Lovitt Resources Inc.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

(Expressed in U.S. Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Lovitt Resources Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lovitt Resources Inc. as at December 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company incurred a net loss of $ 772,504. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, B.C.
May 2, 2011

"D&H Group LLP"
Chartered Accountants

Lovitt Resources Inc.
CONSOLIDATED BALANCE SHEETS
(Expressed in U.S. Dollars)

	December 31, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash	$ 590,051	$ 3,544
Amounts receivable	7,615	10,134
Prepaid expenses	17,020	1,687
	614,686	15,365
ASSETS HELD FOR SALE (Note 4)	1	331,547
PROPERTY, PLANT AND EQUIPMENT (Note 5)	272,577	284,828
MINERAL PROPERTIES (Note 6)	282,766	240,802
PATRONAGE DIVIDENDS RECEIVABLE	17,357	19,845
	$ 1,187,387	$ 892,387
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 59,055	$ 134,166
Accrued interest payable	239,804	269,478
Note payable (Note 7)	5,768	5,459
Current portion of long-term debt (Note 8)	24,368	394,921
	328,995	804,024
LONG-TERM DEBT (Note 8)	1,141,800	920,000
	1,470,795	1,724,024
SHAREHOLDERS' EQUITY (DEFICIENCY)		
SHARE CAPITAL (Note 9)	3,803,346	2,492,110
CONTRIBUTED SURPLUS	32,866	23,369
RETAINED EARNINGS (DEFICIT)	(4,119,620)	(3,347,116)
	(283,408)	(831,637)
	$ 1,187,387	$ 892,387

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

SUBSEQUENT EVENT (Note 19)

See accompanying summary of accounting policies and notes to the consolidated financial statements.

Approved by the Board *"C. Lorne Brown"* **Director** *"Dominic Lapenna"* **Director**

Lovitt Resources Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS AND DEFICIT
(Expressed in U.S. Dollars)

	Years ended December 31, 2010	Years ended December 31, 2009
EXPENSES		
Amortization of property, plant and equipment	$ 13,813	$ 16,090
General and administrative	259,098	163,230
Interest on long-term debt	104,626	116,407
Interest – other	7,706	5,761
Management fees	60,000	60,000
	445,243	361,488
INCOME (LOSS) BEFORE OTHER ITEMS	(445,243)	(361,488)
OTHER ITEMS		
Gain on sale of water rights (Note 11)	–	11,506
Loss on sale of note receivable (Note 10)	–	(23,986)
Gain on sale of equipment (Note 12)	–	14,175
Write-down of equipment held for sale	(331,546)	–
Interest income	–	5,581
Miscellaneous income	4,285	2,800
	(327,261)	10,076
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	(772,504)	(351,412)
RETAINED EARNINGS (DEFICIT), beginning of year	(3,347,116)	(2,995,704)
RETAINED EARNINGS (DEFICIT), end of year	$ (4,119,620)	$ (3,347,116)
EARNINGS (LOSS) PER SHARE – basic and diluted	$ (0.13)	$ (0.07)

See accompanying summary of accounting policies and notes to the consolidated financial statements.

Lovitt Resources Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in U.S. Dollars)

	Years ended December 31, 2010	2009
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income (loss) for the year	$ (772,504)	$ (351,412)
Adjustments to reconcile net cash provided by operating activities		
Amortization of property, plant and equipment	13,813	16,090
Gain on disposal of water rights	–	(11,506)
Loss on sale of loan receivable	–	23,986
Gain on disposal of equipment	–	(14,175)
Write-down of equipment	331,546	–
Decrease (increase) in		
Amounts receivable	2,519	(9,421)
Prepaid expenses	(15,333)	(347)
Increase (decrease) in		
Accounts payable and accrued liabilities	(75,111)	83,146
Accrued interest payable	(29,674)	69,085
Note payable	309	749
	(544,435)	(193,805)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,562)	(4,955)
Proceeds on sale of water rights	–	12,000
Expenditures on mineral properties	(41,964)	(98,585)
Proceeds on sale of equipment	–	14,175
Proceeds on sale of loan receivable	–	85,919
Patronage dividends received	2,488	–
	(41,038)	8,554
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of common shares	1,359,162	–
Exercise of warrants	48,525	2,735
Share issue costs	(86,954)	–
Repayment of long-term debt	(148,753)	(25,368)
Proceeds from long-term debt	–	207,011
	1,171,980	184,378
INCREASE (DECREASE) IN CASH DURING THE YEAR	586,507	(873)
CASH, beginning of year	3,544	4,417
CASH, end of year	$ 590,051	$ 3,544

See Note 17.

