SPARROW VENTURES CORP.

January 31, 2011 and 2010

Independent Auditors' Report

To the Shareholders of:
SPARROW VENTURES CORP.

We have audited the accompanying financial statements of Sparrow Ventures Corp. which comprise the balance sheets as at January 31, 2011 and 2010, and the statements of operations and deficit, comprehensive loss, 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 financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 the auditor's 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, the auditor considers 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 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 Alliance Mining Corp. and its subsidiary as at December 31, 2010 and 2009, and their financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter – Going Concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the ability of Sparrow Ventures Corp. to continue as a going concern. The company incurred a net loss of $188,083 during the year ended January 31, 2011, and as of that date, had an accumulated deficit of $710,930. The financial statements do not include the adjustments that would result if Sparrow Ventures Corp. were unable to continue as a going concern.

Watson Dauphinee & Masuch

Chartered Accountants

Vancouver, B.C., Canada
May 27, 2011

SPARROW VENTURES CORP.

Balance Sheets

As at January 31, 2011 and 2010

	2011 $	2010 $
ASSETS		
CURRENT		
Cash and Cash Equivalents	370,290	653,087
Interest Receivable	1,849	843
HST/GST Recoverable	8,091	2,766
Prepaid Expenses and Deposits	1,500	1,500
	381,730	658,196
Equipment (Note 4)	1,913	-
Resource Properties (Note 5)	87,531	-
	471,174	658,196
LIABILITY		
CURRENT		
Accounts Payable and Accrued Liabilities	13,722	38,157
SHAREHOLDERS' EQUITY		
Share Capital (Note 6(b))	997,098	986,098
Contributed Surplus (Note 7)	171,284	156,788
Deficit	(710,930)	(522,847)
	457,452	620,039
	471,174	658,196

Nature of Operations (Note 1)

Approved on Behalf of the Board:

"Marc Levy"	**"Marc Morin"**
Marc Levy, Director	Marc Morin, Director

SPARROW VENTURES CORP.

Statements of Operations and Deficit

For the Years Ended January 31, 2011 and 2010

	2011 $	2010 $
EXPENSES		
Accounting, Audit and Legal	68,494	197,122
Amortization	337	-
Bank Charges	1,849	440
Business Acquisition (Note 12)	-	25,000
Consulting Fees	29,644	32,794
Management Fees (Note 8)	4,000	-
Office, Rent and Administration (Note 8)	43,568	26,296
Regulatory Fees	3,345	27,557
Stock-Based Compensation (Note 6(f))	14,496	51,021
Transfer Agent and Shareholder Information	8,362	6,991
Travel and Promotion	17,842	13,514
Less: Expense Recovery	-	(27,000)
	191,937	353,735
LOSS BEFORE INTEREST INCOME	(191,937)	(353,735)
Interest Income	3,854	1,876
NET LOSS FOR THE YEAR	(188,083)	(351,859)
Deficit, Beginning of the Year	(522,847)	(170,988)
DEFICIT, END OF THE YEAR	(710,930)	(522,847)
BASIC AND DILUTED LOSS PER SHARE	(0.01)	(0.03)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	13,533,788	11,479,645

SPARROW VENTURES CORP.

Statements of Comprehensive Loss

For the Years Ended January 31, 2011 and 2010

	2011 $	2010 $
NET LOSS FOR THE YEAR	(188,083)	(351,859)
Other Comprehensive Income for the Year	-	-
COMPREHENSIVE LOSS FOR THE YEAR	(188,083)	(351,859)

SPARROW VENTURES CORP.

Statements of Cash Flows

For the Years Ended January 31, 2011 and 2010

	2011 $	2010 $
CASH WAS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net Loss for the Year	(188,083)	(351,859)
Non-Cash Item		
Amortization	337	-
Stock-Based Compensation	14,496	51,021
Changes in Non-Cash Working Capital Accounts		
Interest Receivable	(1,006)	6,339
HST/GST Recoverable	(5,325)	(1,233)
Prepaid Expenses and Deposit	-	16,651
Accounts Payable and Accrued Liabilities	(24,435)	28,039
	(204,016)	(251,042)
FINANCING ACTIVITIES		
Shares Issued for Cash	-	252,050
Share Issue Costs	-	(13,500)
	-	238,550
INVESTING ACTIVITIES		
Purchase of Equipment (Note 4)	(2,250)	-
Acquisition of Resource Properties (Note 5)	(76,531)	-
	(78,781)	-
DECREASE IN CASH	(282,797)	(12,492)
Cash and Cash Equivalents, Beginning of the Year	653,087	665,579
CASH AND CASH EQUIVALENTS, END OF THE YEAR	370,290	653,087
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash	70,290	3,087
Guaranteed Investment Certificates	300,000	650,000
	370,290	653,087
SUPPLEMENTARY INFORMATION:		
Non-Cash Investing Activity:		
Shares Issued for Resource Properties (Note 5)	11,000	-

