Montana Gold Mining Company Inc.

(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)

Consolidated Financial Statements

(Expressed in United States Dollars)

For the Years Ended December 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)

We have audited the accompanying consolidated financial statements of Montana Gold Mining Company Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and deficit and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's 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 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 Montana Gold Mining Company Inc. and its subsidiaries 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.

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Emphasis of Matter

Without qualifying our opinion we draw attention to Note 1 in the financial statements which indicates that the Company incurred a net loss of $387,732 during the year ended December 31, 2010 and, as of that date, the Company had a deficit of $7,326,174. These conditions, along with other matters as set forth in Note 1, indicate existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
April 27, 2011
Toronto, Ontario

Collins Barrow
Chartered Accountants

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Consolidated Balance Sheets
(Expressed in United States Dollars)
As at December 31, 2010 and 2009

	2010	2009
Assets		
Current		
Cash	**$ 170,436**	$ 19,060
Capital asset (Note 4)	**-**	19,893
Mining claims and deferred exploration expenditures (Note 5)	**141,752**	145,150
Reclamation bonds (Note 7)	**83,679**	78,288
	$ 395,867	$ 262,391
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 638,720**	$ 340,902
Promissory notes payable (Note 6)	**196,053**	-
	834,773	340,902
Restoration liabilities (Note 7)	**45,501**	40,110
Deposit on sale of mining claims (Note 5)	**-**	66,605
	880,274	447,617
Shareholders' Deficiency		
Capital stock (Note 9)	**5,721,063**	5,632,512
Contributed surplus	**1,120,704**	1,120,704
Deficit	**(7,326,174)**	(6,938,442)
	(484,407)	(185,226)
	$ 395,867	$ 262,391

Nature of Operations and Going Concern (Note 1)
Litigation (Note 17)
Subsequent Events (Note 19)

Approved by the Board **"Edward Ellwood"** Director **(Signed)** **"Eric Plexman"** Director **(Signed)**

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Consolidated Statements of Operations and Deficit
(Expressed in United States Dollars)
Years Ended December 31, 2010 and 2009

	2010	2009
Expenses		
Office and administrative costs	**$ 236,894**	$ 70,845
Professional fees	**83,884**	69,439
Write-off of deferred exploration expenditures (Note 5)	**57,034**	1,586,300
Loss (gain) on debt settlement (Note 8)	**6,604**	(353,312)
Amortization	**3,316**	14,605
	387,732	1,387,877
Net loss	**(387,732)**	(1,387,877)
Deficit, beginning of year	**(6,938,442)**	(5,550,565)
Deficit, end of year	**$ (7,326,174)**	$ (6,938,442)

Earnings (loss) per share (Note 13)		
Basic and diluted	**$ (0.09)**	$ (0.03)

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
(Expressed in United States Dollars)
Years Ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used in)		
Operations		
Net loss	$ **(387,732)**	$ (1,387,877)
Items not affecting cash		
Amortization	**3,316**	14,605
Write-off of deferred exploration expenditures	**57,034**	1,586,300
Loss (gain) on debt settlement	**6,604**	(353,312)
	(320,778)	(140,284)
Net changes in non-cash working capital		
Accounts payable and accrued liabilities	**307,790**	91,299
	(12,988)	(48,985)
Investing		
Mining claims and deferred exploration expenditures	**(170,354)**	(32,712)
Reclamation bonds	**(5,391)**	-
Deposit on sale of mining claims	**(66,605)**	66,605
Proceeds from sale of Metal Miners Plus	**-**	1
Proceeds from sale of mining claims	**122,109**	-
	(120,241)	33,894
Financing		
Proceeds from promissory note issuance	**284,605**	-
Net change in cash during the year	**151,376**	(15,091)
Cash, beginning of year	**19,060**	34,151
Cash, end of year	$ **170,436**	$ 19,060

See accompanying notes

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company's principal assets are mining claims and deferred exploration expenditures made on properties which are not in commercial production. The Company is in the process of exploring its mining claims and has not yet determined whether or not the properties will contain economically recoverable reserves.

