Linear Metals Corporation

(A Development Stage Enterprise)

Consolidated Financial Statements

October 31, 2010 and 2009

January 24, 2011

Management’s Responsibility for Financial Reporting

The accompanying consolidated financial statements of **Linear Metals Corporation** have been prepared by the Company’s management. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and contain estimates based on management’s judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and a majority of its members are independent directors. It meets with the Company’s management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the financial statements to the Board of Directors for approval.

PricewaterhouseCoopers LLP, appointed as the Company’s auditors by the shareholders, has examined these consolidated financial statements and their report follows.

(signed) “*Brian MacEachen*”
Chief Executive Officer
Halifax, Nova Scotia

(signed) *“Keith Abriel”*
Chief Financial Officer

PRICEWATERHOUSECOOPERS

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January 24, 2011

Auditors' Report

To the Shareholders of
Linear Metals Corporation

We have audited the consolidated balance sheets of **Linear Metals Corporation** as at October 31, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "*PricewaterhouseCoopers LLP*"

Chartered Accountants

Linear Metals Corporation

(A Development Stage Enterprise)
Consolidated Balance Sheets
As at October 31, 2010 and 2009

(in Canadian dollars)

	2010 $	2009 $
Assets		
Current assets		
Cash and cash equivalents	283,682	1,156,229
Sales taxes recoverable	38,762	41,351
Prepaid expenses and deposits	31,392	33,294
	353,836	1,230,874
Property and equipment (note 5)	51,539	89,554
Resource properties (note 6)	9,854,275	9,378,552
	10,259,650	10,698,980
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	216,438	178,278
Future income taxes (note 9)	666,000	520,000
	882,438	698,278
Shareholders' Equity		
Capital stock (note 7)	17,818,195	17,818,195
Contributed surplus (note 8)	3,413,688	3,363,613
Deficit	(11,854,671)	(11,181,106)
	9,377,212	10,000,702
	10,259,650	10,698,980

Nature of operations and going concern (note 1)

Commitments (note 10)

The accompanying notes form an integral part of these financial statements.

On behalf of the Board of Directors

(signed) "*Wade K. Dawe*"
Director

(signed) "*Michael Gross*"
Director

Linear Metals Corporation
(A Development Stage Enterprise)
Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the years ended October 31, 2010 and 2009

(in Canadian dollars)

	2010 $	2009 $
Income		
Interest	3,904	10,359
Expenses		
Amortization	20,936	31,688
Banking fees	994	851
General and administrative	68,130	107,200
Investor relations and marketing	25,890	14,179
Listing and regulatory costs	40,185	46,287
Management salaries and services	217,450	199,789
Professional services	54,205	80,651
Stock-based compensation	290,804	355,928
Travel	38,053	16,085
Write-down of resource properties (note 6)	15,514	7,847,950
	772,161	8,700,608
Loss from operations	(768,257)	(8,690,249)
Other income (expenses)		
Loss on disposal of equipment	(12,300)	(1,578)
Foreign exchange	(8)	(67,742)
Loss before income taxes	(780,565)	(8,759,569)
Recovery of future income taxes (note 9)	107,000	424,000
Net loss and comprehensive loss for the years	(673,565)	(8,335,569)
Deficit – Beginning of years	(11,181,106)	(2,845,537)
Deficit – End of years	(11,854,671)	(11,181,106)
Loss per share – Basic and diluted	(0.01)	(0.20)
Weighted average number of common shares outstanding	53,000,193	41,822,111

The accompanying notes form an integral part of these financial statements.

Linear Metals Corporation

(A Development Stage Enterprise)
Consolidated Statements of Cash Flows
For the years ended October 31, 2010 and 2009

(in Canadian dollars)

