BEARCLAW CAPITAL CORP.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bearclaw Capital Corp.

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

KPMG LLP

KPMG LLP
April 15, 2011
Vancouver, Canada

BEARCLAW CAPITAL CORP.
BALANCE SHEETS
AS AT DECEMBER 31

	2010	2009
ASSETS		
Current		
Cash and cash equivalents	$ 682,518	$ 451,702
Marketable securities (Note 4)	248,000	498,850
Receivables	-	100,000
Taxes recoverable	235,076	326,369
Prepaid expenses	5,636	5,029
	1,171,230	1,381,950
Mineral properties (Note 5)	504,134	1,415,113
	$ 1,675,364	$ 2,797,063
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 37,314	$ 29,238
Shareholders' equity		
Capital stock (Note 6)	7,711,780	7,695,780
Contributed surplus (Note 6)	280,150	232,203
Deficit	(6,520,296)	(5,474,164)
Accumulated other comprehensive income (Note 7)	166,416	314,006
	1,638,050	2,767,825
	$ 1,675,364	$ 2,797,063

Nature and continuance of operations (Note 1)

Commitments (Note 5)

Subsequent event (Note 12)

On behalf of the Board:

"Scott Ross" Director *"Robert MacGillivray"* Director

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

BEARCLAW CAPITAL CORP.
STATEMENTS OF OPERATIONS AND DEFICIT
YEARS ENDED DECEMBER 31

	2010	2009
EXPENSES		
Accounting and audit	$ 39,318	$ 47,306
Consulting	50,010	2,755
Filing and transfer agent fees	14,104	18,157
Insurance	8,931	11,325
Management fees	40,000	1,023
Legal fees	22,130	26,274
Office and miscellaneous	6,751	7,312
Property investigation	10,303	-
Rent	13,724	4,832
Shareholder information	2,706	3,016
Stock-based compensation (Note 6)	47,947	32,908
Loss before other items	(255,924)	(154,908)
OTHER ITEMS		
Interest income	4,925	8,611
Gain on sale of marketable securities	287,931	-
Gain on optioning of mineral properties	-	418,401
Loss on disposal of equipment	-	(115,624)
Write-off of mineral properties	(1,083,064)	(604,867)
	(790,208)	(293,479)
Loss before income taxes	(1,046,132)	(448,387)
Future income tax recovery (Note 10)	-	11,644
Net loss for the year	(1,046,132)	(436,743)
Deficit, beginning of year	(5,474,164)	(5,037,421)
Deficit, end of year	$ (6,520,296)	$ (5,474,164)
Basic and diluted loss per common share	$ (0.04)	$ (0.02)
Weighted average number of common shares outstanding	24,117,128	24,046,991

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

BEARCLAW CAPITAL CORP.
STATEMENTS OF COMPREHENSIVE LOSS
YEARS ENDED DECEMBER 31

	2010	2009
Net loss for the year	$ (1,046,132)	$ (436,743)
Other comprehensive income (loss)		
Unrealized gain on change in fair value of marketable securities	140,341	314,006
Realized gain on sale of marketable securities	(287,931)	-
	(147,590)	314,006
Comprehensive loss for the year	$ (1,193,722)	$ (122,737)

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

BEARCLAW CAPITAL CORP.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (1,046,132)	$ (436,743)
Items not affecting cash:		
Future income tax recovery	-	(11,644)
Gain on sale of marketable securities	(287,931)	-
Gain on optioning of mineral properties	-	(418,401)
Loss on disposal of equipment	-	77,868
Stock-based compensation	47,947	32,908
Write-off of mineral properties	1,083,064	604,867
Changes in non-cash working capital items:		
Receivables	100,000	202
Taxes recoverable	91,293	119,366
Prepaid expenses	(607)	9,264
Accounts payable and accrued liabilities	(502)	(54,227)
Net cash used in operating activities	(12,868)	(76,540)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of marketable securities	391,191	-
Cash received on optioning of mineral properties	-	297,743
Mineral properties	(147,507)	(157,234)
Net cash provided by investing activities	243,684	140,509
Change in cash and cash equivalents during the year	230,816	63,969
Cash and cash equivalents, beginning of the year	451,702	387,733
Cash and cash equivalents, end of the year	$ 682,518	$ 451,702

Supplement disclosures with respect to cash flows (Note 9)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Bearclaw Capital Corp. (the "Company") was incorporated on August 11, 1999 under the laws of British Columbia, Canada. The Company is primarily engaged in the acquisition, exploration, development and production of mineral properties. The common shares of the Company are listed for trading on the TSX Venture Exchange (TSX-V) and the Frankfurt Exchange.

