



(A Development Stage Enterprise)

Financial Statements

For the Years Ended December 31, 2010 and 2009

METALS CREEK RESOURCES CORP.
(A Development Stage Enterprise)

December 31, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Metals Creek Resources Corp.:

We have audited the accompanying financial statements of Metals Creek Resources Corp. which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of loss and comprehensive loss, deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

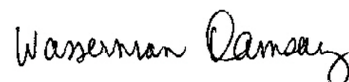
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable 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 financial statements present fairly, in all material respects, the financial position of Metals Creek Resources Corp. as at December 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.



METALS CREEK RESOURCES CORP.
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BALANCE SHEETS

As at	2010 \$	2009 \$
ASSETS		
Current		
Cash – flow-through funds (note 7)	276,793	67,580
Short term investments (note 4)	750,724	-
Short term investments –restricted flow-through expenditures (note 4 and note 7)	210,149	2,150,514
Staking security deposits (note 15)	7,150	4,700
G.S.T. and other receivables	159,634	105,930
Prepaid expenses	13,930	14,637
	1,418,380	2,343,361
Property and equipment (note 5)	25,283	24,911
Long term investments (note 6)	45,000	-
Mineral properties and deferred exploration expenditures (note 8)	5,612,396	3,524,358
	7,101,059	5,892,630

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities (note 11)	359,768	84,532
Future income taxes (note 14)	454,871	23,632
Shareholders' Equity		
Common shares (note 9)	6,579,343	5,420,219
Warrants (notes 9 and 10)	708,126	1,017,980
Contributed Surplus (note 9)	1,404,640	772,944
Deficit	(2,405,689)	(1,426,677)
	6,286,420	5,784,466
	7,101,059	5,892,630

Ability to continue as a going concern (note 1)
Subsequent events (note 20)

Approved by the Board:

“Alexander Stares” Director

“Nick Tsimidis” Director

The accompanying notes form an integral part of these financial statements

METALS CREEK RESOURCES CORP.
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**STATEMENT OF LOSS, COMPREHENSIVE LOSS
AND DEFICIT**

	2010	2009
	\$	\$
EXPENSES		
Business development	148,772	131,171
Amortization	7,899	32,984
Office and general	116,570	103,729
Professional fees (note 11)	74,025	81,799
Salaries and wages	220,015	225,375
Part XII.6 tax	34,377	13,811
Stock-based compensation	291,643	132,904
	893,301	721,773
Loss before the following:	(893,301)	(721,773)
Amounts earned on mineral properties	25,748	367
Sale of resource property, net (note 11)	-	22,520
Write-down of mineral properties	(375,535)	(135,502)
Interest income	8,987	3,015
Adjustment to fair market value for held-for-trading investments	13,750	-
Net loss before taxes	(1,220,351)	(831,373)
Recovery of (Provision for) future income taxes (note 14)	241,339	234,381
Net loss and comprehensive loss for the period	(979,012)	(596,992)
Deficit - Beginning of Period	(1,426,677)	(829,685)
Deficit - End of Period	(2,405,689)	(1,426,677)
Net income (loss) Per Share – basic and diluted	(0.02)	(0.02)
Weighted Average Shares Outstanding – basic and diluted	60,152,278	37,667,053

The accompanying notes form an integral part of these financial statements

METALS CREEK RESOURCES CORP.

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STATEMENTS OF CASH FLOWS

	2010	2009
	\$	\$
CASH FLOWS FROM (USED IN):		
OPERATING ACTIVITIES		
Net income and comprehensive income (loss and comprehensive loss) for the period	(979,012)	(596,992)
Amortization	7,899	32,984
Stock-based compensation	291,643	132,904
Write-down of mineral properties	374,735	135,502
Adjustment to fair market value of held-for-trading investments	(13,750)	-
Amounts earned on mineral properties	(25,748)	-
Provision for (recovery of) future income taxes	(241,339)	(234,381)
Decrease (increase) in G.S.T. and other receivables	(53,704)	100,133
Decrease (increase) in prepaid expenses	707	(522)
Increase (decrease) in accounts payable and accrued liabilities	275,236	(131,381)
Cash flows from (used in) operating activities	(363,333)	(561,753)
FINANCING ACTIVITIES		
Issuance of capital stock for cash	988,912	4,084,210
Financing costs – cash commission expenses	(68,624)	(326,989)
Redemption (purchase) of short term investments	1,189,641	(2,150,514)
Proceeds on exercise of stock options	12,300	22,500
Proceeds on exercise of warrants	829,169	6,000
Cash flows from financing activities	2,951,398	1,635,207
INVESTING ACTIVITIES		
Cash – flow-through funds	(209,213)	108,866
Decrease (increase) in staking security deposits	(2,450)	81,250
Expenditures on mineral properties	(2,368,131)	(1,259,104)
Acquisition of property and equipment	(8,271)	(4,466)
Cash flows from (used in) investing activities	(2,588,065)	(1,073,454)
Increase (decrease) in cash	-	-
Cash - beginning of period	-	-
Cash - end of period	-	-

Supplemental information (see note 17)

METALS CREEK RESOURCES CORP.

(A Development Stage Enterprise)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

1. HISTORY, NATURE OF OPERATIONS AND GOING CONCERN

Metals Creek Resources Corp. (formerly “The Endurance Fund Corporation”) (the “Company”) was incorporated on June 21, 2004 under the Business Corporations Act (Ontario).

On December 21, 2007, the Company completed its Qualifying Transaction, as defined under the policies of the TSX Venture (“Exchange”), with North American Uranium Corp. (“NAUC”) pursuant to which the Company acquired all of the issued and outstanding common shares and common share purchase warrants of NAUC” (the “Acquisition”). The net assets acquired at fair value were \$587,647. Pursuant to the Acquisition, the Company issued 9,859,286 common shares at a deemed price of \$1 per share, and warrants to acquire 357,143 common shares at an exercise price of \$0.50. The Exchange issued a Final Exchange Bulletin on January 25, 2008 approving the Acquisition.

The Company changed its name to Metals Creek Resources Corp. on February 20, 2008.

