LORNEX CAPITAL INC.

Consolidated Financial Statements

Years Ended December 31, 2010 and 2009

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Lornex Capital Inc.**:

We have audited the accompanying consolidated financial statements of Lornex Capital Inc. and its subsidiary, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 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 consolidated financial statements based on our audit. We conducted our audit 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 auditors' 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 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 Lornex Capital Inc. and its subsidiary as at December 31, 2010 and the results of their operations and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 of these financial statements, which states that Lornex Capital Inc. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters as described in Note 1, indicate the existence of a material uncertainty which may cast doubt about the ability of Lornex Capital Inc. to continue as a going concern.

Other Matter
The consolidated financial statements of Lornex Capital Inc. as at December 31, 2009 and for the year then ended were audited by a firm of certified general accountants who expressed an unmodified opinion on those statements in their audit report dated March 24, 2010.

Meyers Norris Penny LLP

April 26, 2011

Vancouver, British Columbia — Chartered Accountants

CHARTERED ACCOUNTANTS & BUSINESS ADVISORS
SUITE 2300, 1055 DUNSMUIR ST., BOX 49148, VANCOUVER, BC V7X 1J1
1-877-688-8408 PH. (604) 685-8408 FAX (604) 685-8594 mnp.ca

LORNEX CAPITAL INC.

Consolidated Balance Sheets
(Expressed in Canadian Dollars)

December 31, 2010 and 2009

		2010		2009
ASSETS				
Current				
Cash	$	29,443	$	19,915
Short-term investments (Note 5)		900,000		275,000
Amounts receivable		13,791		4,513
Prepaid expenses and deposits (Note 10)		58,932		2,000
		1,002,166		301,428
Equipment (Note 6)		4,134		-
Reclamation deposit (Note 7)		-		5,000
Mineral property interests (Note 8)		35,168		25,000
	$	1,041,468	$	331,428
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	24,255	$	21,630
SHAREHOLDERS' EQUITY				
Share capital (Note 9)		3,619,811		2,633,874
Contributed surplus (Note 9)		342,857		307,863
Deficit		(2,945,455)		(2,631,939)
		1,017,213		309,798
	$	1,041,468	$	331,428

Nature of operations (Note 1)
Subsequent event (Note 14)

ON BEHALF OF THE BOARD:

"Marc Levy" Director

"Marc Morin" Director

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

LORNEX CAPITAL INC.

Consolidated Statements of Operations, Comprehensive Loss and Deficit
(Expressed in Canadian Dollars)

Years Ended December 31, 2010 and 2009

		2010		2009
Expenses:				
Amortization	$	730	$	-
Bank charges and interest		430		488
Consulting fees		40,250		2,625
Management fees		73,800		108,584
Office, rent and administration		88,863		66,810
Professional fees		22,579		17,993
Regulatory fees		16,053		8,741
Stock-based compensation		39,526		68,680
Transfer agent		6,044		6,216
Travel, promotion and shareholder communications		27,015		3,410
		315,290		283,547
Loss before other item		(315,290)		(283,547)
Interest income		6,774		1,009
Property acquisition cost written-down		-		(346,187)
Write-off of reclamation deposits		(5,000)		-
Loss and comprehensive loss for the year		(313,516)		(628,725)
Deficit, beginning of year		(2,631,939)		(2,003,214)
Deficit, end of year	$	(2,945,455)	$	(2,631,939)
Loss per share – basic and diluted	$	(0.03)	$	(0.08)
Weighted average number of common shares outstanding - basic and diluted		11,837,259		7,710,856