The Company is in the process of exploring and developing its mineral properties and has not yet determined whether its mineral properties contain ore reserves that are economically recoverable. The ability of the Company to recover the costs it has incurred to date on the mineral properties is dependent upon the Company being able to identify a commercial ore body, to finance its exploration and development costs and to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the properties. The Company is in the exploration stage.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. To ensure the Company's ability to continue as a going concern, the Company's management has initiated a strict cost control program. Management believes that the current cash position will be sufficient to fund the Company's operating and capital requirements for the next 12 months. The Company continues to seek joint venture partners to further its mineral properties. Although the Company has been successful in raising funds in the past, there is no assurance that it will be able to obtain adequate financing in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. These financial statements do not include adjustments that would be required if going concern is not an appropriate basis for preparation of the financial statements. These adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year. Significant areas requiring the use of management estimates relate to the assessment of the Company's ability to continue as a going concern, determination of stock-based compensation, impairment of assets, valuation of marketable securities, asset retirement obligations, and future income taxes. Actual results could differ from these estimates.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Marketable securities

Marketable securities are classified as available for sale and recorded at fair value based upon quoted market prices. The changes in fair value are recognized in other comprehensive income.

Mineral properties

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition, exploration and development of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on a basis of units produced in relation to the proven reserves available in the related property following commencement of production. Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have the gain or loss calculated based on the portion of that property sold.

Proceeds received on the sale or option of mineral property interests are recorded as a credit to the deferred costs of the mineral property to the extent that costs have been deferred, with any excess recorded as a gain on sale or option. Shares received on the sale or option are recorded at their fair value at the date of the sale or option.

The recorded cost of mineral property interests is based on cash paid and the value of shares issued as consideration. The recorded amount may not reflect recoverable value as this will be dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. The Company does not have any significant asset retirement obligations.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments

The Company classifies all financial instruments either as held to maturity, available-for-sale, held for trading, loans and receivables or other financial liabilities. Financial assets classified as held to maturity, loans and other receivables and financial liabilities other than those held for trading are measured at amortized cost. Available for sale financial instruments are measured at fair market value with temporary unrealized gains and losses recorded in other comprehensive income. Realized losses and other than temporary unrealized losses on available-for-sale financial assets are recognized in the statement of operations. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of operations for the period.

The Company has designated its cash and cash equivalents as held-for-trading and marketable securities as available for sale. Receivables are classified as loans and receivables. Accounts payable and accrued liabilities have been classified as other financial liabilities.

The Company provides disclosure that enables users to evaluate (a) the significance of financial instruments for the entity's financial position and performance and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and the balance sheet date and how the entity manages those risks.

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income (loss) is defined as revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale.

Stock-based compensation

All stock based awards to employees and non-employees are recognized over the vesting period at fair value on the date of the grant as determined using a Black-Scholes option pricing model. The expense is charged to operations and the offset is credited to contributed surplus. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. Dilutive loss per share is not presented separately from loss per share as the conversion of outstanding stock options and warrants into common shares would be anti-dilutive.

Basic loss per share is calculated using the weighted-average number of shares outstanding during the year and does not include outstanding options and warrants.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Flow-through shares and investment tax credits

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. The Company records a future income tax liability and a reduction in capital stock for the estimated tax benefit transferred to shareholders. When flow-through expenditures are renounced, a portion of future income tax assets not recognized in previous years, due to the recording of a valuation allowance, will be applied against the future income tax liability and be recognized as a recovery of future income taxes in the statement of operations.