GOING CONCERN

The Company is an exploration stage company, and is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

The accompanying financial statements have been prepared on the basis of Canadian generally accepted accounting principles (“GAAP”) applicable to a going concern. The appropriateness of using the going concern basis is dependent upon, among other things, future profitable operations, and the ability of the Company to raise additional capital. Specifically, the recovery of the Company’s investment in mineral properties and deferred exploration expenditures is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to develop its properties and establish future profitable production from the properties, or from the proceeds of their disposition. The Company has working capital in the amount of \$1,058,612 (December 31, 2009 - \$2,258,829) and has a deficit in the amount of \$2,405,689 (December 31, 2009 - \$1,426,677). The Company has not earned any revenues to date and is considered to be in the exploration stage.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Mineral Properties and Deferred Exploration Expenditures**

Mineral property acquisition and deferred exploration and development expenditures are deferred until the properties are placed into production, sold or abandoned. These deferred costs will be amortized over the estimated useful life of the properties following commencement of production or written down if the properties are allowed to lapse or are abandoned.

Costs include the cash consideration and the fair market value of the common shares or other consideration issued for the acquisition of mineral properties. The carrying value is reduced by option proceeds and government grants received until such time as the property cost and deferred exploration expenditures are reduced to nominal amounts. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Land Reclamation Costs

During the course of acquiring and exploring potential mineral properties, the Company must comply with government regulated environment evaluation, updating and reclamation requirements. The costs of complying with these requirements are capitalized, as deferred costs as incurred, until such time as the properties are put into commercial production, at which time the costs incurred will be charged to operations on a unit-of-production basis over the estimated mine life. Upon abandonment or sale of a property all deferred costs relating to the property will be expensed in the year of such abandonment or sale. The cost and extent of future site cleanup, reclamation or remediation cannot be determined at this time, and no amount has been recorded in these financial statements.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the related reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets, resource property values, expected tax rates for future income tax recoveries and useful lives of amortization of long-lived assets. Actual results could differ from those reported. Management believes that the estimates used are reasonable.

Income Taxes

The Company follows the CICA Handbook Section 3465 in accounting for corporate income taxes which focuses on the amounts of income taxes payable or receivable that will arise if an asset is realized or a liability is settled for its carrying amount. The resulting future income tax asset or liability is recorded based on substantially enacted income tax rates. In the case of unused tax losses, income tax reductions and certain items that have a tax basis but cannot be identified with an asset or liability on the balance sheet, the recognition of future income tax assets is determined by reference to the likely realization of such benefits at the balance sheet date.

Flow-Through Financing

The Company raises equity through the issuance of flow-through shares. Under this arrangement, shares are issued which transfer the tax deductibility of mineral property exploration expenditures to investors. Proceeds received on the issuance of these shares are credited to capital stock and the related exploration costs are charged to mineral properties and deferred exploration expenditures in the year in which they are incurred.

The entire amount of proceeds from the sale of flow-through shares received will be renounced to the investors under the provisions of the Income Tax Act (Canada). Accordingly, as the actual expenditures are incurred, they will carry no tax deductibility and will be recorded in the period in which the expenditures are incurred, and the result will be tax differences. Future income tax liabilities resulting from these tax differences are recorded in the period in which the expenditures are renounced as a reduction of capital stock, provided there is reasonable assurance that the expenditures will be made.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a maximum period.

Risk Management

The Company is engaged primarily in the mineral exploration field and manages related industry risk issues directly. The Company is at risk for environmental issues and fluctuations in commodity pricing.

The Company is not exposed to significant credit concentration risk or interest rate risk.

The Company's functional currency is the Canadian dollar. All current exploration occurs within Canada and there is no significant foreign exchange risk to the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Property and Equipment

Purchased property and equipment are recorded at cost. Amortization is provided using the declining balance method using annual rates as follows:

Furniture and fixtures and general equipment	20%
Computer equipment	55%
Computer software	100%
Leasehold improvements	20%

Asset Retirement Obligation

The Company follows the CICA Handbook Section 3110, "Asset Retirement Obligations" which requires companies to record the fair value of an asset retirement obligations as a liability in the period in which it incurred a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The obligation is measured initially at fair value using present value methodology and the resulting costs are capitalized into the carrying amount of the related asset. In subsequent periods, the liability will be adjusted for any changes in the amount of timing of the underlying future cash flows. Capitalized asset retirement costs are depreciated on the same basis as the related asset and the discounted accretion of the liability is included in determining the results of operations.

Impairment of Long-lived Assets

The Company periodically evaluates the future recoverability of its long-lived assets. Impairment losses or write-downs are measured as the difference between the carrying amount and the fair value of the asset and are recorded in the event the net book value of such assets are determined to be not recoverable based on the estimated undiscounted future cash flows attributes to these assets.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price is fixed or determinable and collectibility is reasonably assured. To date the Company has not earned any revenue other than interest income earned on its short-term investments.

General and Administrative Expenses

The Company charges all general and administrative expenses not directly related to exploration activity to operations as incurred.

Stock based compensation

The Company has a stock-based compensation plan. CICA Handbook, Section 3870, establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments for goods and services. The Section requires that awards of stock be at fair value.

Financial Instruments

The carrying amount of cash – flow-through funds, short term investments, G.S.T. and other receivables, staking security deposits, prepaid expenses, accounts payable and accrued liabilities is comparable to its fair value due to the approaching maturity of these financial instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The Canadian Institute of Chartered Accountants (“CICA”) issued the following new Handbook Sections, which were effective for interim periods beginning on or after October 1, 2007 which were adopted by the Company in 2008:

- (i) Section 3862, “Financial Instruments – Disclosures”, describes the required disclosure for the assessment of the significance of financial instruments for an entity’s financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, “Financial Instruments – Presentation” replaced Section 3861, “Financial Instruments – Disclosure and Presentation”.
- (ii) Section 3863, “Financial Instruments – Presentation”, establishes standards for presentation of financial instruments and non-financial derivatives.

The additional disclosures, required as a result of the adoption of Sec 3862 and 3863, have been included in Note 12, Risk Management.

- (iii) Section 1535, “Capital Disclosures”, establishes standards for disclosing information about an entity’s capital and how it is managed. It describes the disclosure requirements of the entity’s objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

The additional disclosures, required as a result of the adoption of Sec 1535, have been included in Note 11, Capital Disclosure.

Impairment Testing of Mineral Exploration Properties

On March 27, 2009, the CICA approved EIC 174 “Mining Exploration Costs”. This guidance clarified that an entity that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Also, it clarified when exploration costs related to mining properties may be capitalized, in particular when the company has not established mineral reserves objectively. This standard was effective for the quarter ended March 31, 2009. The Company has evaluated this new standard and determined it did not have any impact on its audited financial statements.

