SILVER PHOENIX RESOURCES INC.

(An Exploration Stage Company)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2010 and 2009

(EXPRESSED IN CANADIAN DOLLARS)

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Silver Phoenix Resources Inc.

We have audited the accompanying financial statements of Silver Phoenix Resources Inc. which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and the related notes comprising 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 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 financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of Silver Phoenix Resources Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates the existence of a material uncertainty that may cast significant doubt on Silver Phoenix Resources Inc.'s ability to continue as a going concern.

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

April 29, 2011

SILVER PHOENIX RESOURCES INC.
(An Exploration Stage Company)
BALANCE SHEETS
As at December 31

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash	$ 143,087	$ 262,546
Amounts receivable	-	11,126
HST recoverable	13,727	5,998
Prepaid expenses	1,000	1,000
	157,814	280,670
Marketable securities (Note 4)	123,500	19,250
Mineral properties (Note 5)	180,501	152,704
Equipment (Note 6)	4,515	4,458
	$ 466,330	$ 457,082
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 135,502	$ 146,324
SHAREHOLDERS' EQUITY		
Share capital (Note 7(a))	989,029	989,029
Subscription received in advance (Note 14)	35,000	-
Contributed surplus (Note 7(b))	106,124	106,124
Accumulated other comprehensive gain (loss) (Note 9)	77,000	(12,250)
Deficit	(876,325)	(772,145)
	330,828	310,758
	$ 466,330	$ 457,082

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
COMMITMENTS (Note 10)
SUBSEQUENT EVENT (Note 14)

Approved on behalf of the Board:

"William Murray" Director

"Leland Voll" Director

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

SILVER PHOENIX RESOURCES INC.

(An Exploration Stage Company)

STATEMENTS OF OPERATIONS AND DEFICIT

For the Years Ended December 31

	2010	2009
Expenses		
Amortization	$ 1,595	$ 878
Auto and travel	8,671	7,882
Bank charges	461	110
Filing fees	7,195	13,104
General exploration costs	1,323	500
Management fees	114,000	114,000
Office and miscellaneous	3,137	4,729
Professional fees	43,976	45,530
Promotion	6,978	7,225
Telephone and utilities	2,780	2,974
Transfer agent	6,017	6,485
Loss before other items	(196,133)	(203,417)
Other items		
Gain on option of mineral property (Note 5)	90,000	29,923
Interest income	1,953	5,701
Net loss for the year	(104,180)	(167,793)
Deficit, beginning of year	(772,145)	(604,352)
Deficit, end of year	$ (876,325)	$ (772,145)
Net loss per share – basic and diluted	$ (0.02)	$ (0.02)
Weighted average number of common shares	6,830,520	6,830,520

SILVER PHOENIX RESOURCES INC.

(An Exploration Stage Company)

STATEMENTS OF COMPREHENSIVE LOSS

For the Years Ended December 31

	2010	2009
Net loss for the year	$ (104,180)	$ (167,793)
Other comprehensive gain (loss):		
Unrealized gain (loss) on available for sale marketable securities (Note 9)	89,250	(12,250)
Comprehensive loss for the year	$ (14,930)	$ (180,043)

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

SILVER PHOENIX RESOURCES INC.
(An Exploration Stage Company)
STATEMENTS OF CASH FLOWS
For the Years Ended December 31

	2010	2009
Operating Activities		
Net loss for the year	$ (104,180)	$ (167,793)
Items not involving cash:		
Amortization	1,595	878
Gain on option of mineral property	(90,000)	(29,923)
	(192,585)	(196,838)
Changes in non-cash working capital items:		
Amounts receivable	11,126	(11,126)
Accounts payable and accrued liabilities	(10,822)	(13,922)
HST recoverable	(7,729)	13,070
Prepaid expenses	-	(1,000)
	(200,010)	(209,816)
Investing Activities		
Equipment purchase	(1,652)	(2,364)
Reclamation deposits	-	5,000
Amount received on option of mineral property	75,000	75,000
Mineral property acquisitions and exploration expenditures	(34,398)	(35,657)
Mining tax credit received	6,601	38,918
	45,551	80,897
Financing Activities		
Subscription received in advance	35,000	-
	35,000	-
Decrease in cash	(119,459)	(128,919)
Cash, beginning of year	262,546	391,465
Cash, end of year	$ 143,087	$ 262,546
Supplemental cash flow information:		
Cash paid for:		
Interest	$ -	$ -
Income taxes	$ -	$ -
Non-cash investing activities		
Shares received in option of mineral property	$ 15,000	$ 31,500