NOTE 1 – NATURE OF OPERATIONS

Sparrow Ventures Corp. (the "Company") was incorporated on July 04, 2006 under the laws of the Business Corporations Act (British Columbia) under the name 0762477 B.C. Ltd. On December 17, 2008, the Company changed its name to Sparrow Ventures Corp.

The Company became a listed Capital Pool Company ("CPC") pursuant to the policies of the TSX Venture Exchange (the "Exchange") on May 26, 2008. As a CPC, the Company's principal business objective is the identification and evaluation of assets, properties or businesses with a view to acquire them or an interest therein (the "Qualifying Transaction"). The purpose of such an acquisition, which is subject to regulatory and, if required, shareholders approval, is to satisfy the related conditions of a Qualifying Transaction under the Exchange rules.

On May 26, 2010, the Company entered into a letter agreement with Full Metal Minerals Ltd. ("Full Metal") pursuant to which Full Metal granted to the Company an option to acquire a 60% interest in Full Metal's Nebocat and RIM properties (Note 5).

The Company will require additional financing in order to make its option payments and required exploration expenditures to maintain this option. There is no assurance that the Company will be able to obtain such financing, if any, on reasonable terms.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared using Canadian generally accepted accounting principles, as summarized below:

a) Cash and Cash Equivalents

Cash and cash equivalents include short-term deposits, which are all guaranteed investment certificates with a maturity of less than one year and cashable at anytime at the option of the holder.

b) Equipment and Amortization

Equipment is recorded at cost and is amortized using the following rates on a declining balance basis, except in the year of acquisition, when one half of the rates are used:

Computer Hardware	30%

c) Resource Properties

The Company is in the exploration stage and as such, the Company capitalizes all expenditures related to the acquisition, exploration, and development of mineral properties until such time as the properties are placed into commercial production, abandoned, sold, or considered impaired in value. Costs of producing properties will be amortized on a unit-of-production basis based on proven and probable reserves. Costs of abandoned properties are written off to operations. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Adjustments to carrying value due to impairment are charged to operations.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Resource Properties (Continued)

The Company has not yet determined the amount of reserves available on the properties owned. The recoverability of the capitalized costs for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties and on future production or proceeds of disposition. The Company assesses the impairment of a mineral property whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Recoverability of the capitalized costs is then determined by a comparison of the carrying amount of the property to future undiscounted net cash flows expected to be generated by the mineral property. If such mineral property is considered to be impaired, that property is written down to its estimated net realizable value.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest in accordance with general industry standards, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and, as such, title may be affected.

d) Share Capital

The Company records proceeds from share issuances net of commissions and issue costs.

Shares issued for other than cash consideration are valued at the quoted price on the TSX Venture Exchange based on the earliest of: (i) the date the shares are issued, and (ii) the date the agreement to issue the shares is reached.

e) Stock-Based Compensation

The Company has a stock option plan for its directors, officers, employees and consultants. Under this plan, stock options are not issued at less than their fair market value.

The Company recognizes compensation cost for options and other stock-based awards granted using the fair value based method. Compensation cost is measured using the Black-Scholes option pricing model at the date of the grant and is expensed over the vesting period of the equity instrument awarded, with the offsetting amounts credited to contributed surplus.

Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus amount is transferred to share capital.

f) Earnings (Loss) per Common Share

The Company uses the treasury stock method for the computation and disclosure of earnings (loss) per share. Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. Diluted loss per share is the same as basic loss per share as the effect of issuance of shares on the exercise of stock options is anti-dilutive.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Comprehensive Loss

The Company presents gains and losses which would otherwise be recorded as part of net earnings in other comprehensive income until it is considered appropriate to recognize them into net earnings. The Company presents comprehensive loss and its components in a separate financial statement that is displayed with the same prominence as other financial statements. The Company has no transactions in other comprehensive income for the years ended January 31, 2011 and 2010.

h) Future Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between financial statement carrying values and their corresponding tax values (temporary differences) and tax loss carry forwards. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply when the temporary differences and losses carry forwards are expected to be recovered, or settled. The effect on futures income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

i) Financial Instruments

Financial instruments include cash and cash equivalents, interest receivable, and accounts payable and accrued liabilities. The Company is not exposed to significant interest, credit or exchange risk arising from these financial instruments. The estimated fair value of such financial instruments approximates their carrying values because of the short-term to maturity of these instruments.

The Company's financial instruments are classified into one of the following categories: held-for-trading, loans and receivables, or other financial liabilities. Financial assets and liabilities held-for-trading are recorded at fair value with gains and losses recognized in net income. Loans and receivables and other financial liabilities are recorded at amortized cost using the effective interest method.

Cash is classified as held-for-trading and accordingly carried at its fair value. Amounts receivable are classified as loans and receivables, and are carried at their amortized costs. Accounts payable and accrued liabilities are classified as other financial liabilities and are carried at their amortized cost.

j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – FUTURE ACCOUNTING PRONOUNCEMENTS

a) Adoption of International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed January 01, 2011 as the date that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, with a transition date of January 01, 2010. Effective February 01, 2011, the Company will adopt IFRS as the basis for preparing its financial statements. The Company will issue its financial statements prepared on an IFRS basis commencing with the quarter ended April 30, 2011, and provide comparative data on an IFRS basis as required.

b) Business Combination

In December 2008, the Accounting Standards Board ("AcSB") issued CICA Handbook Section 1582, Business Combinations, which is converged with IFRS 3, Business Combinations, and replaces CICA Handbook Section 1581, Business Combinations. Section 1582 provides guidance on the application of the purchase method of accounting for business combinations. In particular, Section 1582 addresses the determination of the carrying amount of the assets and liabilities at the time of the business combination. The new standard is effective on a prospective basis to business combinations for which the acquisition date is on or after January 01, 2011. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be re-measured at fair value at the acquisition date. Early adoption is permitted. The Company does not expect to adopt this standard prior to February 01, 2011, at which time it expects to adopt the equivalent IFRS standard.

c) Consolidated Financial Statements

In December 2008, the AcSB issued CICA Handbook Section 1601, Consolidated Financial Statements, which replaces CICA Handbook Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 01, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company does not expect to adopt this standard prior to February 01, 2011, at which time it expects to adopt the equivalent IFRS standard.

d) Non-Controlling Interests

In December 2008, the AcSB issued CICA Handbook Section 1602, Non-Controlling Interests, which establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 01, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company does not expect to adopt this standard prior to February 01, 2011, at which time it expects to adopt the equivalent IFRS standard.

NOTE 4 – EQUIPMENT

	Cost $	Accumulated Amortization $	Net Book Value $
January 31, 2011			
Computer Hardware	2,250	337	1,913

NOTE 5 – RESOURCE PROPERTIES

	Nebocat and Rim Properties $
Balance, January 31, 2010	-
Acquisition Costs	
Cash Consideration	25,000
Common Shares Issued	11,000
Professional and Regulatory Fees	51,531
Balance, January 31, 2011	87,531

On May 26, 2010, the Company entered into a letter agreement with Full Metal pursuant to which Full Metal granted to the Company an option to acquire a 60% interest in Full Metal's Nebocat and RIM properties ("the Properties"). The Properties are located south of the community of Ross River, Yukon.

The terms of the agreement require the Company to meet the following obligations over a four-year period as follows:

	Number of Shares of the Company to be Issued to Full Metal	Cash Option Payment $	Minimum Annual Exploration Expenditures $
Upon TSX Venture Exchange Approval on August 25, 2010 (issued and paid)	100,000	25,000	-
On or before August 25, 2011	100,000	25,000	200,000
On or before August 25, 2012	100,000	50,000	400,000
On or before August 25, 2013	100,000	50,000	800,000
On or before August 25, 2014	-	-	1,600,000
	400,000	150,000	3,000,000

NOTE 5 – RESOURCE PROPERTIES (Continued)

Following the exercise of the option by the Company, the Company and Full Metal will continue the exploration and development of the Properties under a joint venture. The Company will be the operator of the Properties. The Properties are subject to Net Smelter Royalty of 2%.