See accompanying summary of accounting policies and notes to the consolidated financial statements.

1. **NATURE OF OPERATIONS AND GOING CONCERN**

The Company is incorporated under the *Company Act* (British Columbia). The Company holds land and mineral interests located in Wenatchee, Washington, U.S.A. The Company currently owns 270 acres of land, and owns 100% of the mineral interest in approximately 200 acres and a 70% mineral interest in an additional 350 acres. In the past, the Company financed its operations by selling land.

The accompanying consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern. The Company has made an assessment of its ability to continue as a going concern and is aware of material adverse conditions as set out below that may cast significant doubt on the validity of this assumption. At December 31, 2010, the Company has no source of operating cash flow and an accumulated deficit of $ 4,119,620 (2009 – $ 3,347,116). At December 31, 2010, the Company had working capital of $ 285,691 (December 31, 2009 – $ 788,659) and expects to incur further losses in the development of its business. Operations for the year ended December 31, 2010 were funded primarily from private placements.

The Company's ability to continue as a going concern is contingent on its ability to obtain additional financing. The current equity market conditions, the challenging funding environment and the low price of the Company's common shares make it dilutive and difficult to raise funds by the sale of the Company's shares. The junior resource industry has been severely impacted by the world economic situation, as it is considered to be a high-risk investment. In order to ensure its ability to continue operating, the Company expects to sell land and any remaining non-mining equipment and the cold storage building on five acres of land to finance a mineral exploration and development program. However, there is no assurance that any such activity will generate funds that will be available for investments or operations.

The consolidated financial statements do not include any adjustments to the recoverability and classification of recorded assets, or the amounts of, and classification of, liabilities which would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

The amounts shown as mineral properties and related deferred costs represent costs net of recoveries to date, less amounts written off, and do not necessarily represent present or future values. Recoverability of the amounts shown for mineral properties is dependent upon the discovery of economically recoverable mineral reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain financing necessary to complete the exploration and development of its mineral property interest, and on future profitable production or proceeds from the disposition of the mineral property interests.

2. **ACCOUNTING POLICIES**

Basis of presentation
These consolidated financial statements are prepared in U.S. dollars, unless otherwise noted, in accordance with Canadian generally accepted accounting principles.

Use of estimates
The presentation of consolidated financial statements in conformity with Canadian GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in these financials statements and related notes. Management regularly reviews the estimates and assumptions that affect the consolidated financial statements, although actual results may be materially different from these estimates and assumptions. Areas where significant estimates and assumptions are required by management include the determination of impairment of capitalized mineral property expenditures, the provision for income taxes, asset retirement obligations, the fair value estimates for financial instruments, and impairment of property, plant and equipment and assets held for sale.

Principles of consolidation
These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Lovitt Mining Company, Inc. (a U.S. corporation). Lovitt Mining Company, Inc.'s financial statements include the accounts of its wholly owned subsidiary, Gold King Inc. (a U.S. corporation). All significant inter-company balances and transactions have been eliminated.

Cash equivalents
The Company considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents. There are no cash equivalents at December 31, 2010 and 2009.

Property, plant and equipment
Property, plant and equipment are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the expected useful life of each property, plant and equipment. Land is reclassified as held for sale upon being listed for sale.

2. **ACCOUNTING POLICIES** - continued

Mineral properties
Mineral property costs and exploration, development and field support costs directly relating to mineral properties are deferred until there is reasonable certainty as to the existence of economically recoverable mineral reserves and the property to which they relate is placed into production, sold or abandoned. Costs are amortized against future production from the property. Costs of abandoned properties are written off at the earlier of the decision to abandon the property or the expiry date of assessment work on the property. Administrative costs and other exploration costs that do not relate to any specific property are expensed as incurred.