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Silver Phoenix Resources Inc. (the “Company”) was incorporated on February 14, 2003 under the Company Act (British Columbia); and is a public company listed on the CNSX.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production or proceeds from the disposition thereof.

The Company has incurred recurring losses since its inception, and had an accumulated deficit of $876,325 as at December 31, 2010 which has been funded primarily by issuance of shares. The Company has no source of operating cash flows and expects to incur further losses in the exploration and development of its mineral properties. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing or maintaining continued support from its shareholders and creditors, and generating profitable operations in the future.

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and are expressed in Canadian dollars.

b) 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 amounts reported in the financial statements and the related notes to the financial statements. Significant areas requiring the use of management estimates include the fair value estimation of marketable securities, the recoverability of mineral properties, asset retirement obligations, future income tax valuation allowances and assumptions used in valuing options and warrants. Actual results could differ from those estimates.

c) Marketable securities

Investments in shares of public companies traded on an active market over which the Company does not have control or exercises significant influence are classified as available-for-sale and accounted for at fair market value, based upon quoted market share prices at the balance sheet date. Unrealized gains or losses on these investments are recorded as other comprehensive income or loss, unless a decline in value is considered to be other than temporary. Purchases and sales of investments are measured on a settlement date basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Mineral properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized. Upon commencement of commercial production, the related accumulated costs are amortized to income using the unit of production method over estimated recoverable ore reserves. Management periodically assesses carrying values of non-producing properties and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that have lapsed, the unrecoverable amounts are expensed.

The recoverability of the carried amounts of mineral properties is dependent on the existence of economically recoverable ore reserves and the ability to obtain the necessary financing to complete the development of such ore reserves and the success of future operations. The Company has not yet determined whether any of its mineral properties contain economically recoverable reserves. Amounts capitalized as mineral properties represent costs incurred to date, less write-downs and recoveries, and do not necessarily reflect present or future values.

When options are granted on mineral properties or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain.

e) Equipment

Equipment is recorded at cost and amortized over its estimated useful life (one half of these rates is applied in the year of acquisition) at the following annual rates:

Computer equipment	30%
Equipment	20%

f) Long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of mineral property and deferred exploration costs may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

g) Asset retirement obligations

The Company follows the recommendations of Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3110, “Asset Retirement Obligations”, which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is amortized over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at December 31, 2010, the Company has not incurred any asset retirement obligations related to the exploration and development of its mineral properties.

h) Government assistance

B.C. mining exploration tax credits for certain exploration expenditures incurred in B.C. are treated as a reduction of the exploration and development costs of the respective mineral property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Income taxes

The Company uses 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 which arise between the accounting basis and the tax basis of various assets and liabilities, and are measured using substantively enacted tax rates and laws expected to apply when these differences reverse. A valuation allowance is provided for any future income tax assets if it is more likely than not that the asset will not be realized.

j) Share issue costs

Professional, consulting and regulatory fees, as well as other costs directly attributable to financing transactions, are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered to be more likely than not. Share issue costs are charged to share capital when the related shares are issued. Costs relating to financing transactions that are not completed, or for which successful completion is considered unlikely, are charged to operations.

k) Stock-based compensation

The Company applies the fair value method for stock-based payments to all awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. Compensation expense is recognized over the applicable vesting period with a corresponding increase in contributed surplus. When the options are exercised, the exercise price proceeds together with the amount initially recorded in contributed surplus are credited to share capital.

l) Loss per share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The Company applies the treasury stock method in calculating diluted loss per share. Diluted loss per share excludes all dilutive potential common shares if their effect is anti-dilutive.

m) Financial instruments

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount in accordance with the CICA Handbook Section 3840, "Related Party Transactions".