Investment tax credits are recorded as either a reduction of the cost of applicable assets or credited in the statement of operations depending on the nature of the expenditures which gave rise to the credits. Claims for tax credits are accrued upon the Company attaining reasonable assurance of collections from the Canada Revenue Agency.

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

Future accounting changes

International financial reporting standards ("IFRS")

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with international financial reporting standards ("IFRS") for Canadian enterprises with public accountability ("PAEs"). The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. The use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The Company is currently evaluating the impact that this new standard may have on the financial statements of the Company. The IFRS changeover plan is discussed in its Management Discussion and Analysis for the year ended December 31, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Future accounting changes (cont'd…)

Business Combinations, Non-controlling Interest and Consolidated Financial Statements

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which replace CICA Handbook Sections 1581, Business Combinations, and Section 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual financial statements for its fiscal year beginning January 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

3. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes shareholders' equity in the definition of capital.

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

The Company's investment policy is to invest its cash in highly liquid investments which are readily convertible into cash with maturities of three months or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

There were no changes in the Company's approach to capital management during the year ended December 31, 2010. The Company is not subject to externally imposed capital requirements.

4. MARKETABLE SECURITIES

Marketable securities are comprised of the following:

	2010		2009	
	Fair Value	Cost	Fair Value	Cost
Common shares in public companies	$ 248,000	$ 69,940	$ 498,850	$ 173,200

The fair values of marketable securities have been determined from the quoted market value of the shares on the exchange where they are listed, as of the end of the year. A change in market value of its marketable securities is included as a component of other comprehensive income.

5. MINERAL PROPERTIES

2010	Lov Property	Axe Property	Other BC Properties	James Bay Property	Total
Acquisition costs					
Cash payments	$ 3,564	$ -	$ 4,648	$ -	$ 8,212
Share payments	16,000	-	-	-	16,000
	19,564	-	4,648	-	24,212
Deferred exploration expenditures					
Assays	4,872	-	11,100	-	15,972
Consulting	8,700	-	15,158	-	23,858
Geochemistry	6,900	-	7,250	-	14,150
Geophysical survey	65,418	-	-	-	65,418
Miscellaneous	12,606	-	1,939	-	14,545
Project administration	-	-	4,854	-	4,854
Transportation	1,868	-	7,208	-	9,076
	100,364	-	47,509	-	147,873
Net costs for the year	119,928	-	52,157	-	172,085
Balance, beginning of the year	-	104,042	228,007	1,083,064	1,415,113
				-	
Write off of property	-	-	-	(1,083,064)	(1,083,064)
Balance, December 31, 2010	$ 119,928	$ 104,042	$ 280,164	$ -	$ 504,134

2009	Axe Property	Other BC Properties	James Bay Property	Wakeham Basin Property	Total
Acquisition costs					
Cash payments	$ -	$ 19,540	$ 32,739	$ 3,709	$ 55,988
Deferred exploration expenditures					
Equipment rental	-	-	19,372	-	19,372
Gold metal	-	-	(565)	(241)	(806)
Maps and reports	-	-	324	-	324
Prospectors	-	-	(565)	(565)	(1,130)
	-	-	18,566	(806)	17,760
Net costs for the year	-	19,540	51,305	2,903	73,748
Balance, beginning of the year	104,042	253,335	1,180,026	441,798	1,979,201
Recoveries *	-	(5,042)	(27,927)	-	(32,969)
Write off of property	-	(39,826)	(120,340)	(444,701)	(604,867)
Balance, December 31, 2009	$ 104,042	$ 228,007	$ 1,083,064	$ -	$ 1,415,113

* Recoveries represent acquisition and exploration costs funded by partners, exploration credits received and option payments received.

5. MINERAL PROPERTIES (cont'd…)

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

Lov Property, British Columbia

On August 9, 2010 the Company signed an option agreement with SG Spirit Gold Inc. (formerly Ruby Red Resources Inc.) ("SG") whereby the Company has the option to acquire up to an 80% interest in certain mineral claims located in the Golden Mining Division of British Columbia. To earn the initial 65% interest in the property, the Company is required to make cash payments of $90,000, issue 800,000 common shares and fulfill work commitments of $1,190,000 over three years as follows:

- Issue 200,000 shares upon TSX Venture Exchange approval (issued with a fair value of $16,000);
- Incur work costs of $90,000 by October 31, 2010 (completed);
- Pay $20,000, issue additional 200,000 shares, and incur additional work costs of $300,000 by October 31, 2011;
- Pay $20,000, issue additional 200,000 shares, and incur additional work costs of $300,000 by October 31, 2012;
- Pay $50,000, issue additional 200,000 shares, and incur additional work costs of $500,000 by October 31, 2013.