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

LORNEX CAPITAL INC.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

Years Ended December 31, 2010 and 2009

		2010		2009
Cash flows from (used in) operating activities:				
Loss for the year	$	(313,516)	$	(628,725)
Items not involving cash:				
Amortization		730		-
Stock-based compensation		39,526		68,680
Property acquisition cost written-down		-		346,187
Write-off of reclamation deposits		5,000		-
Changes in non-cash working capital items:				
Amounts receivable		(9,278)		4,811
Prepaid expenses and deposits		(56,932)		24,000
Accounts payable and accrued liabilities		2,625		10,994
		(331,845)		(174,053)
Cash flows from (used in) investing activities:				
Short-term investments		(625,000)		(275,000)
Purchase of equipment		(4,864)		-
Mineral property		(10,168)		-
		(640,032)		(275,000)
Cash flows from (used in) financing activities:				
Share issued for cash		1,045,958		220,000
Share issue costs		(64,553)		(1,850)
		981,405		218,150
Increase (decrease) in cash		9,528		(230,903)
Cash, beginning of year		19,915		250,818
Cash, end of year	$	29,443	$	19,915
Supplementary information:				
Non-cash financing activity:				
Fair value of finders' shares and warrants issued (Note 8)	$	22,661	$	-
Reclassification of contributed surplus on exercise of options	$	11,198	$	-

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

1. NATURE OF OPERATIONS

The Company was incorporated on July 26, 2000 under the Canada Business Corporations Act and is engaged in the acquisition, exploration and development of mineral properties.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The Company's ability to continue as a going concern and the recoverability of the amounts capitalized for mineral properties and related deferred exploration expenditures are dependent upon the ability of the Company to raise additional financing in order to complete the acquisition, exploration and development of its mineral properties, the discovery of economically recoverable reserves, the attainment of future profitable production or proceeds from disposition of the Company's mineral properties. The outcome of these matters cannot be predicted at this time.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles ("GAAP") on the basis of a going concern, which assumes the Company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future.

As at December 31, 2010, the Company has not yet achieved profitable operations and has working capital of $977,911 (2009 – $279,798) and accumulated deficit of $2,945,455 (2009 - $2,631,939).

The Company has prepared a budget for its cash flows based on management's best estimates of operating conditions in the context of current economic conditions. Management has estimated that the Company will have adequate funds from existing working capital to meet corporate, administrative and other obligations during the year ending December 31, 2011. The Company will require additional financing as it determines to acquire additional properties or accelerate its work programs. While the Company has been successful in raising financing in the past, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on acceptable terms.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These consolidated financial statements include the accounts of the Company and its 100% owned subsidiary, Rosswoll Industries Inc., incorporated in British Columbia. The Company owned 80% of the common shares of Rosswoll Industries Inc. in 2009. The Company acquired another 20% of the common shares during 2010 with no consideration to the minority interest shareholders.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

b) Estimates, Assumptions and Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant areas requiring the use of management estimates relate to the impairment of mineral property interests, the determination of reclamation obligations, amortization period of property, plant and equipment, valuation of stock-based compensation, and the estimation of future income tax asset valuation allowances. Actual results could differ from those estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

c) Short-term Investments

Short-term investments consist of investments in guaranteed investment certificates which have maturity dates beyond three months.

d) Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated annually at the following rates:

Computer hardware	-	30% declining balance method

Further, property, plant and equipment are amortized at one-half of the annual rate in the year of acquisition.

e) Mineral Property Acquisition and Exploration Costs

The Company records its interests in mineral properties at cost. All direct costs relating to the acquisition of these interests are capitalized until the properties to which they relate are placed into production, sold or abandoned. These costs will be amortized on the unit of production basis over the proven reserves of the related property following commencement of production. Proceeds received, as a result of the sale of a mineral property, will be applied first against the book value of the property, and any excess will be set off against deferred exploration costs.

Exploration costs relating to mineral properties are deferred until the properties are brought into production, at which time the deferred exploration costs are to be amortized on a unit of production basis, or until the properties are abandoned or sold, at which time the deferred costs are written off.

The mineral properties and exploration costs are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When there is evidence of impairment, the net carrying amount of the asset will be written down to its net recoverable amount which is the estimated undiscounted future net cash flows expected to result from the asset and its eventual disposition. The loss on impairment written off is not reversed even if circumstances change and the net recoverable amount subsequently increases.