	2010 $	2009 $
Cash and cash equivalents provided by (used in)		
Operating activities		
Net loss for the years	(673,565)	(8,335,569)
Charges (credits) to income not involving cash		
Amortization	20,936	31,688
Stock-based compensation	290,804	355,928
Loss on disposal of equipment	12,300	1,578
Write-down of resource properties	15,514	7,847,950
Recovery of future income taxes	(107,000)	(424,000)
	(441,011)	(522,425)
Net change in non-cash working capital balances related to operations		
Decrease (increase) in accounts receivable	–	4,802
Decrease (increase) in sales taxes recoverable	5,141	148,248
Decrease (increase) in prepaid expenses and deposits	1,902	(9,144)
Increase (decrease) in accounts payable and accrued liabilities	48,433	(152,036)
	(385,535)	(530,555)
Cash provided by financing activities		
Common shares issued for cash, net of issuance costs	–	891,983
Cash used in investing activities		
Resource property interests and options, net	(480,971)	(969,854)
Sales taxes recoverable related to resource property interests	(2,552)	740,249
Purchase of equipment	(3,489)	–
Proceeds on disposal of equipment	–	3,900
	(487,012)	(225,705)
Net change in cash and cash equivalents during the years	(872,547)	135,723
Cash and cash equivalents – Beginning of years	1,156,229	1,020,506
Cash and cash equivalents – End of years	283,682	1,156,229
Cash and cash equivalents		
Cash on hand and balances with banks	69,135	204,538
Short-term investments	214,547	951,691
	283,682	1,156,229
Supplemental information		
Interest received during the years	3,904	10,359

The accompanying notes form an integral part of these financial statements.

1 Nature of operations and going concern

Linear Metals Corporation (the “Company”) was incorporated under the Canada Business Corporations Act on November 17, 2004. The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. To date, the Company has not earned significant revenues and is considered to be a development stage company. The recoverability of the amounts shown for resource properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, obtaining necessary financing and permitting to complete the development and future profitable production or proceeds from the disposition thereof.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles (“GAAP”) applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due. For the year ended October 31, 2010, the Company incurred a loss of approximately $0.7 million (2009 - $8.3 million) and as at October 31, 2010, had an accumulated deficit of approximately $11.9 million (2009 - $11.2 million). The Company has no income or cash flow from operations and, at October 31, 2010, had working capital of approximately $0.1 million (2009- $1.1 million). In addition to its on-going working capital requirements, the Company must secure sufficient funding to maintain legal title to its resource properties, to fund its exploration and development activities and to fund its general and administrative costs. Such circumstances lend significant doubt as to the ability of the Company to meet it obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there is no assurance that these initiatives will be successful or sufficient.

The Company’s ability to continue as a going concern is dependent upon its ability to fund its working capital and exploration requirements and eventually to generate positive cash flows, either from operations or sale of properties. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate and these adjustments could be material.

2 Significant accounting policies

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and, in management's opinion, within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, 6321593 Canada Inc. and Linear Metal Corp. Mexico, S.A. de C.V., a Mexican subsidiary. All inter-company transactions and balances have been eliminated on consolidation of the accounts. All amounts are expressed in Canadian dollars, unless otherwise noted.

b) Resource properties

As a development stage enterprise, the Company defers all expenditures related to its resource properties until such time as the properties are put into commercial production, sold, abandoned or considered to be impaired. Under this method, all amounts shown as resource properties represent costs incurred to date less amounts amortized, received from exploration partners and/or written off, and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted following the unit of production method. If the properties are sold or abandoned, or considered to be impaired in value, the expenditures will be charged to operations. The Company does not accrue the estimated future costs of maintaining its resource properties in good standing.

Resource properties are reviewed for impairment on a property by property basis whenever events or changes in circumstances indicate that the carrying amount of a resource property may not be recoverable. If the Company has sufficient information about a resource property to estimate future cash flows expected to be generated by the resource property, then recoverability is measured by a comparison of the carrying amount to the estimated cash flows. If the Company does not have sufficient information about the resource property to estimate future cash flows expected to be generated by the resource property, then the carrying amount is compared to the estimated fair value. If the carrying amount exceeds the estimated future cash flows or estimated fair value, the resource property will be written down to its estimated fair value. The ultimate recoverability of the amounts capitalized for the resource properties is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof.

Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions; however, it is possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write-downs of capitalized resource property carrying values. Conversely, properties which have been written down may represent future value to the Company in excess of management's estimates and/or the carrying value of the properties.

