,800	1,148,422
Valuation allowance	**(1,132,800)**	(1,148,422)
Net future income tax asset	**-**	-
Future income tax liability		
Mineral properties	**547,595**	559,715

Future tax benefits from the future income tax assets, which may arise as a result of applying these deductions to taxable income, have not been recognized in these accounts due to uncertainty regarding their utilization.

The Company has available consolidated non-capital losses for income tax purposes in Canada and Peru which may be carried forward to reduce taxable income in future years. If not utilized, the non-capital losses in the amount of $3,626,577 expire as follows:

	$
2012	76,770
2026	991,940
2027	1,595,940
2028	751,260
2029	207,204
2030	3,463
	3,626,577

8. Segmented information

The Company operates in one reportable operating segment, being the exploration and evaluation of mineral properties.

The Company operates in two geographic segments, Canada and Peru. At December 31, 2010, 99% of the Company's assets are held in Peru.

9. Management of capital risk

The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, warrants, shares to be issued, contributed surplus, deficit and accumulated other comprehensive income. The Company manages its capital to effectively fund its exploration and development expenditures and corporate costs with its objective of maintaining adequate liquidity within the Company to continue as a going concern. To effectively manage its resources and minimize risk, the Company funds activities in its operating subsidiaries through a monthly cash call process that is based on forecasts and reviewed monthly. The Company is not subject to any externally imposed capital requirements and does not have exposure to asset-backed commercial paper or similar products.

10. Financial instruments

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, market risk and other price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

(a) Fair value

Financial instruments consist of cash, sundry receivables, accounts payable and accrued liabilities, and due to related parties. The fair values of all financial instruments are considered to approximate their carrying values due to their short-term nature.

(b) Credit risk

Credit risk is the risk of an unexpected loss if a party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is limited to exploration advances and other receivables. The Company's cash assets are held in demand accounts with large financial institutions in Canada and Peru. The Company's sundry receivables of $85,607 are primarily with the government and the Company believes that these amounts are recoverable. The Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has in place a planning process to help determine the funds required to support the Company's ongoing operating requirements and its planned capital expenditures. The Company has considerable discretion to reduce or increase exploration plans or budgets depending on current or projected liquidity. When appropriate, the Company seeks joint venture partners in order to fund or share in the funding of its exploration properties to minimize shareholder risk.

10. Financial instruments (continued)

(d) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Financial instruments that impact the Company's net earnings due to currency fluctuations include: U.S. dollar denominated cash, exploration advances and other receivables and accounts payable and accrued liabilities. The Company holds certain financial instruments in Peruvian Soles. However, due to the insignificant balances, the Company is exposed to minimal risk in those currencies. Sensitivity of the Company's net loss from these financial instruments due to changes in the exchange rate between the Canadian dollar and the Peruvian Sole given a 10% increase/decrease in the Canadian dollar, assuming that all other variables remain constant, is approximately a $50,000 increase/decrease in the Company's net loss.

(e) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to short-term interest rates through the interest earned on cash balances.

11. Commitment

As at December 31, 2010, the Company had unpaid claim fees for certain concessions of $42,845 relating to the Silveria and Espanola properties. These unpaid claims are due in July 2011 and, if not paid, the Company may lose the right to perform exploration activities on these properties.

12. Subsequent events

(a) In January 2011, the Company completed a private placement of 4,000,000 units at a price of $0.23 for gross proceeds of $920,000. Each unit consists of one common share and common share purchase warrant, with each warrant exercisable to purchase an additional common share at a price of $0.31 per share for a period of two years from the date of closing of the private placement.

(b) In March 2011, the Company granted a total of 900,000 incentive stock options to directors, officers, and employees of the Company, in accordance with the Company's stock option plan. The options vest immediately, are exercisable at $0.50 per share and have a five year term expiring March 21, 2016.

(c) In March 2011, the Company completed a non-brokered private placement of 1,050,000 units at a price of $0.40 per unit for gross proceeds of $420,000. Each unit consists of one common share and one common share purchase warrant with each warrant entitling the holder to purchase an additional common share at $0.47 per share for a three year period expiring March 14, 2014.