The amounts shown as mineral properties and deferred exploration costs represent unamortized costs to date and do not necessarily reflect present or future values.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

f) Impairment of Long-Lived Assets

The fair value of a liability for an asset retirement obligation, such as site reclamation costs, is recognized in the period in which it is incurred if a reasonable estimate of the fair value of the costs to be incurred can be made. The Company is required to record the estimated present value of future cash flows associated with site reclamation as a liability when the liability is incurred and increase the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs will be amortized to expense over the life of the related assets using the unit-of-production method. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial fair value measurements (additional asset retirement costs).

g) Asset Retirement Obligations

The Company accounts for asset retirement obligations and site rehabilitation costs in accordance with the requirements of Canadian Institute of Chartered Accountants Handbook Section 3110 *Asset Retirement Obligations*. Under this policy, the present value of future closure obligations is recorded as a liability when that liability is incurred with a corresponding increase in carrying value of the related mining property assets. The increased carrying value of the mining property asset will be amortized over the life of the related mining assets on a unit of production basis when the property comes into production. The liability for asset retirement obligations is accreted to the amount ultimately payable over the period to the date it is paid. As at December 31, 2010 the Company has not recognized any asset retirement obligations.

h) Financial Instruments

The Company adopted the CICA Handbook Section 3855 *Financial Instruments – Recognition and Measurement*. Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. Company's financial instruments consist of cash, short-term investments, amounts receivable and accounts payable and accrued liabilities. All financial instruments are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial 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 Company has classified its financial instruments as follows:

- Cash and short-term investments are classified as held-for-trading.
- Amounts receivables are classified as loans and receivables.
- Accounts payable and accrued liabilities are classified as other financial liabilities.

Fair value estimates are made at the balance sheet date, based on relevant market information and other information about financial instruments, and approximate carrying values unless otherwise noted. The Company does not use any hedging instrument.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

h) Financial Instruments - continued

The Company considers net smelter return ("NSR") and other production related commitments associated with mineral property interests to be derivate instruments. Until such time as economically recoverable resources are identified such derivates are not considered to have reliably measurable value.

i) Stock Based Compensation

The Company follows the recommendation of CICA handbook Section 3870 *Stock-based Compensation and Other Stock-based Payments*. Under this section the compensation expense for stock options grants to employees and non-employees is recorded at the fair value of the stock options issued at the grant date, which is determined using the Black-Scholes Option-Pricing Model. Compensation expense for stock options granted to non-employees is recognized as the options are earned and the services are provided. Compensation expense for stock options granted to employees is amortized over the vesting period. Consideration paid by employees and non-employees on the exercise of stock options is recorded as share capital.

j) Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive. Accordingly, there is no difference in the amount presented for basic and diluted loss per share.

k) Comprehensive Loss

Comprehensive loss reflects net loss and other comprehensive income (loss) for the year. 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.

l) Hedges

This standard is applicable when a Company chooses to designate a hedging relationship for accounting purposes. It builds on the previous AcG-13, *Hedging Relationships*, and CICA 1650, *Foreign Currency Translation*, by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

m) Income Taxes

The Company accounts for income taxes using the asset and liability method, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized. The valuation of future income tax assets is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated realizable amount.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

a) Fair value Hierarchy

In 2009, the CICA amended 3862, *Financial Instruments – Disclosures*, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosure. This amendment requires a three level hierarchy that reflects the significance of the inputs used in measuring the fair value as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 – Inputs that are not based on observable market data.

The amended section relates to disclosure only and did not have a material impact on the financial results of the Company.

The classification of the Company's financial instruments within the fair value hierarchy as at December 31, 2010 is presented in note 11.

b) Accounting Changes

CICA Handbook Section 1506, *Accounting Changes*, establishes criteria for changes in accounting policies, accounting treatment and disclosure regarding changes in accounting policies, estimates and corrections of errors. In particular, this section allows for voluntary changes in accounting policies only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policies to be applied retrospectively unless doing so is impracticable.

4. FUTURE ACCOUNTING PRONOUNCEMENTS

a) International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 and will be applicable to the Company commencing with its fiscal year beginning January 1, 2011. The transition date of January 1, 2011 for the Company will require the restatement for comparative purposes of amounts reported by the Company for the year ending December 31, 2010. The Company continues to monitor and assess the impact of Canadian GAAP and IFRS.

b) Business Combinations

CICA Handbook Section 1582, *Business Combinations*, replaces Section 1581, *Business Combinations* and provides the Canadian equivalent to International Financial Reporting Standards (“IFRS”) 3, *Business Combinations*. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. Earlier application is permitted. The Company does not expect to adopt this standard prior to January 1, 2011, at which time it expects to adopt the equivalent IFRS standard.

c) Consolidations and Non-Controlling Interests

Section 1601, *Consolidated Financial Statements,* and Section 1602, *Non-Controlling Interests*, replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), *Consolidated and Separate Financial Statements*. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company does not expect to adopt this standard prior to January 1, 2011, at which time it expects to adopt the equivalent IFRS standard.