2 Significant accounting policies (continued)

c) Property option agreements

From time to time, the Company may acquire or dispose of an interest in a resource property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable, in accordance with the terms of the options, are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

d) Management 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

e) Cash equivalents

Cash equivalents consist of highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased.

f) Future income taxes

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 changes in tax rates is recognized in income in the period that includes the date substantively enacted tax rates will be effective. If the realization is not considered more likely than not, a valuation allowance is provided against the future income tax assets.

g) Flow-through shares

The issuance of flow-through shares entitles the Company to renounce certain resource expenditures incurred in Canada, allowing the expenditures to be deducted for tax purposes by the investors who purchased the flow-through shares. The Company has adopted the recommendations by the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants relating to the recording of flow-through shares. In accordance with EIC 146, the Company reduces its share capital and recognizes a temporary future income tax liability for the amount of income tax benefits foregone when the resource expenditures are renounced. If the Company has a sufficient amount of unused income tax losses carried forward to offset the renounced tax deduction, the realization of the deductible temporary difference is recognized as a recovery of previously unrecognized future income tax assets on the income statement.

h) Related party transactions

All transactions with related parties are in the normal course of business and are measured at the exchange amount.

2 Significant accounting policies (continued)

i) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated using the declining-balance method at the annual rate of 30% for office equipment, exploration equipment and software.

j) Loss per share

Loss per share is computed based on the weighted average number of common shares outstanding during the years. Diluted loss per share is equal to loss per share since the exercise of options and warrants is anti-dilutive.

k) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Revenues and expenses are translated at the average exchange rates prevailing during the years except for expenses that relate to non-monetary assets or liabilities, which are translated at the same historical exchange rate as the related asset or liability. Gains and losses on translation are included in the determination of loss for the years.

l) Stock-based compensation

The Company accounts for stock options using the fair value method of the Canadian Institute of Chartered Accountants Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments*. Under this Section, the estimated fair values of all stock options granted are recorded in operations over their vesting periods.

The estimated fair value of options is determined using the Black-Scholes option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The resulting estimated fair values of the options are expensed or capitalized to resource properties on a straight-line basis over their vesting periods. Cash consideration received on exercise of options is credited to capital stock.

2 Significant accounting policies (continued)

m) Change in accounting policies

Financial Instruments

In June 2009, the Canadian Accounting Standards Board ("AcSB") issued amendments to Section 3862, *Financial Instruments - Disclosures*, to improve disclosure requirements on fair value measurement and liquidity risk. As the amendments only concern disclosure requirements, they did not have a significant impact on the Company's financial statements.

n) Future accounting policies

International Financial Reporting Standards ("IFRS")

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB's strategic plan outlines the convergence of Canadian GAAP with IFRS over a five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will commence reporting under IFRS on November 1, 2011 and will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended October 31, 2011. The Company has begun to assess the impact of adopting IFRS on its financial reporting processes, information systems and internal controls.

Business combinations

In January 2009, the CICA issued the new handbook Section 1582, *Business Combinations*, effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with US GAAP and IFRS and changes to accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company's financial statements to evaluate the nature and financial effects if its business combinations. The Company is considering the impact of adopting this pronouncement on the consolidated financial statements.

Consolidated financial statements and non-controlling interests

In January 2009, the CICA issued the new handbook Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-controlling Interests*, effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These pronouncements further align Canadian GAAP with US GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting for ownership interest in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated net income attributable to the parent and the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income.

2 Significant accounting policies (continued)

n) Future accounting policies (continued)

Consolidated financial statements and non-controlling interests (continued)

In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company is currently considering the impact of adopting these pronouncements on its consolidated financial statements in connection with the conversion to IFRS.

3 Financial instruments

The Company recognizes financial instruments based on their classification. Depending on the financial instruments' classification, changes in subsequent measurements are recognized in net income (loss) or comprehensive income (loss).

If a financial instrument is measured at fair value, changes in its fair value shall usually be recognized in net income (loss) in the period in which the change occurs, with some exceptions, such as for cash flow hedges and available-for-sale investments. For investments designated as being available-for-sale, changes in the fair value shall be recorded directly in Shareholders' Equity in a separate account called "Other Comprehensive Income (Loss)" until the asset is disposed of or becomes impaired. At that time, the gains and losses are transferred to the Statement of Operations.

The Company has implemented the following classifications:

- Cash equivalents are classified as "Financial Assets Held for Trading." These financial assets are marked-to-market through net income at each period end.