Subsequent to their initial recognition, financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income; financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization; financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income. The Company has elected to account for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments.

The Company classifies its cash as held-for-trading, its amounts receivable as loans and receivables, its marketable securities as available-for-sale, and its accounts payable as other financial liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Comprehensive loss

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

3. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2009, the Accounting Standards Board ("AcSB") issued CICA Handbook Section 1582, “Business Combinations”, which replaces Section 1581, “Business Combinations”. The AcSB also issued Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”, which replace Section 1600, “Consolidated Financial Statements”. These new sections are based on the International Accounting Standards Board’s (“IASB”) International Financial Reporting Standard 3, “Business Combinations”. These new standards replace the existing guidance on business combinations and consolidated financial statements. These new standards require that most assets acquired and liabilities assumed, including contingent liabilities, to be measured at fair value and all acquisition costs to be expensed. These new standards also require non-controlling interests to be recognized as a separate component of equity and net earnings to be calculated without a deduction for non-controlling interests. The objective of these new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. The Non-Controlling Interests standard should be applied retrospectively except for certain items. The Company does not expect the adoption of these standards will have a material impact on its financial statements.

In February 2008, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS”). AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canadian GAAP. This 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. In July 2008 AcSB announced that early adoption will be allowed in 2009 subject to seeking exemptive relief. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS. Management has not yet determined the affect of adopting IFRS on the Company’s financial statements.

4. MARKETABLE SECURITIES

At December 31, 2010, the Company held 325,000 shares of Armadillo Resources Ltd. (December 31, 2009 – 175,000 shares).

	2010	2009
Fair value	$ 123,500	$ 19,250
Cost	46,500	31,500
Accumulated unrealized gain (loss) (Note 9)	$ 77,000	$ (12,250)

5. MINERAL PROPERTIES

December 31, 2010	Big Showing	Waverly Tangier	River Jordan	Total
Acquisition costs:				
Balance, beginning of period	$ 1	$ 1	$ 3,001	$ 3,003
Addition during the period	-	-	-	-
Balance, end of period	1	1	3,001	3,003
Deferred exploration expenditures:				
Balance, beginning of period	51,324	-	98,377	149,701
Expenditures during the year				
Geologist fees and assays	1,807	-	30,635	32,442
Tenure and restaking	-	-	1,956	1,956
Mining exploration tax credits	(4,123)	-	(2,478)	(6,601)
Balance, end of period	49,008	-	128,490	177,498
Option cash payment received		(75,000)		(75,000)
Option shares received	-	(15,000)	-	(15,000)
Option payments in excess of exploration costs	-	90,000	-	90,0000
	$ 49,009	$ 1	$ 131,491	$ 180,501

December 31, 2009	Big Showing	Waverly Tangier	River Jordan	Total
Acquisition costs:				
Balance, beginning of year	$ 1	$ 1	$ 1	$ 3
Addition during the year	-	-	3,000	3,000
Balance, end of year	1	1	3,001	3,003
Deferred exploration expenditures:				
Balance, beginning of year	36,609	89,351	106,579	232,539
Expenditures during the year				
Geologist fees and assays	18,950	-	12,913	31,863
Tenure and restaking	1,671	10	-	1,681
Other costs (recovery)	-	(887)	-	(887)
Mining exploration tax credits	(5,906)	(11,897)	(21,115)	(38,918)
Balance, end of year	51,324	76,577	98,377	226,278
Option payment received	-	(75,000)	-	(75,000)
Shares received (Note 4)	-	(31,500)	-	(31,500)
Option payments received in excess of exploration costs	-	29,923	-	29,923
	$ 51,325	$ 1	$ 101,378	$ 152,704

5. MINERAL PROPERTIES (continued)

The Company's mineral properties are described as follows:

Big Showing Property, British Columbia

On February 14, 2003, the Company entered into an agreement to acquire a 100% interest in the Big Showing property for mineral claims for a total area of 1,000 hectares in the Revelstoke Mining Division of British Columbia. The Company acquired 90% of the property from the President and director of the Company and 10% from an individual who became a director of the Company November 1, 2006.