Going Concern

As is common with junior mining companies in the exploration stage, continuation of its on-going and planned exploration activities is dependent upon obtaining necessary financing from time to time. During the year ended December 31, 2010, the Company incurred a net loss of $387,732 and, as of that date, the Company had a deficit of $7,326,174. Recovery of the carrying value of the mining claims and the related deferred exploration expenditures are dependent upon the discovery of economically recoverable resources, the ability of the Company to obtain necessary financing to continue exploration and development, the ability of the Company to resolve the outstanding litigation (Note 17), the ability of the Company to secure and maintain title and beneficial interest in the properties, entering agreements with others to explore and develop the properties and upon future profitable production or proceeds from disposition of such properties. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the going concern assumption not be appropriate. Realized amounts for the Company's mining properties may vary materially from book amounts.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles, within the framework of the significant accounting policies described below:

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany transactions and balances have been eliminated.

Share Issuance Costs

Costs incurred in connection with the issuance of capital stock and share purchase warrants are netted against the proceeds received.

Financial Instruments

All financial instruments are recorded initially at fair value. In subsequent periods, all financial instruments are measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

Financial Assets

Held for trading assets are subsequently measured at fair value with the change in the fair value recognized in net income during the period.

Held-to-maturity assets are subsequently measured at amortized cost using the effective interest rate method.

Loans and receivables are subsequently measured at amortized cost using the effective interest rate method.

Available-for-sale assets are subsequently measured at fair value with the changes in fair value recorded in other comprehensive income, except for equity instruments without a quoted market price which are measured at cost.

Financial Liabilities

Held for trading liabilities are subsequently measured at fair value with the change in the fair value recognized in net income during the period.

Other liabilities are subsequently measured at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

Financial Instrument	Classification
Cash	Held for trading
Reclamation bonds	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Restoration liabilities	Other liabilities
Promissory notes payable	Other liabilities

The Company's financial instruments measured at fair value on the balance sheet consist of cash and are measured at level 1 of the fair value hierarchy. There are three levels of the fair value hierarchy as follows:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly of indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Comprehensive Income

Comprehensive income measures net earnings for the period plus other comprehensive income. Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the period. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as Accumulated Other Comprehensive Income. To date there has not been any other comprehensive income and accordingly, a statement of comprehensive income has not been presented.

Capital Asset

The capital asset of the Company is recorded at cost and is amortized on a declining balance basis over its estimated useful life at the following annual rate:

Vehicles	- 20%

The Company recognizes an impairment loss for equipment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate. Equipment determined to be impaired are written down to fair value. The Company did not record any impairment charges for the years ended December 31, 2010 and 2009.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Loss Per Share

Basic loss per share is calculated based on the weighted average number of shares outstanding. The treasury stock method is used to compute the dilutive effect of options, warrants and similar instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Mineral Claims and Deferred Exploration Expenditures

All direct expenditures related to the acquisition and exploration and development of specific properties are capitalized as incurred. If a property is brought into production, these expenditures will be amortized against the income generated from the property. If a property is abandoned, sold or impaired, an appropriate charge will be made. Discretionary option payments arising on the acquisition of mining properties are only recognized when paid. Amounts received from other parties to earn an interest in the Company's mining properties are applied as a reduction of the mining property and deferred exploration expenditures, except for administrative reimbursements which are credited to operations.

The amounts shown for mineral claims and related deferred expenditures represent expenditures incurred to date, less amounts expensed and reimbursements, and do not necessarily reflect present or future values of the particular properties. The recoverability of these expenditures is dependent upon discovery of economically recoverable reserves and future production or proceeds from the disposition thereof.

- **Impairment**

  On a periodic basis, management reviews the carrying values of mining property acquisition and deferred exploration expenditures to assess whether there has been any impairment in value. Management considers the guidance in EIC-174 when determining whether or not its mining properties are impaired. In the event that management determines the carrying values of any mining property to be permanently impaired, the carrying value will be written down or written off, as appropriate.

- **Title**

  Ownership in mineral properties involves certain risks due to the difficulties in determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral interests. The Company has investigated the ownership of its mineral properties and, to the best of its knowledge, ownership of its interests are in good standing.

Stock-Based Compensation and Other Stock-Based Payments

The Company accounts for stock options granted to directors, officers, and employees using the fair value method of accounting and for non-employees using the fair value of the equity instruments issued or the value of the services, whichever is more reliably measurable. Stock-based compensation cost for directors, officers, and employees is accrued and charged to operations, with an offsetting credit to contributed surplus, over the vesting periods. Stock-based compensation cost for non-employees is measured at the earliest date at which performance is complete or the options vested, and is expensed over the service period with an offsetting credit to contributed surplus. If in the event that vested stock options expire without being exercised, previously recognized compensation costs associated with such rewards are not reversed. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather the Company accounts for actual forfeitures as they occur.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign Currency Translation

The US dollar is the functional and reporting currency of the Company. Monetary assets and liabilities denominated in foreign currency have been translated into United States dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when assets were acquired or obligations incurred. Revenue and expenses are translated at the rates in effect at the time of the transaction. Gains or losses on translation are recorded in operations.