- Accounts receivable are classified as "Loans and Receivables." After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

- Accounts payable are classified as "Other Financial Liabilities." After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

3 Financial instruments (continued)

a) Fair value

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying values of accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

The CICA established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are 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 (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: Inputs that are not based on observable market data

The financial instruments recorded at fair value on the consolidated balance sheet are cash and cash equivalents. They are measured using Level 1 of the fair value hierarchy.

b) Foreign currency rate risk

A portion of the Company’s transactions occur in United States and Mexican currencies; accordingly, the related financial assets are subject to fluctuations in the respective exchange rates.

c) Concentration of credit risk

Management does not believe it is exposed to any significant concentration of credit risk except that a significant portion of its cash and cash equivalents are on deposit with a major Canadian chartered bank. All of the sales taxes recoverable are with either the government of Canada or the government of Mexico.

d) Liquidity risk

The Company’s approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. Cash and cash equivalents are held in bank accounts or interest-bearing instruments that can be converted to cash without penalty at any time and are recorded at fair value.

e) Interest rate risk

The Company has cash and cash equivalents and no interest-bearing debt; accordingly, the Company’s interest income is susceptible to fluctuations in interest rates.

4 Capital management

The Company's capital structure consists of share capital and contributed surplus, which at October 31, 2010 totalled $21.2 million (October 31, 2009 - $21.2 million). The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments.

There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

5 Property and equipment

			2010	2009
	Cost $	Accumulated amortization $	Net $	Net $
Office equipment	75,063	49,154	25,909	33,481
Exploration equipment	82,556	56,926	25,630	42,778
Software	–	–	–	13,295
	157,619	106,080	51,539	89,554

During the year ended October 31, 2010, the Company capitalized amortization of $8,268 (2009 - $6,630) to resource properties.

6 Resource properties

For the year ended October 31, 2010

	Canada			Mexico	
	KM61 $	**Seymour Lake** $	**Other** $	**La Morena** $	**Total** $
Acquisition costs					
Balance, October 31, 2009	22,440	70,937	–	–	93,377
Incurred during the year	765	–	15,514	4,974	21,253
Balance, October 31, 2010	23,205	70,937	15,514	4,974	114,630
Deferred exploration costs					
Balance, October 31, 2009	8,343,479	941,696	–	–	9,285,175
Incurred during the year	808	147,390	–	321,786	469,984
Balance, October 31, 2010	8,344,287	1,089,086	–	321,786	9,755,159
	8,367,492	1,160,023	15,514	326,760	9,869,789
Write-down of resource properties during the year	–	–	(15,514)	–	(15,514)
Balance, October 31, 2010	8,367,492	1,160,023	–	326,760	9,854,275

6 Resource properties (continued)

For the year ended October 31, 2009

	Canada			Mexico		
	KM61 $	Seymour Lake $	Other $	Cobre Grande $	La Morena $	Total $
Acquisition costs						
Balance, October 31, 2008	22,440	59,107	–	165,941	204,651	452,139
Incurred during the year	–	11,830	–	5,485	1,494	18,809
Balance, October 31, 2009	22,440	70,937	–	171,426	206,145	470,948
Deferred exploration costs						
Balance, October 31, 2008	7,857,917	640,301	130,000	6,371,155	857,731	15,857,104
Incurred during the year	485,562	301,395	7,690	103,803	–	898,450
Balance, October 31, 2009	8,343,479	941,696	137,690	6,474,958	857,731	16,755,554
	8,365,919	1,012,633	137,690	6,646,384	1,063,876	17,226,502
Write-down of resource properties during the year	–	–	(137,690)	(6,646,384)	(1,063,876)	(7,847,950)
Balance, October 31, 2009	8,365,919	1,012,633	–	–	–	9,378,552

Canada

i) KM61

The Company holds a 100% interest in the KM61 property, which is a molybdenum-copper-silver prospect, located in northwestern Ontario, contiguous with the Seymour Lake project. The majority of the KM61 property, including the mineralized zone, is subject to a 0.5% NSR. Of the remaining claims on the KM61 property, certain portions are subject to a 3% NSR and the balance are not subject to any royalties. The Company can repurchase 50% of the 0.5% NSR for $250,000 and/or 50% of the 3% NSR for $1,000,000.

ii) Seymour Lake

The Company holds a 100% interest in the Seymour Lake property, which is a tantalum-lithium-beryllium prospect located in northwestern Ontario, in the Crescent Lake area of the Thunder Bay Mining District. Certain portions of the Seymour Lake property are subject to a 3% net smelter return royalty, of which 1.5% can be purchased by the Company for $1.0 million.