For payment on the property, the Company agreed to issue 750,000 common shares of the Company on the date of the agreement (issued), to pay $35,000 in cash by April 30, 2007 (paid), to issue 1,000,000 common shares of the Company within 30 business days of the date on which the Company receives a technical report disclosing an indicated mineral resource of 5,000,000 ounces of contained silver equivalent on the claims, and to issue a further 1,583,333 common shares within 30 business days of the date on which the Company receives a positive pre-feasibility study on the claims.

The transaction was considered a related party transaction and consequently 750,000 common shares issued as initial payment were recorded at the nominal carrying amount of the property of the related party vendors. The cash payment of $35,000 was charged to deficit in 2007.

Waverly Tangier Property, British Columbia

On March 15, 2004, the Company entered into an agreement to acquire a 100% interest in the Waverly Tangier Property for mineral claims for a total area of 5,675 hectares in the Revelstoke Mining Division of British Columbia. The Company acquired 90% of the property from the President and director of the Company and 10% from an individual who became a director of the Company on November 1, 2006.

The Company agreed to issue 750,000 common shares of the Company on the date of the agreement (issued), to pay $35,000 in cash (paid in August 2007), to issue 1,000,000 common shares of the Company within 30 business days of the date on which the Company receives a technical report disclosing an indicated mineral resource of 5,000,000 ounces of contained silver equivalent on the claims, and to issue a further 1,583,333 common shares within 30 business days of the date on which the Company receives a positive pre-feasibility study on the claims.

The transaction was considered a related party transaction and consequently 750,000 common shares issued as initial payment were recorded at the nominal carrying amount of the property of the related party vendors. The cash payment of $35,000 was charged to deficit in 2007.

Armadillo Option

Pursuant to the amended and restated option and royalty agreement dated February 25, 2009 with Armadillo Resources Ltd. (“Armadillo”), the Company granted Armadillo a 60% interest (the “First Option”) in the Waverley-Tangier property (the “Property”) located in the Revelstoke Mining Division of British Columbia (see Note 4). Armadillo agreed to pay to the Company $350,000 in cash, to incur $3,000,000 in exploration expenditures and to issue 625,000 common shares of Armadillo to the Company as follows:

5. MINERAL PROPERTIES (continued)

Armadillo Option (continued)

	Cash	Exploration Expenditures	Shares
Before March 31, 2009 (received)	$ 75,000	$ –	175,000
Before March 30, 2010 (received)	75,000	200,000	150,000
Before March 30, 2011	100,000	300,000	150,000
Before March 30, 2012	100,000	1,000,000	150,000
Before March 30, 2013	–	1,500,000	–
	$ 350,000	$ 3,000,000	625,000

During fiscal 2010 $75,000 cash and shares valued at $15,000 were received and a gain on option of mineral property of $90,000 was recorded. As part of the requirement for exercising the First Option, Armadillo agreed to pay for and deliver to the Company a Feasibility Study, as defined in National Instrument 43-101, no later than December 31, 2015. Armadillo is to deliver to the Company the exercise notice within 30 days from the delivery of the Feasibility Study.

Armadillo is also entitled to earn an additional 10% interest (the “Second Option”) in the Property by:

a) lending the Company, at the most attractive interest rate available and in no case greater than the London Interbank Offered Rate (“LIBOR”) plus ½%, all of the amounts that will be payable by the Company under the joint operations of the Property (the “Joint Venture”); and

b) causing the Joint Venture to put the Property into commercial production.

The Property is subject to a 3% net smelter return (“NSR”) royalty and the Joint Venture will pay annual advance royalty payments of $150,000 commencing on January 1, 2015 to the Company until the Property is put into commercial production. The advance royalty payments will be deducted from the NSR payments otherwise needed to be made.