The terms of the remaining commitments were amended subsequent to December 31, 2010 (Note 12).

The Company also has the right to earn an additional 15% interest in the property by making an additional cash payment of $50,000, issuing an additional 200,000 common shares and delivering a positive pre-feasibility study to SG by October 31, 2016.

Axe Property, British Columbia

During the year ended December 31, 2005, the Company signed an option agreement with Weststar Resources Corp. ("Weststar") whereby Weststar had an option to earn a 70% interest in the property, located in the Similkameen Mining Division of British Columbia. Weststar earned its 70% interest by spending $500,000 of exploration expenditures on the property and by making certain cash payments and share issuances required under the agreement.

The Company and Weststar have executed the joint venture agreement, as amended, contemplated by the 2005 option agreement. Each party has the right to elect to contribute to the costs of a proposed program and budget in an amount up to its proportionate interest. If a party elects to contribute a lesser amount, then its interest in the mineral properties will be diluted. If a party's interest is reduced below 10%, then its interest will be automatically converted to a carried interest. As at December 31, 2010, the Company held a 30% interest in the property.

Other British Columbia properties

The Company holds a 100% interest in the Aplite, Bam, Castle, Gnat Pass and Rey Lake properties. The Company also retains a 1.25% net smelter returns royalty ("NSR") in the Man/Prime property and a 2.25% NSR in the Capoose property.

5. MINERAL PROPERTIES (cont'd…)

Other British Columbia properties (cont'd…)

The Company has granted property options to acquire interests in three of these BC properties as follows:

Rey Lake Property

The Company holds an amended option agreement with Keyser Resources Inc. ("KRI") whereby KRI may earn up to a 90% interest in the property located in southern British Columbia between Merritt and Logan Lake. To earn its 90% interest in the property, KRI is required to make cash payments totaling $12,500 (received) and incur $150,000 in exploration expenditures. During the year ended December 31, 2010, KRI decided not to proceed with the option agreement. The property thus reverted 100% back to the Company.

Man/Prime Property

In January 2007, the Company entered into an option agreement with Candorado Operating Company Ltd. ("CDO") whereby CDO had an option to earn up to an 80% interest in the property, located in the Similkameen Mining Division of British Columbia. Under the agreement, CDO acquired an initial 51% interest in the property by making a cash payment of $50,000, issuing 700,000 common shares and incurring $800,000 in exploration expenditures.

During the year ended December 31, 2008, the Company entered into an agreement with CDO to sell its remaining 49% interest in the property to CDO. In consideration for the 49% interest in the property, CDO paid $300,000 and issued 450,000 shares of CDO to the Company during fiscal 2008 and 2009.

The Company retains a 1.25% NSR in the property, which can be purchased by CDO at any time prior to the beginning of commercial production for $1,250,000.

Capoose Property

During the year ended December 31, 2008, the Company entered into an agreement with Silver Quest Resources Ltd. ("SQI") whereby SQI can earn up to a 100% interest in the property, located in the Omineca Mining Division of British Columbia.

During the year ended December 31, 2009, SQI acquired an initial 60% interest in the property by making cash payments of $240,000, issuing 1,040,000 common shares and incurring $1,000,000 in exploration expenditures.

Upon SQI exercise of the initial option, the parties formed a joint venture with each party responsible for their share of approved costs related to the project. During the year ended December 31, 2010, SQI approved a $2,200,000 of exploration program. The Company did not participate in funding and as a result, the Company's interest in the property was diluted and converted to a 2.25% NSR.