Mineral properties represent net expenditures incurred and capitalized as of the balance sheet date and do not necessarily reflect present or future values. The Company follows procedures to verify title for each of its mineral properties in accordance with industry standards and, to the best of its knowledge these mineral properties are in good standing. These procedures, however, will not necessarily prevent future challenges by third parties as to the validity of the Company's interests in its mineral properties.

Patronage dividends receivable
Patronage dividends are accounted for using the equity method and are redeemable at the discretion of the issuing co-operative.

Asset retirement obligations
The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to earnings using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. As at December 31, 2010 and 2009, the Company does not have any asset retirement obligations.

Impairment of long-lived assets
Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

Future income taxes
Income taxes are recorded on a tax allocation basis. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are recognized using enacted income tax rates. The effect of changes in effective income tax rates is recognized in income in the period in which the change occurs. Future income tax assets are recognized with respect to deductible temporary differences and loss carryforwards only to the extent their realization is considered more likely than not.

Stock-based payments
Stock-based payments include warrants issued for finders fees and are recognized at fair value as estimated using the Black-Scholes pricing model. This model uses amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based payments, the fair value of the Company's stock and the risk-free interest rate. The estimated fair values of awards of stock-based payments are charged to share issue costs with offsetting amounts recognized as contributed surplus.

Revenue recognition
Interest and other revenue is recognized in the period the amounts are earned and when collection is reasonably assured.

Land and other capital asset sales are recognized when title transfers to the purchaser, when collection of sales proceeds is reasonably assured and when all other obligations have been fulfilled.

Foreign currency translation
The Company's subsidiary is an integrated foreign operation. The accounts of the Company and its consolidated subsidiary are measured using the U.S. dollar as the functional currency. Monetary items in the parent company that are denominated in Canadian dollars are translated into U.S. dollars using exchange rates in effect at the balance sheet date and non-monetary items are translated using historical exchange rates. Revenues and expenses are translated into U.S. dollars at the average rate in effect during the period in which they were earned or incurred with the exception of amortization which is translated at historical rates. Exchange gains or losses arising on the transaction or settlement of foreign currency denominated monetary items are included in the determination of net income.

Earnings (loss) per share
Earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year, which amounted to 6,157,775 (2009 – 5,146,078 shares). Diluted earnings (loss) per share is presented using the treasury stock method and is calculated by dividing the net income (loss) applicable to common shares by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

2. **ACCOUNTING POLICIES** - continued

Financial instruments
All financial instruments are classified into one of five categories, with each category possessing specific requirements for initial and subsequent recognition and measurement.

The Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Patronage dividends receivable, amounts receivable and loan receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, accrued interest payable, note payable and long-term debt are classified as other financial liabilities, which are measured at amortized cost, using the effective interest rate method.

Section 3862, *Financial Instruments – Disclosures,* requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair vale hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Section 3862 prioritizes the inputs into three levels that may be used to measure fair value;

Level 1 Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

Level 3 Applies to assets or liabilities for which there are unobservable market data.

The Company's financial instruments consist principally of cash, amounts receivable, long-term debt and accounts payable and accrued liabilities. Pursuant to Section 3862, fair value of assets and liabilities measured on a recurring basis include cash determined based on Level 1 inputs. The Company believes that the recorded values of all amounts receivable and payable approximately their current fair values because of their nature and respective maturity dates or durations.

Transaction costs
The Company recognizes transaction costs incurred in connection with the issuance of capital as share issuance costs which are netted against gross proceeds from related transactions rather than being expensed as incurred. Transaction costs for assets and liabilities classified as "held for trading" or "available for sale" are expensed as incurred.

Comprehensive income
Section 1530, *Comprehensive Income*, provides standards for the reporting and presentation of comprehensive income, which is defined as the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but they are excluded from net income calculated in accordance with generally accepted accounting principles.

3. **ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS**

Business Combinations, Consolidated Financial Statements and Non-controlling Interests.