6 Resource properties (continued)

Mexico

i) La Morena

The Company holds a 100% interest in the La Morena property, located in the state of Coahuila, Mexico. During the year ended October 31, 2010, exploration activities resumed on the La Morena property, and the Company capitalized costs of $326,760. During the year ended October 31, 2009, the La Morena property was written-down by $1,063,876 as the Company had not completed significant exploration on the property since 2006.

ii) Cobre Grande

During March 2009, the Company allowed the purchase option it held on the Cobre Grande project to expire. The Company previously held the right to acquire an 80% interest in the 6,238 hectare Cobre Grande polymetallic mineral project, located in Oaxaca, Mexico, by completing the terms of an option agreement with the Community of San Baltazar Guelavila (the "Community"). Pursuant to the option agreement, had the Company exercised the purchase option on or before March 13, 2009, the Community would have been able to choose between a US$12 million buyout, a 2% net smelter return royalty or a 15% joint venture interest.

As the purchase option was not exercised, the Company has no legal interest in the primary Cobre Grande concessions and has written down the value in its interest in the Cobre Grande property to $0, resulting in a write-down of resource properties of $6,646,384 during the year ended October 31, 2009. The Company retains its interest in certain concessions in the area of the Cobre Grande project.

7 Capital stock

a) Authorized

Unlimited number of common shares without par value.

b) Changes in the Company's issued common share capital during the years were as follows:

	Year ended October 31, 2010		Year ended October 31, 2009	
	Number	Amount $	Number	Amount $
Opening balance	53,000,193	17,818,195	38,000,193	16,926,212
Shares issued for cash	–	–	15,000,000	900,000
	53,000,193	17,818,195	53,000,193	17,826,212
Less: Share issue costs	–	–	–	(8,017)
Closing balance	53,000,193	17,818,195	53,000,193	17,818,195

c) Shares issued for cash

On July 31, 2009, the Company completed a non-brokered private placement financing consisting of 15,000,000 common shares at a price of $0.06 per share, for total gross proceeds of $900,000. The Company incurred total cash share issuance costs of $8,017. The securities issued pursuant to the private placement were subject to a four-month hold period. Directors and Officers of the Company subscribed for 3,250,000 common shares as part of the financing.

d) Stock option plan

The Company has adopted a stock option plan (the "Plan"), providing the Board of Directors with the discretion to issue an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Stock options are granted with an exercise price of not less than closing share price of the day preceding the date of grant.

7 Capital stock (continued)

d) Stock option plan (continued)

The estimated fair value of options recognized in the consolidated statement of operations and deficit has been estimated at the grant date using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility. Changes in the assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options. Weighted average assumptions used in the pricing model for the years ended October 31, 2010 and 2009 are as follows:

	2010	**2009**
Risk-free rate	1.41%	1.23%
Expected volatility of the Company's share price	203%	198%
Expected dividend yield	0%	0%
Expected life of each option	4.0 years	4.0 years
Weighted average grant date fair value per option		
Exercise price equal to stock price on date of grant	$0.13	$0.15
Exercise price exceeds stock price on date of grant	–	$0.36

Option activity for the years ended October 31:

	2010		**2009**	
	Number	**Weighted average exercise price $**	**Number**	**Weighted average exercise price $**
Opening balance	4,250,000	0.59	3,152,500	1.06
Granted	150,000	0.14	2,775,000	0.17
Expired/cancelled	(875,000)	1.65	(1,677,500)	0.78
Ending balance	3,525,000	0.31	4,250,000	0.59

7 Capital stock (continued)

e) Stock option plan (continued)

As at October 31, 2010, the Company had outstanding stock options entitling the holders to acquire additional common shares as follows:

Weighted average exercise price per share $	Number outstanding	Expiry date	Weighted average remaining contractual life (years)	Number exercisable
0.14	150,000	August 3,2015	4.76	–
0.15	2,425,000	August 24, 2014	3.82	1,212,500
0.28	200,000	October 21, 2014	3.98	60,000
0.40	150,000	September 4, 2014	3.85	75,000
1.00	600,000	January 31, 2013	2.25	300,000
0.31	3,525,000		3.60	1,647,500

As at October 31, 2010, 1,775,019 options were available for granting under the Plan (2009 - 1,050,019 options).