Included in office and administrative costs is loss on foreign currency translation of $17,302 (2009 - $31,096) for the year ended December 31, 2010.

Restoration Liabilities

The Company recognizes the fair value of restoration liabilities related to statutory, contractual or legal obligations associated with the retirement of mining claims in the year in which it is incurred when a reasonable estimate of fair value can be made, in which case the carrying amount of the related mining claim is increased by the same amount as the restoration liability. The Company's estimates of such costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures.

Use of Estimates

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 amount of revenue and expenses during the year. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the useful lives of equipment, impairment of mining claims and deferred exploration expenditures, the amount accrued for restoration liabilities, the value attributed to warrants on unit financings and the valuation of stock options issued.

3. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED

International Financial Reporting Standards ("*IFRS*")

In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own Generally Accepted Accounting Principals. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. CAPITAL ASSET

December 31, 2010

As part of a debt settlement (Note 8), the Company transferred its vehicle with a net book value of $16,578 to an arm's length consultant. As a result the Company no longer has any equipment.

December 31, 2009	Cost	Accumulated Amortization	Net
Vehicles	$ 34,536	$ 14,643	$ 19,893

5. MINERAL CLAIMS AND DEFERRED EXPLORATION COSTS

December 31,	**2009**	**Additions**	**Proceeds from Sale of Mining Claims**	**Write-offs**	**2010**
Rimrock Claims, NV [(a)]	**$ 145,150**	**$ 33,993**	**$ 122,109**	**$ 57,034**	**$ -**
Silver Bell St. Lawrence Claims, MT [(b)]	**-**	**139,512**	**-**	**-**	**139,512**
Golden Trail Claims, NV [(c)]	**-**	**2,240**	**-**	**-**	**2,240**
	$ 145,150	**$ 175,745**	**$ 122,109**	**$ 57,034**	**$ 141,752**

December 31,	2008	Additions	Write-offs	2009
Rimrock Claims, NV [(a)]	$ 1,698,738	$ 32,712	$ 1,586,300	$ 145,150

(a) Rimrock

On August 15, 2010, the Company sold, transferred and assigned 100% unlimited interest in the Rimrock claims and property under sublease with Newmont USA Limited for $122,109 (CDN $130,000) plus a 2% net smelter royalty. A deposit of $66,605 was received in 2009 relating to the sale of these claims. The purchaser is a private corporation whose management is arm's length to the Company. As a result of the sale, the Company wrote down the remaining carrying value of this property in the amount of $57,034.

As a result of the Company selling its Rimrock claims the Company terminated its sublease agreement with Newmont USA Limited.

5. MINERAL CLAIMS AND DEFERRED EXPLORATION COSTS (Cont'd)

(b) Silver Bell St. Lawrence

On August 1, 2010 an arm's length party and Silver Bell St. Lawrence LLC ("SBSL") entered into an agreement for the exploration and development of the mineral potential of the Silver Bell St. Lawrence mining claims in Madison County, Montana. SBSL contributed 9 patented lode claims (the "SBSL Claims") while the arm's length party will contribute a work program towards the exploration and development of the property to be funded by the arm's length party or by a corporation that the arm's length party designates, in the amount of $250,000.(the 'Agreement"). All profits and other allocations from the Agreement shall be allocated 51% to the arm's length party and and 49% to SBSL. On August 2, 2010, the arm's length party assigned 100% of its interest in the Agreement to the Company. As a result of the assignment by the arm's length party, the Company is required to pay the arm's length party $100,000 CAD. This payment was made to the arm's length party in the form of shares subsequent to year-end (Note 19).

(b) Silver Bell St. Lawrence (Cont'd)

The Agreement required a one time payment amount of $37,500 which was paid to SBSL on August 16, 2010 by the Company. After receipt of this payment, all additional funds will go to the exploration and development of the properties. The work program expenditures in the amount of $250,000 must be completed by February 28, 2012, otherwise the Company will forfeit their 51% interest in the agreement with SBSL.