James Bay Property, Quebec

During the year ended December 31, 2007, the Company entered into an agreement to acquire a 100% interest in four mineral properties in the James Bay region in Quebec. The Company acquired a 100% interest in the property by paying $1,400,000 and issuing 3,000,000 common shares to the vendors. The Company paid $75,000 and issued 201,250 common shares as a finder's fee in connection with the acquisition. The property is subject to a 2% to 3% royalty and a 2% NSR.

In fiscal 2008 and 2009, the Company wrote off a total of $3,208,048 of acquisition and exploration costs as a result of consultations with independent consultants concerning the exploration results and potential of the property. During the year ended December 31, 2010, the Company decided not to proceed with further exploration of the property and accordingly wrote off the remaining capitalized costs of $1,083,064.

5. MINERAL PROPERTIES (cont'd…)

Wakeham Basin Property, Quebec

During the year ended December 31, 2007, the Company signed an asset purchase and sale agreement to purchase six mineral properties located in the Wakeham Basin in Quebec. The Company purchased a 100% interest in the property by paying the vendors $350,000 and issuing 2,000,000 common shares of the Company. The Company paid $15,000 and issued 200,000 common shares as a finder's fee in connection with the purchase. The property is subject to a royalty of 3%, and a 2% NSR.

During the year ended December 31, 2009, due to poor economic recoverability of resources the Company wrote off the carrying value of $444,701 in acquisition and exploration costs incurred on the property.

6. CAPITAL STOCK

	Number of Shares	Amount	Contributed Surplus
Authorized			
100,000,000 common shares without par value			
Issued			
Balance, December 31, 2008	24,046,991	$ 7,695,780	$ 199,295
Stock-based compensation	-	-	32,908
Balance, December 31, 2009	24,046,991	7,695,780	232,203
Acquisition of mineral property	200,000	16,000	-
Stock-based compensation	-	-	47,947
Balance, December 31, 2010	24,246,991	$ 7,711,780	$ 280,150

Share issuance

During the year ended December 31, 2010, the Company issued 200,000 common shares pursuant to the Lov property option agreement with a total fair value of $16,000.

Stock options

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. The options can be granted for a maximum term of 5 years and vest as determined by the board of directors.

6. CAPITAL STOCK (cont'd…)

Stock options (cont'd…)

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding, December 31, 2008	750,000	$ 0.25
Options granted	700,000	0.10
Expired/cancelled	(635,000)	0.20
Options outstanding, December 31, 2009	815,000	0.16
Options granted	1,200,000	0.10
Expired	(165,000)	0.17
Options outstanding, December 31, 2010	1,850,000	$ 0.12
Options exercisable at December 31, 2010	850,000	$ 0.14
Options exercisable at December 31, 2009	535,000	$ 0.19
Weighted average fair value of options granted during the year	$ 0.044	(2009 - $0.05)

As at December 31, 2010, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
250,000	$ 0.25	July 15, 2013
400,000	0.10	June 5, 2014
400,000	0.10	March 23, 2015
800,000	0.10	June 11, 2015
1,850,000		

Stock-based compensation

The total stock-based compensation calculated for stock options granted under the fair value method was $52,239 (2009 - $38,016) using the Black-Scholes option pricing model. For the year ended December 31, 2010, the Company expensed $47,947 (2009 - $32,908) for the vesting portion of stock options to operations.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year:

	2010	2009
Risk-free interest rate	2.75%	2.64%
Expected life of options	5 Years	5 Years
Annualized volatility	107.59%	131%
Dividend rate	Nil	Nil

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

		2010		2009
Accumulated other comprehensive income, beginning of year	$	314,006	$	-
Other comprehensive income (loss)		(147,590)		314,006
Accumulated other comprehensive income, end of year	$	166,416	$	314,006

8. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities is $3,685 (2009 - $nil) owing to related parties for services rendered to the Company and is unsecured, non-interest bearing, and has no specific terms of repayment.

The Company entered into the following transactions with related parties during the year ended December 31, 2010:

a) Paid or accrued management fees of $40,000 (2009 - $nil) to a company controlled by a director of the Company.

b) Paid or accrued consulting fees of $6,000 (2009 - $nil) to a company controlled by a director of the Company.

c) Paid or accrued consulting fees of $40,226 (2009 - $nil), office administration fees of $2,457 (2009 - $nil), property investigation fee of $325 (2009 - $nil) and mineral property costs of $52,157 (2009 - $nil) to a company controlled by a director of the Company.

These transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

9. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

		2010		2009
Cash paid for income taxes during the year	$	-	$	-
Cash paid for interest during the year	$	-	$	-

Significant non-cash transactions during the year ended December 31, 2010 included:

a) The Company issued 200,000 common shares pursuant to Lov property option agreement with a total fair value of $16,000.

c) Included in mineral property costs are $8,578 related to accounts payable and accrued liabilities.

Significant non-cash transactions during the year ended December 31, 2009 included:

a) The Company received marketable securities with a total value of $125,700 pursuant to mineral property option agreements.

10. INCOME TAXES

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

	2010	2009
Loss before income taxes	$ (1,046,132)	$ (448,387)
Expected income tax recovery at statutory rates	$ (298,147)	$ (134,516)
Non-deductible items	356,723	252,596
Deductible items	(123,776)	(248,672)
Unrecognized benefit of non-capital losses	65,200	118,948
Total income tax recovery	$ -	$ (11,644)

Details of future income tax assets and liabilities are as follows:

	2010	2009
Future income tax assets (liabilities):		
Non-capital loss carryforwards	$ 457,100	$ 412,685
Mineral properties	950,600	679,870
Marketable securities	900	-
Share issuance costs	36,600	73,271
Future income tax assets	1,445,200	1,165,826
Less: Valuation allowance	(1,445,200)	(1,165,826)
Net future income tax assets	$ -	$ -

The Company has available for deduction against future taxable income non-capital losses of approximately $1,828,000. These losses, if not utilized, will expire through 2030. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

11. FINANCIAL INSTRUMENTS

The carrying values of receivables, taxes recoverable, and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of these financial instruments. The fair value of cash and cash equivalents and marketable securities is measured using level 1 inputs as explained below.

11. FINANCIAL INSTRUMENTS (cont'd…)

The Company's financial instruments and risk exposures are summarized below.

Credit risk

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, marketable securities and taxes recoverable. The Company's credit risk with respect to its cash, and cash equivalents, and marketable securities are minimal as they are held with high-credit quality financial institutions. Taxes recoverable primarily relate to GST/HST and exploration tax credit refund due from the federal and provincial governments of Canada. The Company does not have financial assets that are invested in asset-backed commercial paper.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company manages liquidity by maintaining adequate cash and cash equivalents balances. As at December 31, 2010, the Company had a cash and cash equivalents balance of $682,518 to settle current liabilities of $37,314. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

(a) Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash and cash equivalents maintained at the financial institutions. The interest rate risks on cash and cash equivalents are not considered significant due to their short-term nature and maturity.

(b) Foreign exchange rate risk

The Company is not exposed to foreign exchange risk as all its activities are carried out in Canada and all its financial assets and liabilities are denominated in Canadian dollars.

Fair Value

CICA Handbook Section 3862 "Financial Instruments – disclosures" establishes a fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 – inputs for the asset or liability that are not based on observable market data.

11. FINANCIAL INSTRUMENTS (cont'd…)

Fair Value (cont'd…)

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

Assets	Level 1	Level 2	Level 3	Total
Cash	$ 682,518	$ -	$ -	$ 682,518
Marketable securities	248,000	-	-	248,000
Total	$ 930,518	$ -	$ -	$ 930,518

12. SUBSEQUENT EVENT

Subsequent to December 31, 2010, the Company and SG Spirit Gold Inc. agreed to amend the remaining commitments under the Lov property option agreement signed on August 9, 2010 as follows:

- Pay $20,000 upon signing of the amendment (subsequently paid);
- Issue an additional 200,000 shares, and incur additional work costs of $90,000 by October 31, 2011;
- Pay $20,000, issue an additional 200,000 shares, and incur additional work costs of $300,000 by October 31, 2012;
- Pay $50,000, issue an additional 200,000 shares, and incur additional work costs of $300,000 by October 31, 2013;
- Incur additional work costs of $410,000 by October 31, 2014.

All other terms of the agreement remain the same.