3. CHANGES IN ACCOUNTING POLICIES

The following accounting policies were adopted in 2009:

- (i) EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC-173, which provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This Abstract applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. Adoption of this Abstract did not have any effect on the Company’s financial statements.

- (ii) EIC-174, Mining Exploration Costs

In March 2009, the CICA issued EIC-174, which provides guidance on the accounting and the impairment review of exploration costs. This Abstract applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. Adoption of this Abstract did not have any effect on the Company’s financial statements.

3. CHANGES IN ACCOUNTING POLICIES (CON'T)

Accounting pronouncements applicable to future periods

(i) Sections 3064 and 1000 – Goodwill and Intangible Assets

In February 2008, the CICA issued new Section 3064, “Goodwill and Intangible Assets”, replacing Section 3062, “Goodwill and Other Intangible Assets”, and Section 3450, “Research and Development Costs”. Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The Section also issued amendments to Section 1000, “Financial Statement Concepts”. These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and will be adopted by the Company effective January 1, 2009. The objectives of the changes are to reinforce a principles-based approach to the recognition of costs as assets and to clarify the application of the concept of matching revenues and expenses in Section 1000. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards and U.S. GAAP by eliminating the practice of recognizing as assets a variety of startup, preproduction and similar costs that do not meet the definition and recognition criteria of an asset. The Company has determined that adoption of the new standards will not have a significant effect on the Company’s financial statements.

(ii) Section 1582 - Business Combinations

In January 2009, the ACSB issued section 1582, Business Combinations which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after January 1, 2011, with earlier adoption permitted. The Company is in the process of assessing the impact of this new section on its financial statements, but does not anticipate material changes to arise on the adoption of this standard.

(iii) Section 1601 Consolidated Financial Statements and Section 1602 Non-controlling Interests

In January 2009, the ACSB issued sections 1601, consolidated Financial Statements, and 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective for the first annual reporting beginning on or after January 1, 2011 with earlier adoption permitted. The Company is in the process of assessing the impact of this new section on its financial statements, but does not anticipate material changes to arise on the adoption of this standard.

(iv) 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 strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the ACSB announced that 2011 is the changeover date for publicly accountable enterprises to use IFRS, replacing Canada's own-GAAP. The transition date is for interim and 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, and restatement of the opening balance sheet as at January 1, 2010.

4. SHORT TERM INVESTMENTS:

	2010	2009
Money Market Mutual funds	750,724	150,514
Money Market Mutual funds – restricted (note 7)	210,149	-
Guaranteed Investment Certificates	-	2,000,000
	<u>\$ 960,873</u>	<u>2,150,514</u>

These funds are available for exploration and other purposes upon the request of the Company. The mutual funds consist of fully liquid, managed money market fund units that yield regular monthly dividends at market rates.

5. PROPERTY AND EQUIPMENT

	Cost	Acc. Amort.	2010 Net
Computer equipment	\$ 13,229	\$ 9,695	\$ 3,534
Furniture and fixtures	13,467	5,710	7,757
Computer software	55,598	55,598	-
General equipment	20,493	6,501	13,992
Leasehold improvements	4,812	4,812	-
	<u>\$ 107,599</u>	<u>\$ 82,316</u>	<u>\$ 25,283</u>

	Cost	Acc. Amort.	2009 Net
Computer equipment	\$ 10,272	\$ 7,182	\$ 3,090
Furniture and fixtures	13,467	3,771	9,696
Computer software	55,598	54,985	613
General equipment	15,179	3,667	11,512
Leasehold improvements	4,812	4,812	-
	<u>\$ 99,328</u>	<u>\$ 74,417</u>	<u>\$ 24,911</u>

6. LONG TERM INVESTMENTS

	December 31, 2010		December 31, 2009	
	Market \$	Cost \$	Market \$	Cost \$
Canadian Equities				
Spruce Ridge Resources Ltd.	45,000	31,250	-	-
	<u>45,000</u>	<u>31,250</u>	<u>-</u>	<u>-</u>

During the year, the Company entered into an option agreement with Spruce Ridge Resources Ltd. (TSX-V:SHL) ("Spruce Ridge") pursuant to which Spruce Ridge can earn a 100% interest on eight claims that are included in the Company's Sops Arm property in Newfoundland by making a share payment to the Company of 125,000 shares (received) on signing and an additional 125,000 shares of Spruce Ridge on a date that is one year from the signing of the agreement and by spending \$25,000 in exploration over a two year period. The Company will retain a 2% NSR on the property as well as a 100% interest in the base metal potential on the Sops Arm property. The Spruce Ridge shares are valued at the December 31, 2010 closing price of \$0.36 per common share.

7. RESTRICTION ON THE USE OF CASH AND CASH EQUIVALENTS

The Company issued common shares that were designated as being flow-through shares. One of the conditions of issuing flow-through shares is that the Company is required to retain the gross proceeds for the exclusive purpose of paying for qualified exploration and development expenditures associated with its resource mineral properties.

	<u>2010</u>	<u>2009</u>
Future payments to be made, beginning of period	\$ 2,295,692	\$ 792,800
Gross proceeds received upon the issuance of flow-through shares	494,512	2,690,110
Qualified exploration expenditures paid from these funds	<u>(2,303,262)</u>	<u>(1,187,218)</u>
Future payments to be made, end of period	<u>\$ 486,942</u>	<u>\$ 2,295,692</u>
Cash – flow-through funds, end of period	\$ 276,793	\$ 67,580
Short term investments-restricted flow-through	<u>210,149</u>	<u>2,150,514</u>
Cash and investments on hand	<u>\$ 486,942</u>	<u>\$ 2,218,094</u>
Deficiency of funds	<u>\$ -</u>	<u>\$ 77,598</u>

The Company is obligated to spend \$486,942 on Canadian Exploration Expenditures by no later than December 31, 2011.

8. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

Mineral properties and deferred exploration expenditures are comprised as follows:

Year ended December 31, 2010:

	Opening	Additions	Abandonment/ Recoveries	Closing
Deferred Exploration expenditures	\$ 2,874,868	\$ 2,453,261	(467,867)	\$ 4,860,262
Acquisition costs and staking cost of properties	649,490	165,014	(62,370)	752,134
TOTAL	\$ 3,524,358	\$ 2,618,275	\$ (530,237)	\$ 5,612,396

Dog Paw Gold (a)	\$ 750,189	\$ 320,190	\$ (50,000)	\$ 1,020,379
Wicks Lake and Panama Lake (b)	48,259	31,037	-	79,296
Sheffield Lake (c)	42,430	-	-	42,430
Sops Arm (d)	5,502	-	(5,502)	-
Tilt Cove (e)	417,013	99,653	-	516,666
Gabbro Lake (f)	103,568	2,138	-	105,706
Currie Bowman/Tillex (g)	697,965	2,574	(161,430)	539,109
Staghorn (h)	611,646	730,159	(100,000)	1,241,805
Ogden (i)	681,641	1,380,000	-	2,061,641
Other Properties (j)	166,145	52,524	(213,305)	5,364
TOTAL	\$ 3,524,358	\$ 2,618,275	\$ (530,237)	\$ 5,612,396

Year ended December 31, 2009:

	Opening	Additions	Abandonment/ Recoveries	Closing
Deferred Exploration expenditures	\$ 1,823,150	\$ 1,198,554	\$ (146,836)	\$ 2,874,868
Acquisition costs and staking cost of properties	494,478	155,012	-	649,490
TOTAL	\$ 2,317,628	\$ 1,353,566	\$ (146,836)	\$ 3,524,358

Dog Paw Gold (a)	\$ 697,280	\$ 52,909	\$ -	\$ 750,189
Wicks Lake and Panama Lake (b)	31,112	17,147	-	48,259
Sheffield Lake (c)	41,577	853	-	42,430
Sops Arm (d)	-	5,502	-	5,502
Tilt Cove (e)	359,184	57,829	-	417,013
Gabbro Lake (f)	99,714	7,708	(3,854)	103,568
Currie Bowman/Tillex (g)	674,626	23,339	-	697,965
Staghorn (h)	168,436	443,210	-	611,646
Ogden (i)	74,516	607,125	-	681,641
Other Properties (j)	171,183	137,944	(142,982)	166,145
TOTAL	\$ 2,317,628	\$ 1,353,566	\$ (146,836)	\$ 3,524,358

8. MINERAL PROPERTIES AND DEFERRED EXPLORATIONS EXPENDITURES (CONT'D)

a. Dog Paw Gold Property

The Company acquired an option on the Dog Paw Gold project which is located approximately 40 km east of Kenora, Ontario and consists of 23 claims totaling 269 units. The Company entered into an option agreement with Endurance Gold Corp (an unrelated company) whereby under the Initial Option the Company can earn a 70% interest in the property by making share payments totaling 400,000 (completed in 2008) shares and completing work commitments of \$200,000 on the property. Provided the Initial Option is exercised, the Company may exercise a Second Option to earn a further 5% in the property by issuing a further 50,000 common shares (completed in 2008) and spending an additional \$250,000 on the property (completed). After the Company has earned a 75% interest, a joint venture will be formed on a 75% (the Company) and 25% (Endurance Gold Corp.) basis (a joint venture was formed on January 4, 2010). During the period ended June 30, 2010, the Company recovered \$33,909 in expenditures from Endurance Gold Corp. for their share of the joint venture expenditures. This recovery reduced the carrying amount of deferred exploration expenditures.

b. Wicks Lake and Panama Lake

The Panama Lake gold property is located in the southern portion of the Birch-Uchi Lake Greenstone belt in Northwestern Ontario and consists of 2 claims totaling 24 units. The Wicks Lake gold property is located approximately 1.5 km south of the Dog Paw Gold property and consists of 1 claim totaling 11 units.

The properties were purchased from Stares Contracting Corp., (a company related by common directorship) subject to a 2% NSR royalty. Consideration for the acquisition was \$20,000 cash and 150,000 shares (issued in 2007).

c. Sheffield Lake

The Sheffield Lake project consists of 12 claims located approximately 30 km northeast of Deer Lake, Newfoundland.

d. Sops Arm

The Sops Arm project consists of 139 claims located approximately 50 km northeast of Deer Lake, Newfoundland.

e. Tilt Cove

During 2008, the Company acquired by staking and option agreement a land package totaling 56 claim units, in four separate blocks, covering portions of the Betts Cove Ophiolite Suite on the Baie Verte Peninsula, Newfoundland. Three of the blocks were staked by the Company, while rights to the fourth were obtained through the execution of an option agreement ("Option Agreement") with an arm's length prospector. Pursuant to the Option Agreement, the Company has the option to earn a 100% interest in the claims forming the fourth block by making staged cash payments totaling \$67,500 and issuing 220,000 shares to the optionor over three years. On production, the optioned claim block is subject to a 2% net smelter return in favor of the optionor, subject in turn to a 1% buyback right in favor of the Company at the cost of \$1,250,000.

The Company issued 40,000 common shares to the optionor, on June 11, 2008, upon signing of the Option Agreement. During the year ended December 31, 2009, the Company issued 60,000 common shares to the optionor pursuant to the first anniversary of the agreement. Also, during 2009 the Company amended the agreement to reduce the first anniversary cash payment from \$17,500 to \$10,000 (paid) and then add a third anniversary cash payment of \$12,500 and 40,000 shares. During the period ended September 30, 2010, the Company issued 120,000 common shares and made a second amendment to the option agreement's second anniversary cash payment from \$40,000 to \$10,000 (paid) on or before June 2, 2010 and a further payment of \$10,000 (paid) and \$20,000 worth of the Company's shares (166,000 shares) (paid) on or before September 2, 2010.

f. Gabbro Lake

The Gabbro Lake project consists of 211 claims located approximately 120 km Northeast of Labrador City, Labrador.