To maintain the staked claims, the Company must pay annual maintenance fees to the Department of the Interior (Bureau of Land Management - BLM Nevada State Office) and the local counties in the cumulative approximate amount of $140 per claim.

(c) Golden Trail

As at December 31, 2010, the Company holds 16 (2009 - nil) claims in the Elko County region of Nevada. To maintain the staked claims, the Company must pay annual maintenance fees to the Department of the Interior (Bureau of Land Management - BLM Nevada State Office) and the local counties in the cumulative approximate amount of $140 per claim. The company wrote off exploration costs associated with these claims in a prior year.

6. PROMISSORY NOTES PAYABLE

The Company received Canadian funds pursuant to the issuance of promissory notes to arm's length individuals.

The following is a list of the promissory notes payable as of December 31, 2010:

Date Issued	Amount (Canadian Dollar)
July 15, 2010	$ 100,000
August 2, 2010	10,000
October 15, 2010	10,000
October 25, 2010	75,000
Total promissory notes	195,000
Add: foreign exchange	1,053
Total Promissory Notes in United States Dollars	**$ 196,053**

The promissory notes are non-interest bearing, unsecured and are to be repaid on or before the 45th day after the next meeting of the shareholders of the Company.

7. RESTORATION LIABILITIES

As at December 31, 2010, management estimated site restoration costs relating to exploration work to completed to date on the Rimrock property to be $45,501 (2009 - $40,110) which has been accrued. These costs are estimated by management and approved by the Nevada State Office of the Bureau of Land Management ("BLM"). The Company is required to issue reclamation bonds to cover these estimated restoration costs. The reclamation bonds will be returned to the Company upon the BLM being satisfied with the site restoration.

Included in the reclamation bond balance is a bond in the amount of $38,178 (2009 - $38,178) for an exploration program on the Golden Trail property for which the site restoration work has been performed. The amount of this bond may be released in full or in part once the approval of the restoration work has been approved by the BLM. However the Company may be liable for additional amounts if the BLM determines that the site restoration work was deficient and the amount of the bond is not sufficient to cover the cost of the additional work required to fully return the site to its original condition.

8. SETTLEMENT OF DEBT

On November 2, 2010, the Company approved the settlement of amounts owing to an arm's-length third party for geological services and expenses in exchange for the company-owned vehicle. This debt settlement resulted in a loss in the amount of $6,604 in the year ended December 31, 2010.

At the annual and special meeting of shareholders held on October 15, 2009, the shareholders of the Company approved the settlement of amounts owing to former directors in the amount of $389,119 with the following:

(a) certain capital assets with a net book value of $35,808;

(b) certain mining claims that were written-off in a prior year;

(c) sold the Company's developed exploration data management system, called Metal Miners Plus with a net book value of $NIL for $1, and

The above debt settlement resulted in a gain of $353,312, in the year ended December 31, 2009.

9. CAPITAL STOCK

(a) Authorized
Unlimited common shares

Issued and outstanding - common shares

	Number of Shares	Value
Balance, December 31, 2009 and 2008(i)	**4,249,104**	**$ 5,632,512**
Shares issued for promissory note payment (ii)	1,800,000	88,551
Balance, December 31, 2010	**6,049,104**	**$ 5,721,063**

(i) On November 3, 2010 the Company consolidated the issued and outstanding common shares in the capital of the Corporation on a one-for-ten basis, which resulted in each pre-consolidation common share being consolidated into one tenth of one common share.

(ii) On December 20, 2010, the Company issued 1,800,000 common shares at $0.05CDN each for net proceeds of $88,551 ($90,000 CAD). The proceeds were applied as debt settlement for a promissory note issued on September 1, 2010.

(b) During the year the Company reserved the right with the Canadian National Stock Exchange ("CNSX"), the exchange upon which the Company's share's are listed, to issue up to $750,000CDN of the Company's common shares at $0.05CDN share. During the year the Company settled a promissory note payable of $88,551 ($90,000 CAD) by issuing 1,800,000 common shares.