NOTE 6 – SHARE CAPITAL

a) Authorized

Unlimited Number of Voting Common Shares without Par Value

b) Issued and Outstanding

	Number of Common Shares	$
Balance, January 31, 2009	10,970,000	740,729
Shares Issued for Cash – (i) and (ii)	2,520,500	252,050
Share Issue Costs	-	(13,500)
Fair Value of Agent's Options Exercised – (i)	-	6,819
Balance, January 31, 2010	13,490,500	986,098
Shares Issued for Resource Properties (Note 5)	100,000	11,000
Balance, January 31, 2011	13,590,500	997,098

(i) During the year ended January 31, 2010, 120,500 common shares were issued for gross proceeds of $12,050 on the exercise of Agent's options. In addition, a reclassification of $6,819 from contributed surplus to share capital was recorded on the exercise of these options.

(ii) On December 03, 2010, the Company closed a non-brokered private placement of 2,400,000 common shares at $0.10 per share for gross proceeds of $240,000. The Company paid $11,400 as finders' fees with respect to this financing.

c) Escrow Shares

As of January 31, 2011, the Company has 3,780,000 (2010 – 4,200,000) common shares held in escrow pursuant to the requirements of the Exchange and escrow agreement. Pursuant to the escrow agreement, 10% of the escrowed common shares will be released from escrow following issuance of the final Exchange bulletin ("Final Exchange Bulletin") upon completion of the Qualifying Transaction, and in increments of 15% every six months thereafter over a period of thirty six months. If the Company meets the Exchange's Tier 1 status after receipt of the Final Exchange Bulletin, the release of escrow shares is accelerated.

NOTE 6 – SHARE CAPITAL

d) Stock Options

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

In connection with the foregoing, the number of common shares reserved for issuance to any individual director or officer will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all consultants will not exceed two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or consulting arrangement was by reason of death, the option may be exercised within a maximum period of six months after such death, subject to the expiry date of such option.

The Company has the following options outstanding:

	Number of Options	Weighted Average Exercise Price $
Balance, January 31, 2009	1,195,000	0.10
Granted	330,000	0.10
Cancelled	(330,000)	0.10
Balance, January 31, 2010	1,195,000	0.10
Granted	269,000	0.02
Balance, January 31, 2011	1,464,000	0.10

As at January 31, 2011, the Company has the following options outstanding:

	Options Granted and Outstanding			Options Vested and Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$0.10 to $0.11	1,464,000	6.78 years	$0.10	1,295,875	$0.10

The options expire between February 05, 2014 and October 07, 2020.

NOTE 6 – SHARE CAPITAL

e) Agent's Options

As of January 31, 2011, the Company has Nil (2010 – 179,500) Agent's options outstanding which allow the Agent to acquire Nil (2010 – 179,500) common shares at an exercise price of $0.10 per common share. These options expired unexercised May 21, 2010.

f) Stock-Based Compensation

The fair value of stock options granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for the grants made during the years ended January 31, 2011 and 2010:

	2011	2010
Risk-Free Annual Interest Rate	1.65%	1.88%
Expected Annual Dividend Yield	0%	0%
Expected Stock Price Volatility	154%	124%
Average Expected Life of Options	3.82 years	5 years

The weighted average fair value per share of stock options granted during the year ended January 31, 2011 was $0.10 (2010 – $0.09) per share. During the year January 31, 2011, the Company recognized $14,496 (2010 – $29,129) of stock-based compensation expense for options vested in the period.

During the year ended January 31, 2010, the Company extended the term of 760,000 stock options granted to directors and officers of the Company from May 26, 2013 to May 26, 2018. This modification resulted in the recognition of additional stock-based compensation expense of $21,892 in 2010.

Option pricing models require the input of highly subjective assumptions. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models may not necessarily provide a single reliable measure of the fair value of the Company's stock options and Agent's options.

NOTE 7 – CONTRIBUTED SURPLUS

	2011 $	2010 $
Balance, Beginning of Year	156,788	112,586
Stock-Based Compensation	14,496	51,021
Exercise of Agents' Options (Note 6(b)(i))	-	(6,819)
Balance, End of Year	171,284	156,788

NOTE 8 – RELATED PARTY TRANSACTIONS

During the year ended January 31, 2011, the Company paid or accrued $26,400 (2010 – $18,000) for office, rent and administration to companies with directors and an officers in common.