River Jordan Property, British Columbia

On March 16, 2006, the Company entered into an agreement to acquire a 100% interest in the River Jordan Property for mineral claims for a total area of 649 hectares in the Revelstoke Mining Division of British Columbia. The Company acquired 90% of the property from the President and director of the Company and 10% from an individual who became a director of the Company on November 1, 2006.

The Company agreed to pay $35,000 in cash by April 30, 2007 (paid), to issue 750,000 common shares (issued in June 2007) of the Company, to issue 1,000,000 common shares of the Company within 30 business days of the date on which the Company receives a technical report disclosing an indicated mineral resource of 5,000,000 ounces of contained silver equivalent on the claims, and to issue a further 1,583,333 common shares within 30 business days of the date on which the Company receives a positive pre-feasibility study on the claims.

The transaction was considered a related party transaction and consequently 750,000 common shares issued as initial payment were recorded at the nominal carrying amount of the property of the related party vendors. The cash payment of $35,000 was charged to deficit in 2007.

6. EQUIPMENT

		Cost		Accumulated amortization		2010 Net book value		2009 Net book value
Computer equipment	$	6,748	$	3,413	$	3,335	$	3,407
Equipment		2,877		1,697		1,180		1,051
	$	9,625	$	5,110	$	4,515	$	4,458

7. SHARE CAPITAL

a) Details of Share Capital:

Authorized: Unlimited common shares without par value
Issued and outstanding:

	Shares	Amount
Balance, December 31, 2008, 2009 and 2010	6,830,250	$ 989,029

b) There was no change in contributed surplus since December 31, 2008.

c) Stock Options

On April 18, 2008, the Company approved the adoption of a "rolling" stock option plan whereby a maximum of 10% of the issued common shares of the Company, from time to time, may be reserved for issuance pursuant to the exercise of options. The board of directors may, from time to time, grant options to directors, officers, employees and consultants of the Company. Options granted must be exercised no later than five years (if the Company is listed on the CNQ or a TSX Venture Exchange Tier 2 issuer) or ten years (if the Company is a TSX Venture Exchange Tier 1 issuer). The exercise price of an option cannot be less than the market price of the common share less applicable discounts permitted by the stock exchange on which the common shares are listed. Options begin vesting on the grant date based on a schedule outlined in the stock option plan.

There were no options granted for the years ended December 31, 2009 and 2010.

At December 31, 2010, the options issued by the Company had a weighted average remaining contractual life of 2.5 years and were all exercisable, with details as follows:

Number of Options	Exercise Price	Expiry Date
680,000	$0.25	July 7, 2013

8. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Company paid management fees of $84,000 (2009 - $84,000) to the President and $30,000 (2009 - $30,000) to the Chief Financial Officer, respectively. The related party transactions were measured at the exchange amount which is the amount agreed upon by the transacting parties and are on terms and conditions similar to non-related entities.

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

		2010		2009
Balance – beginning of year	$	(12,250)	$	-
Unrealized gain (loss) on available-for-sale marketable securities		89,250		(12,250)
Balance – end of year	$	77,000	$	(12,250)

10. COMMITMENTS

a) The Company is committed to a management services agreement with the President and director of the Company. The agreement requires payments of $84,000 per year commencing April 1, 2008. This contract is payable monthly and may be terminated by both parties by giving one month's notice.

b) The Company is committed to a management services agreement with the Chief Financial Officer of the Company. The agreement requires payments of $30,000 per year commencing October 1, 2007. This contract is payable monthly and may be terminated by both parties by giving one month's notice.

c) The Company is obligated to make certain payments and issue shares as described in Note 5 in connection with acquisition of its mineral properties.

11. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

		2010		2009
Canadian statutory income tax rate		28.5%		30%
Income tax recovery at statutory rate	$	29,691	$	50,338
Effect on income taxes of:				
Non-deductible expenses		(242)		(300)
Reduction in tax rates		(3,617)		(8,340)
Valuation allowance		(25,832)		(41,698)
Income tax recoverable	$	-	$	-

11. INCOME TAXES (continued)

The tax effects of temporary differences that give rise to significant components of the future tax assets at December 31, 2010 and 2009 are presented below:

	2010	2009
Non-capital loss carry-forwards	$ 195,868	$ 162,959
Mineral properties	20,613	20,265
Marketable securities	-	3,063
Equipment	1,278	879
Warrants issue costs	12,288	20,093
Valuation allowance	(230,047)	(207,259)
	$ -	$ -

The Company has not recognized any future income tax assets. The Company has recorded a valuation allowance against its future income tax assets based on the extent to which it is more likely than not that sufficient taxable income will not be realized during the carryforward periods to utilize all future tax assets.

The Company has non-capital losses for income tax purposes of approximately $784,000 which may be carried forward and offset against future taxable income. The non-capital losses expire as follows:

2014	$ 18,000
2015	36,000
2026	53,000
2027	116,000
2028	202,000
2029	227,000
2030	132,000
	$ 784,000

The Company also has certain allowances in respect of resource development and exploration costs of approximately $263,000, which, subject to certain restrictions, are available to be offset against future taxable income.

12. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to identify, pursue and complete the exploration and development of mineral properties, to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. Capital of the Company comprises all the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares.

The Company's investment policy is to invest its cash in financial instruments of high credit quality financial institutions with terms to maturity selected with regards to the expected timing of expenditures from continuing operations.

13. FINANCIAL INSTRUMENTS AND RISKS

Fair Value

As at December 31, 2010, the Company's financial instruments consisted of cash, amounts receivable, marketable securities and accounts payable. The fair values of cash, amounts receivable and accounts payable approximate their carrying values because of their current nature.

The Company classifies its fair value measurements in accordance with the three level fair value hierarchy 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, and
Level 3 – Inputs that are not based on observable market date

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Cash	$ 143,087	$ -	$ -	$ 143,087
Marketable securities	123,500	-	-	123,500
	$ 266,587	$ -	$ -	$ 266,587

The Company's financial instruments are exposed to a number of risks that are summarized below:

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk on cash the Company places the instrument with a high credit quality financial institution.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure as described in Note 12.

The Company ensures its holding of cash is sufficient to meet its short-term exploration and administrative expenditures. All of the Company's financial liabilities have contractual maturities of 30 days or due on demand, do not bear interest and are subject to normal trade terms. As at December 31, 2010 the Company has no financial assets that are past due or impaired due to credit risk defaults.

13. FINANCIAL INSTRUMENTS AND RISKS (continued)

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, investment fluctuations, and commodity and equity prices. Market conditions will cause fluctuations in the fair values of financial assets classified as held-for-trading, available-for-sale and cause fluctuations in the fair value of future cash flows for assets or liabilities classified as held-to-maturity, loans or receivables and other financial liabilities. The Company is exposed to market risk in trading its investments, and unfavorable market conditions could result in dispositions of investments at less the Company's investments. The Company is not exposed to significant interest rate risk as the Company's has no interest bearing debt. The Company's ability to raise capital to fund mineral resource exploration is subject to risks associated with fluctuations in mineral resource prices. Management closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign currency exchange rates. The Company's functional currency is the Canadian dollar. All of the Company's financial instruments are denominated in Canadian dollars.
In management's opinion there is no significant foreign exchange risk to the Company.

Transaction Costs

Transaction costs attributable to the acquisition or issue of financial assets or financial liabilities, other than those classified as held-for-trading, are added to the initial fair value amount to match the costs with the related transactions. Purchases and sales of securities are accounted for on the settlement date basis.

14. SUBSEQUENT EVENT

On January 7, 2011, the Company completed a non-brokered private placement consisting of 70,000 common shares of the Company at $0.50 per share. The private placement raised a total of $35,000, which was received prior to December 31, 2010. On February 7, 2011, the 70,000 common shares were issued.