10. CONTRIBUTED SURPLUS

Contributed surplus consists of the fair value of options granted and the value of expired warrants. The following summarizes the change in contributed surplus:

	2010	2009
Balance, beginning of year	**$ 1,120,704**	$ 1,031,590
Warrants expired	**-**	89,114
Balance, end of year	**$ 1,120,704**	$ 1,120,704

11. SHARE PURCHASE WARRANTS

Share purchase warrants consists of the fair value of warrants issued. The following summarizes the change in share purchase warrants:

	2010	2009
Balance, beginning of year	**$ -**	$ 89,114
Warrants expired	**-**	(89,114)
Balance, end of year	**$ -**	$ -

12. STOCK OPTIONS AND WARRANTS

(a) Stock Options

The Company has a Stock Option Plan (the "Plan") to provide options for the benefit of employees, directors and third parties. The maximum number of shares allocated to and made available to be issued under the Plan shall not exceed 10% of the common shares issued and outstanding (on a non diluted basis) at any time. The exercise price of options granted under the Stock Option Plan will be determined by the directors, but will be at least equal to the closing trading price for the common shares for the last trading day prior to the grant and otherwise the fair market price as determined by the Board of Directors. The term of any option granted shall not exceed five years. Except as otherwise provided elsewhere in the Stock Option Plan, the options shall be cumulatively exercisable in installments over the option period at a rate to be fixed by the Board of Directors. The Company will not provide financial assistance to any optionee in connection with the exercise of options.

12. STOCK OPTIONS AND WARRANTS (Cont'd)

	2010		2009	
	Number of Options	**Weighted Average Exercise Price (CDN)**	Number of Options	Weighted Average Exercise Price (CDN)
Outstanding, beginning of year	**65,000**	**$5.45**	202,500	$7.25
Cancelled	**-**	**$ -**	(127,500)	$8.18
Forfeited	**-**	**$ -**	(10,000)	$7.10
Expired	**(45,000)**	**$4.76**	-	$ -
Outstanding, end of year	**20,000**	**$7.00**	65,000	$5.45
Exercisable	**20,000**	**$7.00**	65,000	$5.45

(a) Stock Options (Cont'd)

The Company had the following stock options outstanding at December 31, 2010:

Number of Options	Exercise Price	Expiry Date
10,000	CDN $9.10	January 17, 2012
10,000	CDN $4.90	November 15, 2012
20,000		

The above options were not included in the computation of diluted net loss per share as they are anti-dilutive.

(b) Warrants

No warrants were outstanding in the prior year, nor are any outstanding in the current year.

	2010		2009	
	Number of Warrants	**Weighted Average Exercise Price**	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	**-**	**$ -**	71,884	$9.00
Expired	**-**	**$ -**	(71,884)	$9.00
Outstanding, end of year	**-**	**$ -**	-	$ -

The above warrants were not included in the computation of diluted net loss per share as they are anti-dilutive.

13. LOSS PER SHARE

Loss per share has been calculated based on weighted average number of common shares outstanding during the year which was 4,308,282 (2009 - 4,249,104 [post consolidation]).

14. INCOME TAXES

(a) Income Tax Expense

The following table reconciles income taxes calculated at combined Canadian federal and provincial tax rates with the income tax expense in these financial statements:

	2010	2009
Loss before income taxes	**$ (387,732)**	$ (1,387,877)
Statutory rate	**31.0 %**	33.0 %
Expected income tax recovery	**$ (120,197)**	$ (457,999)
Impact on foreign exchange and foreign tax rate differential	**25,197**	27,999
Change in valuation allowance and other	**95,000**	430,000
Income tax expense	**$ -**	$ -

(b) Future Income Taxes

The temporary differences that give rise to future income tax assets and future income tax liabilities are presented below:

	2010	2009
Future tax assets (liabilities)		
Non-capital loss carry forwards	**$ 2,179,000**	$ 2,088,000
Mineral claims and deferred exploration costs	**(48,000)**	(49,000)
Capital assets	**36,000**	33,000
	2,167,000	2,072,000
Less: Valuation allowance	**(2,167,000)**	(2,072,000)
Future income tax assets	**$ -**	$ -

14. INCOME TAXES (Cont'd)

(c) Future Income Taxes and Losses

The Company has non-capital losses of approximately $6,633,600 available in Canada and the United States to apply against future taxable income. If not utilized, the non-capital losses will expire as follows:

Year	Amount
2024	$ 223,100
2025	594,600
2026	807,000
2027	2,462,800
2028	2,119,600
2029	59,800
2030	366,700
	$ 6,633,600

The potential tax benefit relating to these losses has not been reflected in these financial statements.

15. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount. Related party transactions have been listed below, unless they have been disclosed elsewhere in the financial statements.

(a) Included in accounts payable and accrued liabilities is approximately $157,345 (2009 - $NIL) of amounts owing to directors of the Company for management and director fees.