Included in prepaid expenses is a rent deposit of $1,500 (2010 – $1,500) paid to a company with a director and an officer in common.

Management fees of $4,000 (2010 – $Nil) were paid to a director and an officer of the Company.

During the year ended January 31, 2011, the Company entered into a loan agreement in the amount of $20,000 with a director of the Company. The loan is unsecured, bears interest at 18% per annum and is due on or before August 31, 2011. During the year ended January 31, 2011, the Company repaid the full amount of the loan plus interest of $1,403.

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

NOTE 9 - INCOME TAXES

a) Provision for Income Taxes

A reconciliation of income taxes at the statutory rates is as follows:

	2011	2010
Statutory Income Tax Rates	28.33%	28.50%
	$	$
Loss Before Income Taxes	(188,083)	(351,859)
Expected Income Tax Recovery	(53,290)	(100,280)
Effect of Change in Tax Rates	5,557	13,039
Change in Valuation Allowance	41,677	76,547
Permanent Differences	5,597	14,541
Other	459	(3,847)
Net Income Tax Expense (Recovery)	-	-

NOTE 9 - INCOME TAXES (Continued)

b) Future Income Taxes

Future income taxes reflect the tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of future income tax assets as at January 31, 2011 and 2010 are as follows:

	2011 $	2010 $
Future Income Tax Assets:		
Non-Capital Losses Carry-Forward	155,935	107,202
Share Issue Costs	14,954	22,094
Other	309	225
Valuation Allowance	(171,198)	(129,521)
Net Future Income Tax Assets	-	-

c) Non-Capital Losses

As at January 31, 2011, the Company has non-capital losses of $623,738, which may be applied to reduce taxable income of future years. The losses expiry as follows:

Year	$
2028	677
2029	98,734
2030	327,778
2031	196,549
	623,738

Future tax benefits which may arise as a result of these losses have not been recognized in these financial statements and have been offset by a valuation allowance due to the uncertainty of their realization.

NOTE 10 – MANAGEMENT OF FINANCIAL RISK

The Company manages its exposure to financial risks, including foreign exchange risk and interest rate risk, based on a framework to protect itself against adverse rate movements. All transactions undertaken are to support the Company's ongoing business and the Company does not acquire or issue derivative financial instruments for trading or speculative purposes. The Company's Board of Directors oversees management's risk management practices.

The Company's activities are exposed to interest rate risk, credit risk and liquidity risk.

a) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Cash and cash equivalents bear interest at market rates. Other current financial assets and liabilities are not exposed to interest rate risk because of their short-term nature or being non-interest bearing.

NOTE 10 – MANAGEMENT OF FINANCIAL RISK (Continued)

b) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Corporation to credit risk consist of cash and cash equivalents and amounts receivable. The Corporation has reduced its credit risk by investing its cash equivalents in guaranteed investment certificates with a Schedule 1 Canadian chartered bank. Also, as the majority of its receivables are with the Governments of Canada in the form of goods and services tax recoverable, the credit risk is considered minimal.

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. At of January 31, 2011, the Company had enough funds available to meet its financial liabilities and future financial liabilities from its commitments in the next fiscal year. The Company handles liquidity risk through the management of its capital structure.

NOTE 11 – CAPITAL MANAGEMENT

The Company manages its share capital as capital, which as at January 31, 2011 totalled $997,098 (2010 – $986,098). The Company's objectives when managing capital are to safeguard Company's ability to support the acquisition, exploration and development of resource properties and to maintain the Company in good standing with the various regulatory authorities. In order to maintain or adjust its capital structure, the Company may issue new shares or debt, or dispose of assets.

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its objectives. The Company may issue new shares or seek debt financing to ensure that there is sufficient working capital to meet its short-term business requirements. The Company is not subject to externally imposed capital requirements.

NOTE 12 – BUSINESS ACQUISITION

On January 21, 2010, the Company signed a letter of intent with Network Entertainment Inc. ("Network") to acquire all of the issued and outstanding shares of Network, a private company incorporated under the laws of the Province of British Columbia, and which carries on the business of producing high-quality original programming for television, film, publishing, radio and online distribution.

This transaction was cancelled in May 2010. Due diligence fees totaling $31,504 (deposit – $25,000; legal – $6,504) were expensed in the year ended January 31, 2010.