During 2008, the Company entered into a formal joint venture agreement with Golden Dory Resources for the Gabbro Lake Project. Under the terms of the agreement the Company and Golden Dory Resources formed the joint venture on a 50:50 basis with the Company being the primary operator. During 2008, the Company reduced the carrying cost of this property by \$96,199 as a result of cost recoveries from Golden Dory under the JV agreement.

g. Currie Bowman/Tillex

On March 6th, 2008, the Company entered into an option agreement with Kinross Gold Corporation (“Kinross”) on the Currie Bowman Property, located 54 kilometers east of Timmins, Ontario, whereby the Company can acquire 100% of the 60% participating interest currently held by Kinross: the remaining 40% interest is held by Selkirk Metals Holdings Corp. The option requires expenditures totaling \$250,000 over 2 years, with the first \$100,000 to be expended during the first year of the agreement (requirement met) and staged share payments totaling 750,000 shares (300,000 shares issued to date). Kinross retains a 1% NSR, 50% (or 0.5%) of which can be purchased the Company for \$500,000. The property consists of 134 units in 30 claims.

h. Staghorn

During 2008, the Company entered into an agreement with a group of prospectors to earn a 100% interest in a group of 76 claim units spread over 1,216 hectares in the Wood Lake area in west central Newfoundland. Terms of the option agreement include making a series of staged option payments totaling \$95,000 and issuing 250,000 shares to the optionors over three years. During 2008, the Company issued 50,000 common shares and during 2009, the Company issued 70,000 common shares. During the period ended September 30, 2010, the Company issued 50,000 common shares to the optionors. The optionors will retain a 2% Net Smelter Royalty, 50% of which can be purchased for \$1,000,000. During the current period, the Company reduced the carrying amount of the deferred exploration expenditures on the Staghorn project by \$100,000 as a result of the receipt of a non-repayable grant from the Province of Newfoundland.

i. Ogden

During 2008, the Company entered into an agreement with Goldcorp Canada Ltd. (“Goldcorp”) to jointly explore Goldcorp’s mining claims located in Ogden and Deloro Townships, located six kilometres south of Timmins, Ontario. The package consists of 84 patented and unpatented claims totaling approximately 1,184 hectares (the “Property”). The agreement allows for the Company to earn 50% of Goldcorp’s interest in the Property by funding total expenditures on the Property of \$3,100,000 over four years as follows: (i) \$400,000 in year one, (ii) \$700,000 in year two and (iii) \$1,000,000 in each of years three and four. The Company will also make cash and share payments to Goldcorp as follows: (i) \$40,000 cash and \$25,000 worth of common shares on signing (completed in 2008 and based on an average of the previous 20 trading days), (ii) \$35,000 cash and \$25,000 worth of common shares on the first anniversary (completed in 2009 and based on an average of the previous 20 trading days), (iii) \$35,000 cash and \$50,000 worth of common shares (based on an average of the previous 20 trading days) on the second anniversary, (iv) \$100,000 worth of common shares on the third anniversary (based on an average of the previous 20 trading days), and (v) \$150,000 worth of common shares on the fourth anniversary (based on an average of the previous 20 trading days). Within six months of the Company’s vesting at 50% interest in the Property, Goldcorp has the option to buy back a 20% interest from the Company for a cash payment of up to \$310,000, expending \$4,100,000 on the Property within two years, and completing a feasibility study within three years.

The Company will be the operator of the Property during the earn-in period and afterwards, provided it holds a 50% or greater interest in the Property. If either party becomes diluted to a 10% interest, that interest will be converted into a 2% Net Smelter Return Royalty.

j. Other Properties

Included in Other Properties (both Ontario and Newfoundland) are the Newfoundland Dog Pond Property; Bolton Bay Property; Junction Property; Betts Cove; Long Pond; Donnes Brook; SW Voisey's; Chrome Hill; Nipper's Harbour; Mary March; and Genex. During 2008, the Company issued 110,000 common shares pursuant to agreements for Bolton, Betts Cove and Black Ridge. During 2009 the Company issued 80,000 common shares pursuant to agreements for Betts Cove and Long Pond. During 2008, the Company wrote-down the carrying cost of the Genex, Mundiregina, Creelman and Black Ridge properties as a result of no further work being planned. During 2009, the Company wrote-down the carrying cost of Genex, Bolton Bay, Taylor North, Donnes Brook and SW Voisey's as a result of no further work being planned.

9. CAPITAL STOCK

i. Share Capital

Authorized: Unlimited common shares

Details of share capital transactions for the year ended December 31, 2010 and the year ended December 31, 2009:

	<u>Number of Shares</u>	<u>Amount</u>
Balance, December 31, 2008	25,807,324	\$ 2,611,457
Issued pursuant to private placements (note 8(vii))	29,392,846	4,084,210
Less: share issue costs	-	(326,989)
Less: value of warrants issued with common shares	-	(684,659)
Less: value of broker warrants issued	-	(120,643)
Less: valuation adjustment arising from tax effect of flow-through share renunciation	-	(258,013)
Issued upon exercise of share purchase warrants	60,000	6,000
Reclassified from exercise of warrants	-	3,228
Issued upon exercise of stock options	150,000	22,500
Common shares issued to acquire properties	<u>588,571</u>	<u>83,128</u>
Balance, December 31, 2009	55,998,741	\$ 5,420,219
Issued pursuant to private placements (note 8(vii)(iii))	7,652,229	988,912
Less: share issue costs	-	(68,624)
Less: value of warrants issued with common shares	-	(279,659)
Less: value of broker warrants issued	-	(26,381)
Common shares issued to acquire properties	594,398	100,144
Issued upon exercise of warrants	5,528,807	829,169
Reclassified from exercise of warrants	-	264,832
Issued on exercise of stock options	80,000	12,300
Reclassified on exercise of stock options	-	11,009
Less: valuation adjustment arising from tax effect of flow-through share renunciation	-	<u>(672,578)</u>
Balance, December 31, 2010	<u>69,854,175</u>	<u>\$ 6,579,343</u>

9. CAPITAL STOCK (CONT'D)

ii. Share Purchase Warrants

Details of share purchase warrant transactions for the period are as follows:

	<u># of Warrants</u>	<u>Amount</u>	<u>Weighted Average Exercise Price</u>	<u>Expiry</u>
Balance December 31, 2008	7,864,633	\$ 712,403		
Issued during 2009				
-Pursuant to private placements (note 8(vii)(i))	7,939,409	\$ 342,395	\$0.15-0.20	Oct-Dec 2010
-Broker warrants pursuant to above	329,375	16,537	\$0.10	Oct/Dec 2010
-Broker warrants pursuant to above	318,182	13,895	\$0.11	Oct 2010
-Broker warrants pursuant to above	97,400	4,893	\$0.25	Mar 2010
-Broker warrants pursuant to above	312,500	25,499	\$0.25	Apr 2010
-Pursuant to private placements (note 8(vii)(ii))	6,330,000	342,263	\$0.30	Oct 2011
-Broker warrants pursuant to above	1,106,340	59,820	\$0.30	Oct 2011
-Expired in 2009	(1,975,250)	(496,497)	\$1.23	
-Exercised during the period	<u>(60,000)</u>	<u>(3,228)</u>	\$0.10	
Balance December 31, 2009	22,262,589	\$1,017,980		
-Pursuant to private placements (note 8(vii)(iii))	4,120,000	279,659	\$0.25	Aug 2012
-Broker warrants pursuant to above	388,656	26,381	\$0.25	Aug 2012
-Expired in 2010	(9,297,442)	(351,062)	\$0.22	
-Exercised during the period	<u>(5,528,807)</u>	<u>(264,832)</u>	\$0.10	
Balance December 31, 2010	<u>11,944,996</u>	<u>\$708,126</u>		

iii. Stock Options

Details of stock option transactions for the year ended December 31, 2010 and the year ended December 31, 2009 are as follows:

	<u># of options</u>	<u>Weighted Average Exercise Price</u>
Balance, December 31, 2008	1,799,500	\$ 0.22
Granted during the period	1,765,000	0.15
Exercised	(150,000)	0.15
Cancelled	(150,000)	0.22
Expired	<u>(489,500)</u>	<u>0.15</u>
Balance, December 31, 2009	2,775,000	\$ 0.19
Granted during the period	1,405,000	0.16
Exercised	<u>(80,000)</u>	<u>0.16</u>
Balance, December 31, 2010	<u>4,100,000</u>	<u>\$ 0.18</u>

9. CAPITAL STOCK –

iii. Stock Options (CONT'D)

The following table summarizes information about the options outstanding at December 31, 2010 and December 31, 2009:

Expiry Dates	Exercise Price	December 31, 2010	December 31, 2009
		# of Options	# of Options
April 2011	\$0.25	810,000	810,000
June 2011	\$0.35	200,000	200,000
December 2011	\$0.17	175,000	175,000
December 2012	\$0.17	110,000	110,000
August 2014	\$0.15	1,430,000	1,480,000
February 2015	\$0.16	1,275,000	-
May 2015	\$0.10	100,000	-
		<u>4,100,000</u>	<u>2,775,000</u>

As of December 31, 2010 a total of 3,661,666 options have vested net of exercises, cancellations and expiries (December 31, 2009 – 2,068,324).

iv. Share Issuance – Mineral Property Option Agreements

The Company has issued the following shares in acquiring options on mineral properties at December 31, 2010 and December 31, 2009

	Number	Amount
<i>Issued in 2010</i>		
Staghorn – May 27, 2010	50,000	\$ 7,500
Ogden – December 1, 2010	258,398	54,264
Tilt Cove – April 1, 2010	120,000	16,800
Tilt Cove – September 17, 2010	<u>166,000</u>	<u>21,580</u>
Balance, December 31, 2010	<u>594,398</u>	<u>\$ 100,144</u>
<i>Issued in 2009</i>		
Betts Cove Property – January 28, 2009/August 13, 2009	80,000	\$ 8,900
Currie Bowman Property – March 24, 2009	150,000	15,000
Tilt Cove Property – April 1, 2009	60,000	6,600
Staghorn – August 13, 2009	70,000	11,200
Long Pond – August 14, 2009	50,000	7,500
Ogden – December 2, 2009	<u>178,571</u>	<u>33,928</u>
Balance, December 31, 2009	<u>588,571</u>	<u>83,128</u>

v. Shares held in escrow

Pursuant to the requirements of the Exchange on closing of the Acquisition, 3,639,361 common shares remain subject to escrow of which 1,614,314 are subject to a value escrow agreement and 2,025,047 are subject to a surplus escrow agreement.

9. CAPITAL STOCK (CONT'D)

vi. Contributed Surplus

	<u>Amount</u>
Balance, December 31, 2008	\$ 143,543
Stock based compensation	132,904
Reclassify from expiration of warrants	<u>496,497</u>
Balance, December 31, 2009	\$ 772,944
Reclassify from expiration of warrants	351,062
Reclassify on exercise of stock options	(11,009)
Stock based compensation	<u>291,643</u>
Balance, December 31, 2010	<u>\$ 1,404,640</u>

vii. Private Placements

During 2009, the Company completed the following private placements:

- (i) The Company completed a private placement in five separate tranches of 4,763,750 non flow-through units at a subscription price of \$0.08 per unit, and 5,557,500 flow-through units at a subscription price of \$0.11 per unit. Each non flow-through unit issued in the private placement consists of one common share and one common share purchase warrant, each warrant entitling the holder to acquire one common share at an exercise price of \$0.15 for a period of 18 months following the issuance date. Each flow-through unit issued in the private placement consists of one common share and one half of one common share purchase warrant, each whole warrant entitling the holder to acquire one common share at an exercise price of \$0.20 for a period of 18 months following the issuance date.

The fair value of the 7,939,409 common share purchase warrants received by investors have been estimated at \$342,392 using the Black-Scholes option pricing model and the following assumptions: dividend yield of 0%, expected volatility of 100%, a risk-free interest rate ranging from 0.25% to 0.8972% and an expected life of 18 months.

Arm's length parties assisting in the private placement received cash commission of \$49,565 equal to 8% of gross proceeds raised and 329,375 and 318,182 broker warrants (each broker warrant entitling the holder to acquire one common share of the Corporation for \$0.10 and \$0.11, respectively) for a period of 18 months following the issuance date of the unit. The warrants issued were valued at \$30,432.

- (ii) The Company completed a private placement offering (the "Offering") with Dundee Securities ("Dundee") for aggregate gross proceeds of \$3,115,560 consisting of 12,741,528 flow-through common shares at a price of \$0.17 per common share and 6,330,000 units at a price of \$0.15 per unit, each unit consisting of one common share and one common share purchase warrant, each warrant entitling the holder to acquire an additional common share for \$0.30 for a period of 24 months following the closing of the Offering.

The fair value of the 6,330,000 common share purchase warrants received by investors have been estimated at \$342,263 using the Black-Scholes option pricing model and the following assumptions: dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.25% and an expected life of 2 years.

Pursuant to the Offering, Dundee was paid a cash commission equal to 6% of the gross proceeds raised and broker warrants totaling 6% of the securities issued in the offering, each broker warrant entitling Dundee to purchase a common share of the Company for \$0.30 for a period of 24 months following the closing of the Offering. The warrants were valued at \$59,820.

During 2010, the Company completed the following private placements:

- (iii) The Company completed a private placement in two separate tranches by issuing a total of 3,532,229 flow-through common shares at \$0.14 per share and 4,120,000 units at \$0.12 per unit, each unit consisting of one common share and one common share purchase warrant, with each warrant entitling the holder thereof to acquire one common share of the Company at a price of \$0.25 for a period of 24 months following the closing. The warrants are subject to accelerated exercise in the event the price of the Company's shares close at or

9. CAPITAL STOCK (CONT'D)

above \$0.30 for a period of 20 consecutive trading days. The Company raised total gross proceeds of \$988,912 in the private placement.