(Expressed in Canadian Dollars)

5. SHORT-TERM INVESTMENTS

	2010				
	Maturity		Principal		Accrued interest
12 months term investment					
Prime less 1.85% annual interest rate	March 22, 2011	$	100,000	$	502
Prime less 1.80% annual interest rate	May 5, 2011		800,000		5,058
		$	900,000	$	5,560

	2009				
	Maturity		Principal		Accrued interest
12 months term investment					
Prime less 1.85% annual interest rate	July 15, 2010	$	275,000	$	509

6. EQUIPMENT

					2010		2009	
	Cost		Accumulated Amortization		Net Book Value		Net Book Value	
Computer equipment	$	4,864	$	730	$	4,134	$	-

7. RECLAMATION DEPOSITS

As at December 31, 2010, the Company had reclamation deposits with the Province of British Columbia totalling $Nil (2009 - $5,000) with regard to the Rosswoll Property.

During the year ended December 31, 2007, the Company terminated the option on the Rosswoll Property. The Company determined that it will not carry out any reclamation work on the property and wrote-off reclamation deposit of $5,000 during the year ended December 31, 2010.

(Expressed in Canadian Dollars)

8. MINERAL PROPERTY INTERESTS

Balance, December 31, 2008	$	371,187
Write-down of mineral property		(346,187)
Balance, December 31, 2009		25,000
Exploration:		
Consulting and geological fees		982
Equipment and related costs		2,609
Wages and contract work		5,577
Property maintenance costs		1,000
Balance, December 31, 2010	$	35,168

The Company acquired a 100% interest in the AMI claims by staking and purchase by way of the issuance of 300,000 common shares of the Company valued at $75,000 and a cash payment of $77,030. The property is subject to a 1% NSR royalty. During the year ended December 31, 2009, management wrote down the property to reflect a realizable value resulting in a write-off of acquisition and exploration costs of $346,187.

9. SHARE CAPITAL

a) Authorized

An unlimited number of common shares without par value

b) Issued and Outstanding

	Number of Shares		Amount		Contributed Surplus
Balance, December 31, 2008	4,872,500	$	2,415,724	$	239,183
Private placement	4,000,000		220,000		-
Share issue costs	-		(1,850)		-
Stock-based compensation	-		-		68,680
Balance, December 31, 2009	8,872,500		2,633,874		307,863
Private placement	3,426,667		1,028,000		-
Finders' fees	53,317		15,995		-
Finders' warrants issued	-		(6,666)		6,666
Options exercised	163,255		17,958		-
Share issue costs	-		(80,548)		-
Transfer from contributed surplus on exercise of options	-		11,198		(11,198)
Stock-based compensation	-		-		39,526
Balance, December 31, 2010	12,515,739	$	3,619,811	$	342,857

9. SHARE CAPITAL - continued

b) Issued and Outstanding - continued

On March 5, 2010, the Company completed a non-brokered private placement of 3,426,667 units at a price of $0.30 per unit for gross proceeds of $1,028,000. Each unit consists of one common share and one-half of a common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase an additional common share of the Company at a price of $0.50 per common share expiring March 5, 2012. The share purchase warrants are subject to an acceleration provision whereby if the trading price of the Company's common shares on the TSX Venture Exchange ("Exchange") over a period of 10 consecutive trading days exceeds $0.75, the Company may, at its option, provide notice to the warrant holders that the warrants will expire on the date which is 30 days after the date of such notice.

The Company paid an aggregate of $55,965 and issued an aggregate of 53,317 units of the Company as finders' fees related to this financing. Each unit consists of one common share and one-half of one transferable common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share of the Company at a price of $0.50 per common share expiring March 5, 2012.