For interim and annual financial statements relating to its fiscal year commencing on or after January 1, 2011, the Company will be required to adopt new Canadian Institute of Chartered Accountants ("CICA") Section 1582 "Business Combinations", Section 1601 "Consolidated Financial statements" and Section 1602 "Non-Controlling Interests". Section 1582 replaces existing Section 1581 "Business Combinations", and Sections 1601 and 1602 together replace Section 1600 "Consolidated Financial Statements". The adoption of Section 1582 and, collectively, 1601 and 1602 provides the Canadian equivalent to International Financial Reporting Standards ("IFRA") 3 "Business Combinations" and International Accounting Standards ("IAS") 27 "Consolidated and Separate Financial Statements" respectively. The adoption of these new standards will not impact significantly the Company's consolidated financial statements.

4. **ASSETS HELD FOR SALE**

In 2008, the Company had reclassified the net book value of its high pressure equipment, originally recorded as property, plant and equipment, to assets held for sale. The Company expected to sell this equipment in 2009 for net proceeds greater than its carrying value. However, the market for such equipment is limited and specialized, and the net recoverable amount on sale cannot be readily determined. Hence the high pressure equipment has been written down to a nominal value. Any subsequent gain or loss on the sale of the high pressure equipment will be recorded in the period the equipment is sold.

Also at December 31, 2010, the Company has a cold storage plant and related five acres of land available for sale. The plant and land have nominal carrying values.

(Expressed in U.S. Dollars)

5. PROPERTY, PLANT AND EQUIPMENT

	2010		
	Cost	Accumulated amortization	Net
Land	$ 181,082	$ –	$ 181,082
Water rights	8,088	–	8,088
Mining Equipment	76,074	32,255	43,819
Building and equipment	587,122	552,386	34,736
Computer equipment	6,147	4,689	1,458
Vehicles	26,166	22,772	3,394
	$ 884,679	$ 612,102	$ 272,577

	2009		
	Cost	Accumulated amortization	Net
Land	$ 181,082	$ –	$ 181,082
Water rights	8,088	–	8,088
Mining Equipment	76,074	21,301	54,773
Building and equipment	587,122	551,336	35,786
Computer equipment	4,585	4,011	574
Vehicles	26,166	21,641	4,525
	$ 883,117	$ 598,289	$ 284,828

6. MINERAL PROPERTIES

	2010	2009
Lovitt Mineral Property - Washington, U.S.A.	$ 1	$ 1
Golden King and MacBeth Claims - Washington, U.S.A.	1	1
Deferred exploration costs	282,764	240,800
	$ 282,766	$ 240,802

The Lovitt Mineral Property represents a 100% undivided interest in 200 acres and a 70% undivided interest in 350 acres with mineral rights. The Golden King and MacBeth claims represent a 100% undivided interest in 40 acres with mineral rights. The mineral interest is subject to a 5% net smelter royalty, payable to former minority investor of Lovitt Mining Company Inc., as an incentive to a buyout concluded in 2004.

Mineral properties include nominal acquisition costs as they were written down in prior years. In 2010, the Company incurred $ 41,964 (2009 – $ 152,337) of exploration costs which includes $ 15,000 related to the mineral lease agreement noted below.

During 2009, the Company's wholly-owned subsidiary Gold King Inc., entered into a lease agreement with B.J. Matthews, Trustee of the B.J. Matthews and Geneva G. Matthews Trust for the exclusive right to explore, mine, and produce on a 155 acre property located in Chelan County, in the State of Washington. In addition to an initial payment of $ 25,000 and the issuance of 60,000 common shares of the Company upon signing the agreement, the agreement also requires the following payments:

$ 15,000 on November 1, 2010 (paid)
$ 20,000 on November 1, 2011
$ 30,000 on November 1, 2012

Subsequent to November 1, 2013, the lease will continue for an additional 15 years with an annual $ 30,000 base payment required, increasing each subsequent year based on the increase in the Consumer Price Index. In addition, the Company is required to pay a production royalty of 3% of the net returns from the sale or disposition of minerals extracted from the property. The Company also has an option to purchase the fee title to the property which expires on April 30, 2017.

7. NOTE PAYABLE

The Company has a promissory note payable of CDN $ 5,737 (2009 – CDN $ 5,737) to a shareholder of the Company. The note is non-interest bearing, not collateralized, and has no fixed terms of repayment.