The fair value of the 4,120,000 common share purchase warrants received by investors have been estimated at \$279,659 using the Black-Scholes option pricing model and the following assumptions: dividend yield of 0%, expected volatility of 157%, a risk-free interest rate of 1.41% and an expected life of 2 years.

In conjunction with the private placement, finders' fees totaling \$42,743 were paid along with 388,656 compensation warrants entitling the holder to purchase a common share of the Company for \$0.25 for a period of 24 months following the closing with the same acceleration exercise provisions mentioned above. The warrants were valued at \$26,381.

10. WARRANTS

Balance, December 31, 2008	\$ 712,403
Fair value of warrants issued in 2009 (note 8(vii))	805,302
Expired during the period	(496,497)
Reclassified to share capital from exercise of warrants	<u>(3,228)</u>
Balance, December 31, 2009	\$ 1,017,980
Fair value of warrants issued in 2010 (note 8(vii))	306,040
Exercised during the period	(264,832)
Expired during the period	<u>(351,062)</u>
Balance, December 31, 2010	<u>\$ 708,126</u>

11. RELATED PARTY TRANSACTIONS

During 2009, the Company sold its interest in the Cheeseman Lake property claims to Benton Resources Corp. ("Benton") (a related party as a result of the common directorship of Michael Stares) for net proceeds of \$22,520. The Company previously had a joint venture agreement with Benton on the property and now will hold a 1% NSR on the project.

The Company paid or accrued the following amounts to related parties during the year ended December 31, 2010 and December 31, 2009:

Payee	Description of Relationship	Nature of Transaction	2010 Amount (\$)	2009 Amount (\$)
Stares Prospecting Ltd.	Company controlled by Alexander Stares, Director and Officer	Payments for equipment rentals, supply of labour and reimbursement of expenses capitalized in deferred development expenditures	256,772	138,393
Stares Contracting Corp.	Company controlled by Michael Stares, Director	Payments for equipment rentals capitalized in deferred development expenditures	994	420
Eastrock Exploration/ Wayne Reid	Company controlled by Wayne Reid, Director and Officer	Payments for geological consulting services, and reimbursement of expenses capitalized in deferred development expenditures	51,895	97,838
Nick Tsimidis	Director and Officer	Payments for consulting fees and reimbursement of expenses	27,290	38,850

11. RELATED PARTY TRANSACTIONS (CONT'D)

The purchases from/fees charged by related parties are in the normal course of operation and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Included in accounts payable and accrued liabilities at December 31, 2010 is:

- \$4,078 payable to Stares Prospecting Ltd., (2009: \$nil);
- \$nil payable to Nick Tsimidis, (2009: \$12,600);
- \$12,359 payable to Eastrock Exploration Inc., (2009: \$nil)

12. CAPITAL DISCLOSURES

CICA Handbook Section 1535 requires disclosure of an entity's objectives, policies and process for managing capital, qualitative data about what an entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such noncompliance.

The Company's objectives when managing capital are as follows:

- To safeguard the Company's ability to continue as a going concern;
- To raise sufficient capital to finance its exploration and development activities on its mineral exploration properties;
- To raise sufficient capital to meet its general and administrative expenditures;

The Company manages its capital structure and makes adjustment to it, based on the general economic conditions, its short term working capital requirements, and its planned exploration and development program expenditure requirement. The capital structure of the Company is composed of working capital and shareholders' equity. The Company may manage its capital by issuing flow-through or common shares, or by obtaining additional financing.

The Company utilizes annual capital and operating expenditure budgets to facilitate the management of its capital requirement. These budgets are approved by management and updated for changes in the budgets underlying assumptions as necessary.

There were no changes in the Company's approach to managing capital during the period.

In order to maintain or adjust the capital structure, the Company considers the following:

- i) incremental investment and acquisition opportunities;
- ii) equity and debt capital available from capital markets;
- iii) equity and debt credit that may be obtainable from the marketplace as a result of growth in mineral reserves;
- iv) availability of other sources of debt with different characteristics than the existing bank debt;
- v) the sale of assets;
- vi) limiting the size of the investment program; and
- vii) new share issuances if available on favorable terms.

Except as otherwise disclosed, the Company is not subject to any external financial covenants at June 30, 2010.

13. RISK MANAGEMENT

The Company's financial instruments are exposed to certain risks, including credit risk, interest rate risk and liquidity risk.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments that potentially subject the Company to credit risk consist of cash, short term investments, G.S.T. and other receivables and staking security deposits. The Company's cash and short term investments is held through large Canadian Financial Institutions. A large part of other receivables pertains to GST refunds with the Canada Revenue Agency. Staking security deposits are

13. RISK MANAGEMENT (CONT)

held by the Government of Newfoundland. The Company has no significant concentration of credit risk arising from operations. Management believes the risk of loss to be remote.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. While management feels the risk of capital loss on its short term investments is remote given its investment in only highly rated, investment grade fixed income securities with reputable Canadian financial institutions, the income derived from these securities can fluctuate as a result of changes in interest rates upon reinvestment of matured funds. The Company's short term investments are purchased at fixed interest rates and are either fully liquid or bear short staggered maturity dates to mitigate the risk of fluctuating interest rates.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company monitors and reviews current and future cash requirements and matches the maturity profile of financial assets and liabilities. This is generally accomplished by ensuring that cash is always available to settle financial liabilities. At December 31, 2010, the Company had \$1,058,612 (December 31, 2009 - \$2,258,829) in working capital. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(d) Currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. All of the Company's operations are in Canada; therefore, management believes the foreign exchange risk derived from any currency conversions is negligible and therefore does not hedge its foreign exchange risk.

(e) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and is comprised of currency risk, interest rate risk, and other price risk. The Company currently does not have any financial instruments that would be impacted by changes in market prices.

14. INCOME TAXES

a. Income tax recovery

The provision for (recovery of) income taxes differs from the amount that would have resulted by applying Canadian federal and provincial statutory tax rates of 31% (December 31, 2009 – 33%).