The fair value of the finders' warrants of $6,666 has been charged to share issue costs with a corresponding increase to contributed surplus. The fair value of these finders' warrants was determined using the Black-Scholes option pricing model using the following weighted average assumptions: expected dividend yield - 0%; expected stock price volatility – 127.32%; risk free interest rate – 1.41%; expected life - 2 years. The weighted average fair value of the finders' warrants issued during the year ended December 31, 2010 was $0.25 per share.

During the year ended December 31, 2010, 163,255 stock options at $0.11 per share were exercised for total proceeds of $17,958. A reclassification of $11,198 from contributed surplus to share capital was recorded on the exercise of these options.

On April 17, 2009, the Company closed a non-brokered private placement of 4,000,000 units at a price of $0.055 per unit for gross proceeds of $220,000. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder, on exercise, to acquire one additional common share of the Company at an exercise price of $0.10 per share expiring April 17, 2011.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL - continued

c) Warrants

Each whole warrant entitles the holder to purchase one common share of the Company. A summary of the outstanding warrants is presented below:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2008	1,333,333	$ 0.33
Private placement	4,000,000	0.10
Balance, December 31, 2009	5,333,333	0.16
Private placement	1,739,992	0.50
Expired	(1,333,333)	0.33
Balance, December 31, 2010	5,739,992	$ 0.22

Share purchase warrants outstanding at December 31, 2010 are as follows:

Number of warrants	Exercise Price	Expiry Date
4,000,000	$0.10	April 17, 2011
1,739,992	$0.50	March 5, 2012
5,739,992		

d) Stock Options

The Company has an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL - continued

d) Stock Options - continued

A summary of outstanding stock options is presented below:

	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2008	487,000	$ 0.11
Granted	400,000	0.11
Balance, December 31, 2009	887,000	0.11
Granted	235,000	0.31
Exercised	(163,255)	0.11
Forfeited	(61,745)	0.11
Balance, December 31, 2010	897,000	$ 0.16

The following table summarizes information about the stock options outstanding at December 31, 2010:

Exercise Price	Options Outstanding	Expiry Date	Options Exercisable
$0.11	362,000	Sept. 26, 2013	362,000
$0.11	300,000	April 17, 2019	300,000
$0.35	50,000	January 12, 2020	31,250
$0.30	185,000	June 14, 2020	92,500
	897,000		785,750

During the year ended December 31, 2010, under the fair value based method, $39,526 (2009 - $68,680) in compensation expense was recorded for stock options granted to directors, officers, employees and consultants of the Company and charged to operations.

The fair value of stock options used to calculate compensation expense has been estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2010	2009
Risk free interest rate	1.81%	2.09%
Expected dividend yield	0%	0%
Expected stock price volatility	114.68%	103.19%
Expected life of options	3.29 years	6.37 years

The weighted average fair value of options granted during the year ended December 31, 2010 was $0.18 (2009 - $0.15) per share.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL - continued

e) Escrow Shares

As at December 31, 2010, Nil (2009 - 10,000) common shares are held in escrow.

10. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Company entered into the following transactions with related parties:

a) Paid or accrued $65,500 (2009 - $60,000) for office, rent and administration to companies having directors and officers in common.

b) Paid or accrued $73,800 (2009 - $108,584) for management fees to two companies controlled by a director and officer and a former director and officer of the Company.

c) Paid or accrued $7,225 (2009 - $3,403) for legal fees to a company controlled by an officer of the Company.

Included in prepaid expenses is a rent deposit of $2,000 (2009 - $2,000) paid to a company having directors and officers in common.

Included in accounts payable and accrued liabilities is management fees of $6,048 (2009 - $8,400) payable to a company controlled by a director and an officer of the Company.

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

11. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, short-term investments, amounts receivable, and accounts payable and accrued liabilities.

The fair values of these financial instruments approximate their carrying values due to their short-term nature and/or the existence of market related interest rate on the instruments.