(Expressed in U.S. Dollars)

8. **LONG-TERM DEBT**

	2010	2009
Loan from a director of the Company – no required monthly payments; bearing interest at rates between 8% and 10%, not collateralized, due April 30, 2009, subsequently extended to April 30, 2012	$ 56,800	$ 56,800
Loan from a director of the Company and his immediate family – no required monthly payments; interest calculated at 8% per annum; not collateralized, due April 30, 2009, subsequently due on demand	14,904	160,155
Loan from corporation controlled by a director of the Company - no required monthly payments; interest calculated at 8% per annum; not collateralized, due April 30, 2009, subsequently extended to April 30, 2012	100,000	100,000
Loan from corporation controlled by a director of the Company – no required monthly payments; interest calculated at 8% per annum; collateralized by a pledge of all the Company's assets excluding mineral rights, due April 30, 2009, subsequently extended to April 30, 2012	510,000	510,000
Loan from a corporation controlled by a director of the Company – no required monthly payments; interest calculated at 6% per annum; not collateralized, due April 30, 2009, subsequently extended to April 30, 2012	65,000	65,000
Loan – requiring minimum monthly payments of $ 2,600 representing interest only, calculated at 12% per annum; collateralized by a pledge of the Company's land, excluding the mineral rights and the plant; due July 1, 2009; subsequently extended to June 1, 2012	410,000	410,000
Promissory note – payable to a vendor; repayable in monthly instalments of $ 8,096 including interest calculated at 10.25% per annum; due September 1, 2009; subsequently due on demand	9,464	9,464
Truck loan – requiring monthly instalments of $ 350; does not bear interest; collateralized by a pledge of the vehicle; due October 14, 2010; repaid during 2010	–	3,502
	1,166,168	1,314,921
Less: Current portion	(24,368)	(394,921)
	$ 1,141,800	$ 920,000

The Company is required to make the following principal payments in each of the next fiscal years ending December 31:

2011	$ 24,368
2012	1,141,800
	$ 1,166,168

(Expressed in U.S. Dollars)

9. **SHARE CAPITAL**

Authorized - unlimited number of common shares without par value.

Issued

	Number	$
Balance, as at December 31, 2008	5,132,051	2,435,623
Issued during the year		
For cash		
exercise of warrants (a)	20,000	2,736
For mineral property expenses related to its mineral lease (b)	60,000	53,751
Less share issue costs	–	–
Balance, as at December 31, 2009	5,212,051	2,492,110
Issued during the year		
For cash		
private placements, net of issue cost of $ 96,451(c)	2,717,400	1,262,711
exercise of warrants (d)	98,000	48,525
Balance, as at December 31, 2010	8,027,451	3,803,346

(a) Exercise of warrants
During 2009, 20,000 warrants were exercised at a price of CDN $ 0.15 per warrant for gross proceeds of $ 2,736 (CDN $ 3,000).

(b) In December 2009, the Company issued 60,000 units at a price of CDN $ 0.95 per unit to the B.J. Matthews Trust in connection with its mineral lease agreement (Note 6).

(c) Private placements
In April 2010, the Company completed a private placement of 1,200,000 units at a price of CDN $ 0.45 per unit for gross proceeds of $ 540,432 (CDN $ 540,000). Each unit consists of one common share and one share purchase warrant. Each full share purchase warrant is exercisable at a price of CDN $ 0.50 per share. The warrants are exercisable for one year from the date of approval. Total share issue costs of $ 65,784 were incurred.

In December 2010, the Company completed a private placement of 1,500,000 units at a price of CDN $ 0.55 per unit for gross proceeds of $ 818,730 (CDN $ 825,000). Each unit consists of one common share and one share purchase warrant. Each full share purchase warrant is exercisable at a price of CDN $ 0.65 per share. The warrants are exercisable for one year from the date of approval. The Company incurred share issue costs of $ 96,451, which includes 9,570 for the issuance of 17,400 private placement units for finders fees.

(d) Exercise of warrants

During 2010, 98,000 warrants were exercised at a prices of CDN $ 0.50 and CDN $ 0.65 per warrant for gross proceeds of $ 48,525 (CDN $ 49,000).