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Loss before taxes	\$ (1,220,351)	\$ (831,373)
Expected income tax expense (recovery) calculated using statutory rates	(378,309)	(274,653)
Non-deductible expenses and other	215,247	101,161
Share issue costs	(13,943)	(37,917)
Recognized benefit of future tax assets	(120,880)	(55,600)
Change in effective tax rates	<u>56,546</u>	<u>32,328</u>
Income tax expense (recovery)	\$ (241,339)	\$ (234,381)

14. INCOME TAXES (CONT)

b. Future Tax Balances

The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities at the combined Canadian federal and provincial statutory tax rates are as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Non-capital losses	\$ 605,143	\$515,412
Deferred exploration expenditures	(1,140,987)	(643,943)
Share issue costs	82,661	108,929
Property and equipment	20,579	21,800
Valuation allowance	<u>(22,267)</u>	<u>(25,830)</u>
	<u>\$ (454,871)</u>	<u>\$ (23,632)</u>

c. Income Tax Information

The Company has non-capital losses which will expire, if unused, as follows:

Year of Expiry	Amount
2014	\$ 21,566
2015	67,503
2026	50,507
2027	426,007
2028	571,977
2029	628,389
2030	<u>654,631</u>
TOTAL	<u>\$ 2,420,570</u>

The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of future tax assets, the impact of the change on the valuation allowance is reflected in current income.

15. STAKING SECURITY DEPOSITS

Staking security deposits of \$7,150 (December 31, 2009 – \$4,700) represents security amounts paid to the Government of Newfoundland and Labrador in connection with mineral property claims located in the Province of Newfoundland. These staking security deposits are refundable to the company upon submission by the company of a report covering the first year work requirements which meets the requirements of the Government of Newfoundland and Labrador.

16. STOCK-BASED COMPENSATION AND COSTS

The Company applies the fair value method of accounting for stock-based compensation awards using the Black-Scholes option pricing model.

Stock options granted to directors, officers and employees vested during the year ended December 31, 2010 are as follows:

<u>Grant Date</u>	<u># of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
August 17, 2009	866,667	\$0.15	August 17, 2014
February 22, 2010	810,000	\$0.16	February 22, 2015
	<u>1,676,667</u>		

16. STOCK-BASED COMPENSATION AND COSTS (CONT'D)

The Company has calculated \$235,280 as compensation expense and under capital stock as contributed surplus for the 1,676,667 options vesting to directors, officers and employees during the period:

- For the options granted on August 17, 2009, the fair value of each option is \$0.128 and was estimated on the grant date with the following assumptions: dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 0.25% and an expected life of approximately 5 years.
- For the options granted on February 22, 2010, the fair value of each option is \$0.153 and was estimated on the grant date with the following assumptions: dividend yield of 0%, expected volatility of 180%, a risk-free interest rate of 2.30% and an expected life of approximately 5 years.

Stock options granted to non-employees vested during the year ended December 31, 2010 are as follows:

<u>Grant Date</u>	<u># of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
August 17, 2009	120,000	\$0.15	August 17, 2014
December 7, 2009	190,010	\$0.17	Dec 7, 2011/2012
February 22, 2010	60,000	\$0.16	February 22, 2015
May 19, 2010	66,666	\$0.10	May 19, 2015
	<u>436,676</u>		

The Company has calculated \$56,363 as compensation expense and under capital stock as contributed surplus for the 436,676 options vesting to non-employees during the period:

- For the options granted August 17, 2009, the fair value of each option is \$0.128 and was estimated on the grant date with the following assumptions: dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 0.25% and an expected life of approximately 5 years.
- For the options granted on December 7, 2009, the fair value of each option is \$0.128 for 58,328 of the vested options and \$0.144 for 36,663 of the vested options and was estimated on the grant date with the following assumptions: dividend yield of 0%, expected volatility of 162.98%, a risk-free interest rate of 2.26% and an expected life of approximately 2 and 3 years respectively.
- For the options granted on February 22, 2010, the fair value of each option is \$0.153 and was estimated on the grant date with the following assumptions: dividend yield of 0%, expected volatility of 180%, a risk-free interest rate of 2.30% and an expected life of approximately 5 years.
- For the options granted on May 19, 2010, the fair value of each option is \$0.094 and was estimated on the grant date with the following assumptions: dividend yield of 0%, expected volatility of 166%, a risk-free interest rate of 2.42% and an expected life of approximately 5 years.

17. SUPPLEMENTAL CASH FLOW INFORMATION

	Dec 31, 2010	Dec 31, 2009
Shares issued for option on mineral properties	\$ 100,144	\$ 83,128
Broker warrants issued	26,381	120,643

18. LOSS PER SHARE

Basic loss per share figures are calculated using the weighted average number of common shares outstanding during the period.

Fully diluted loss per share figures are calculated after taking into account all stock options and warrants granted. Exercise of the outstanding warrants and options would be anti-dilutive with respect to loss per share calculations and therefore fully-diluted loss per share is not presented.

19. COMMITMENTS

The Company leases automobiles under various operating leases, which have expiry dates ranging from June 2011 to August 2012. The future minimum annual fiscal lease payments over the term of the leases is as follows:

2011	10,503
2012	<u>4,520</u>
	<u>\$ 18,580</u>

The company also has commitments as described in note 7 related to mineral properties and deferred development expenditures.

20. SUBSEQUENT EVENTS

- i. Subsequent to the year ended December 31, 2010, the Company closed a private placement by issuing 3,787,500 flow through common shares at a price of \$0.32 per flow through share and 20,969,000 units at a price of \$0.28 per unit for aggregate gross proceeds of \$7,083,320. Each unit is comprised of one common share and one half of one common share purchase warrant, with each whole warrant entitling the holder to acquire an additional common share of the Company at a price of \$0.45 until February 4, 2013.

In addition to a cash commission, the Company issued broker warrants to the agents entitling holders to acquire 1,900,520 common shares of the Company at a price of \$0.28 until February 4, 2013.

All securities issued in connection with the private placement are subject to a hold period expiring on June 5, 2011.

- ii. Subsequent to December 31, 2010, the Company negotiated an NSR agreement with Rambler Metals and Mining PLC ("Rambler") to process surface material located on a portion of its Tilt Cove property. The agreement will be such that the Company will be paid a Net Smelter Return, or NSR, on any gold produced from this material. Processing of the material will be done at Rambler's discretion and may be discontinued if problems are encountered. The agreement provides for Rambler to make payments of annual advanced royalties of \$100,000 if the material has not been processed in the first year in order to keep the agreement in good standing.