The following table is a classification of fair value measurements recognized using a fair value hierarchy that reflects the significance of the inputs used in making the measurements as at December 31, 2010:

Assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 29,443	$ -	$ -	$ 29,443
Short-term investments	$ 900,000	$ -	$ -	$ 900,000

The Company's risk exposure is summarized as follows:

The Company is exposed in varying degrees to a variety of financial instrument related to risks. The Board approves and monitors the risk management processes:

11. FINANCIAL INSTRUMENTS - continued

a) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on the cash balances at the bank, its short-term bank guaranteed investment certificates and amounts receivable. Cash and cash equivalents consisting of Guaranteed Investment Certificates ("GICs") have been invested with Schedule 1 banks or equivalents, with its cash held in Canadian based banking institutions, authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. The receivables consist primarily of goods and services tax recoverable of $8,231 and interest receivable of $5,560.

b) Liquidity Risk

The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at December 31, 2010, the Company had cash and short-term investments of $929,443 to settle current liabilities of $24,255 which mainly consist of accounts payable that are considered short term and settled within 30 days. The Company has sufficient capital to meet its requirements for fiscal 2011.

c) Market risk

(i) 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's cash attract interest at floating rates and have maturities of 90 days or less. The Company's short-term investments are invested in GICs with greater than 90 day terms but not greater than one year. These GICs have a fixed interest rate for the term of the deposit. The interest on cash and GICs is typical of Canadian banking rates, which are low at present and the conservative investment strategy mitigates the risk of deterioration to the investment. A change of 100 basis points in the interest rates would not be material to the financial statements.

(ii) Commodity Price Risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company's commodity inputs and outputs. The Company's risk relates primarily to the expected output to be produced at its mineral properties described in note 8 to these consolidated financial statements of which production is not expected in the near future.

(Expressed in Canadian Dollars)

12. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' equity as capital. The management of the capital structure is based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties and to maintain the Company in good standing with the various regulatory authorities. In order to maintain or adjust its capital structure, the Company may issue new shares or debt or sell assets to settle liabilities.

The properties in which the Company currently has an interest in are in the exploration stage, as such, the Company does not recognize revenue from its exploration properties. The Company's historical sources of capital have consisted of the sale of equity securities and interest income. In order for the Company to carry out planned exploration and development and pay for administrative costs, the Company will spend its working capital and expects to raise additional amounts externally as needed.

The Company has no debt and is not subject to externally imposed capital requirements.

There were no changes in the Company's management of capital during the year ended December 31, 2010.

13. INCOME TAXES

The Company's effective tax rate differs from the amount that would be computed by applying federal and provincial statutory rate of 28.5% (2009 - 30%) to the pre-tax net loss for the year. The differences result form the following items:

	2010	2009
Loss for the year	$ 313,516	$ 628,725
Statutory rate	28.50%	30.00%
Expected income tax recovery	(89,352)	(188,618)
Non-deductible items	13,010	20,840
Expiry of loss carry forwards	36,906	20,300
Effect of change in tax rates	9,375	27,963
Change in valuation allowance	(2,043)	(18,495)
Tax effect of share issuance costs	(18,471)	(463)
Change in prior year estimates	50,575	138,473
Total income tax recovery	$ -	$ -

(Expressed in Canadian Dollars)

13. INCOME TAXES - continued

The company's future income tax assets are as follows:

	2010	2009
Future income tax assets		
Non-capital losses carried forward	$ 293,688	$ 312,124
Share issuance cost	15,633	-
Exploration and development costs	314,544	311,200
Tax value of capital assets in excess of book value	7,716	10,300
	631,581	633,624
Less		
Valuation allowance	(631,581)	(633,624)
Net future income tax assets	$ -	$ -

Due to losses incurred in the current year and expected future operating results, management determined that it is more likely than not that the future income tax assets will not be realized, and accordingly, a valuation allowance has been recorded for the future income tax assets.

At December 31, 2010, the Company had non-capital losses approximately $1,174,752 which may be carried forward to apply against future income tax for Candian tax purposes, subject to final determination by taxation authorities and expring as follows:

	$
2014	145,882
2015	159,744
2026	126,327
2027	45,664
2028	199,093
2029	214,600
2030	283,442
	1,174,752

14. SUBSEQUENT EVENT

Subsequent to the year ended December 31, 2010, the Company announced that it will be seeking shareholder approval of a special resolution to consolidate its share capital on the basis on one new common share for up to every three existing common shares. The resolution must be passed by not less than two-thirds of the votes. The Company currently has 13,840,737 common shares issued and outstanding and in the event the Consolidation is conducted on a 3 for 1 basis, the Company will have approximately 4,613,579 common shares issued and outstanding.