The estimated value of options earned during the year ended October 31, 2010 was $303,075 (2009 - $407,150). The Company capitalized $12,271 (2009 - $51,222) in non-cash stock-based compensation expense to resource properties with the balance of $290,804 (2009 - $355,928) charged to operations.

8 Contributed surplus

	$
Balance at October 31, 2008	1,012,127
Value of options earned and impact of warrants expired	2,351,486
Balance at October 31, 2009	3,363,613
Value of options earned and impact of warrants expired	50,075
Balance at October 31, 2010	3,413,688

9 Income taxes

The following table reconciles the expected income taxes payable (recoverable) at the statutory income tax rate to the amounts recognized in the consolidated statements of operations and deficit for the years ended October 31, 2010 and 2009:

	2010 **$**	**2009** **$**
Loss before income taxes	(780,565)	(8,759,569)
Income tax rate	26%	26%
Expected income tax recovery based on above rates	(203,000)	(2,277,000)
Effect of different tax rates in foreign jurisdictions	(1,000)	(137,000)
Non-deductible stock option expense	76,000	93,000
Change in valuation allowance	27,000	1,998,000
Other and permanent differences	(6,000)	(101,000)
Provision for (recovery of) income taxes	(107,000)	(424,000)
Provision for (recovery of) income taxes is comprised of:		
Future income taxes	(134,000)	(2,422,000)
Adjustment to valuation allowance	27,000	1,998,000
	(107,000)	(424,000)

The following reflects future income tax assets (liabilities) at October 31, 2010 and 2009:

	2010 **$**	**2009** **$**
Future tax assets (liabilities)		
Non-capital losses carried forward	2,911,000	2,914,000
Deductible share issue costs	94,000	164,000
Accounting value of mineral resource properties in excess of tax value	(1,535,000)	(1,489,000)
Tax value of property and equipment and prepaid expenses in excess of accounting value	20,000	20,000
	1,490,000	1,609,000
Valuation allowance applied against future tax assets	(2,156,000)	(2,129,000)
Net future income tax asset (liability) recognized	(666,000)	(520,000)

9 Income taxes (continued)

The Company has accumulated losses for Canadian income tax purposes of approximately $2,723,000 which may be carried forward and used to reduce taxable income in future years. These losses expire as follows:

	$
Year ending October 31, 2027	85,000
2028	1,290,000
2029	672,000
2030	676,000
	2,723,000

The Company has undeducted share issuance costs from prior years of approximately $363,000, which will be deducted from Canadian taxable income over the next four years. The Company has also incurred resource expenditures of approximately $3,963,000, which may be carried forward indefinitely and used to reduce Canadian taxable income in future years.

In addition, the Company has accumulated Mexican tax losses of approximately $7,866,000, which may be carried forward and used to reduce taxable income from Mexico in future years. These losses expire as follows:

	$
Year ending October 31, 2016	1,099,000
2017	3,080,000
2018	3,391,000
2019	296,000
	7,866,000

10 Commitments

The Company has a commitment in respect of its operating lease on its premises in Toronto, which expires on March 31, 2013. This commitment requires total payments, including estimated common expenses, over the next five years as follows:

	$
Year ending October 31, 2011	130,000
2012	132,000
2013	55,000
2014	–
2015	–
	317,000

10 Commitments (continued)

The premises are currently sub-leased for gross rents of approximately $10,000 per month through March 31, 2013, with the sub-tenant having an option to terminate the sub-lease effective May 1, 2011.

11 Segmented information

The Company conducts mineral operations in Canada and Mexico and is searching for mineral exploration opportunities worldwide. Since the Company is in the exploration stage, there is no segmented revenue or operating results to report. The Company's total assets are segmented geographically as follows:

	2010			
	Corporate Canada $	Mineral Operations Canada $	Mineral Operations Mexico $	Total $
Current assets	273,120	–	80,716	353,836
Property and equipment	25,909	13,392	12,238	51,539
Resource properties	–	9,527,515	326,760	9,854,275
	299,029	9,540,907	419,714	10,259,650

	2009			
	Corporate Canada $	Mineral Operations Canada $	Mineral Operations Mexico $	Total $
Current assets	1,079,878	–	150,996	1,230,874
Property and equipment	46,776	19,109	23,669	89,554
Resource properties	–	9,378,552	–	9,378,552
	1,126,654	9,397,661	174,665	10,698,980