Included in accounts payable and accrued liabilities is approximately $NIL (2009 - $145,000) of amounts owing to a former director.

(b) Included in office and administrative costs is $117,074 (2009 - $NIL) relating to amounts accrued to directors of the Company for management fees and $65,870 (2009 - $NIL) relating to amounts accrued to directors of the Company for director's fees.

(c) Included in professional fees is approximately $NIL (2009 - $12,500) of amounts paid to a former director for legal services.

16. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes equity, comprised of issued capital stock, warrant capital, contributed surplus and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to further exploration on its properties. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2010.

17. LITIGATION

On February 15, 2010, the Company was named along with former directors of the Company and served with a claim in The District Court, 150th Judicial District, Bexar County, Texas. This lawsuit was subsequently removed to the U.S. District Court for the Western District of Texas, San Antonio Division. The Plaintiff is alleging several past directors of the Company have used trade secrets or confidential information belonging to the Plaintiff for the Company's benefit in violation of laws protecting this type of information. The Plaintiff is claiming monetary damages against all of the named Defendants, which include the Company, of $30,000,000, and the Company is defending the lawsuit along with all other defendants. Management believes that this is a frivolous claim. The outcome of the above claim is not determinable and therefore, no provision is recorded.

18. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities. In particular: market risk (composed of currency risk) and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

18. FINANCIAL RISK MANAGEMENT (Cont'd)

(a) Market Risk:

(i) Currency risk:

The Company operates internationally and is exposed to foreign exchange risk from the Canadian Dollar. Foreign exchange risk arises from purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

As at December 31, 2010 the Company is exposed to currency risk through the following financial assets and liabilities denoted in Canadian dollars:

	2010	2009
Cash	**$ 167,672**	$ 5,163
Accounts payable and accrued liabilities and promissory notes payable	**$ 715,640**	$ 222,184

The above balances were translated into US dollars at the year end rate of $1.0054 (2009 - $0.9515) Canadian dollars to every US dollar.

Based on the above net exposures as at December 31, 2010, assuming that all other variables remain constant, a 5% increase in the Canadian dollar against the United States dollar would result in a increase/decrease in net loss of approximately $49,000.

(b) Liquidity Risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at December 31, 2010, the Company has current liabilities of $834,773 (2009 - $340,902) due within 12 months and has cash of $170,436 (2009 - $19,060) to meet its current obligations. As at December 31, 2010, the Company has a working capital deficit of $664,337 (2009 - $321,842). As a result the Company has liquidity risk and is dependent on raising additional capital to fund operations.

(c) Fair Value Risk

Fair value represents the amounts at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on quoted market values and other valuation methods.

The carrying values of cash, promissory notes and accounts payable and accrued liabilities approximate fair values due to the relatively short term maturities of these instruments.

18. FINANCIAL RISK MANAGEMENT (Cont'd)

(d) Credit Risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash. The Company reduces its credit risk by maintaining its primary bank accounts at large financial institutions.

19. SUBSEQUENT EVENTS

(a) On January 26, 2011, the Company issued 3,700,000 shares with an ascribed value of $0.05CDN per share to settle promissory notes of $185,000CDN and issued 2,000,000 shares with an ascribed value of $0.05CDN share being $100,000CDN as consideration for the Silver Bell St. Lawrence assignment agreement (Note 5).

(b) On January 30, 2011, the Company issued 2,980,000 shares to directors of the Company at $0.05CDN per share for $149,000CDN to settle amounts owing for management and director fees due as of December 31, 2010.

(c) On January 28, 2011 and February 4, 2011 the Company issued promissory notes in the amounts of $130,000CDN and $15,000CDN, respectively on the same terms as the existing promissory notes (Note 6) .

(d) On February 8, 2011, the Company issued 1,600,000 shares with an ascribed value of at $0.05CDN per share to settle promissory notes in the amount of $80,000CDN and issued 3,390,380 shares with an ascribed value of $0.05CDN per share to settle legal fees owing to a former director in the amount of $169,519CDN.

(e) On February 8, 2011 the Company issued 200,000 shares with an ascribed value of $0.05CDN per share by way of a subscription agreement to settle an amount due to a consultant of $10,000CDN.

(f) On March 25, 2011, the Company issued 1,650,000 options to directors and consultants with an exercise price of $0.26 per share expiring on March 25, 2016.