Details of share purchase warrant transactions during the years ended December 31, 2010 and 2009 are as follows:

	Number	Weighted average exercise price (CDN $/share)
Outstanding as at December 31, 2008	670,000	0.15
Issued	–	
Exercised	(20,000)	0.15
Expired	(650,000)	0.15
Outstanding, as at December 31, 2009	–	
Issued	2,717,400	0.58
Exercised	(98,000)	0.50
Expired	–	
Outstanding, as at December 31, 2010	2,619,400	0.59

(Expressed in U.S. Dollars)

9. **SHARE CAPITAL** - continued

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at December 31, 2010:

Number	Exercise price (CDN $)	Expiry date
1,102,000	0.50	April 2011
1,517,400	0.65	December 2011
2,619,400		

Subsequent to year end, 40,000 warrants were exercised at a price of $ 0.50 per warrant for gross proceeds of $ 20,000, and 1,062,000 warrants expired.

10. **LOSS ON SALE OF NOTE RECEIVABLE**

In 2008, the Company received a note receivable of $ 110,000 as partial consideration from the purchaser on the sale of land. The loan had interest of 7.5% per annum, payable in monthly payments of $ 750 per month, and was collateralized by a registered charge on the land. During 2009 the note receivable was sold for gross proceeds of $ 85,000, to a related party, resulting in a net loss of $ 23,986 (Note 16).

11. **GAIN ON SALE OF WATER RIGHTS**

During 2009, the Company sold 4 units of water rights, related to land previously sold, for gross proceeds of $ 12,000. These units had a nominal carrying value. There were no sales during 2010.

12. **GAIN ON SALE OF EQUIPMENT**

During 2009, the Company sold some farm equipment and a vehicle for gross proceeds and a net gain of $ 14,175. The farm equipment and the vehicle had a nominal carrying value.

13. **SEGMENTED INFORMATION**

As at December 31, 2010 and 2009 the Company's identifiable assets, revenue and net income (loss) in each of the geographic areas is as follows:

	2010		
	Identifiable assets	Revenue	Net income (loss)
United States	$ 587,198	$ –	$ (752,396)
Canada	600,189	–	–
	$ 1,187,387	$ –	$ (752,396)

	2009		
	Identifiable assets	Revenue	Net income
United States	$ 887,322	$ –	$ (351,142)
Canada	5,065	–	–
	$ 892,387	$ –	$ (351,142)

14. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

a) **Fair value**

The fair value of financial instruments at December 31, 2010 and 2009 is summarized as follows:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
Held for trading				
Cash	$ 590,051	$ 590,051	$ 3,544	$ 3,544
Loans and receivables				
Patronage dividends receivable	17,357	17,357	19,845	19,845
Amount receivable	2,000	2,000	8,000	8,000
Financial Liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	$ 59,055	$ 59,055	$ 134,166	$ 134,166
Accrued interest payable	239,804	239,804	269,478	269,478
Note payable	5,768	5,768	5,459	5,459
Long-term debt (+)	419,464	419,464	422,966	422,966
Long-term debt to related parties	746,704	*	891,955	*

+ Based on management's assessment, the carrying value of long-term debt reasonably approximates its fair value.
* The fair value of related party loans is not disclosed as the fair values are not reliably measureable due to the lack of readily available market comparable data.

b) **Financial risk management**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. Cash and amounts receivable are exposed to credit risk due to the potential for counterparties to default on their contractual obligations. The maximum potential loss on all financial instruments is equal to the carrying amount of those items. The Company limits its exposure to credit loss by placing its cash with major financial instruments.

Liquidity risk

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash, in addition to listing assets that it can sell. The Company intends also to raise additional financing through the issuance of capital and its ability to do so is dependent on a number of factors including market acceptance, stock price and exploration results.

Interest rate risk

Loan receivable and long-term debt bear interest at fixed rates, or do not bear interest, and therefore do not expose the Company to interest rate cash flow risk.

Foreign exchange risk

The Company is subject to foreign exchange rate risk as the Company incurs transactions and has assets and liabilities denominated in Canadian dollars, whereas the Company's functional and reporting currency is the U.S. dollar.

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company's portfolio of properties has exposure to predominantly gold. The price of this commodity will affect the value of the Company and the potential value of its properties.

(Expressed in U.S. Dollars)

15. **INCOME TAXES**

The Company has non-capital losses for Canadian income tax purposes of approximately $ 292,000 (CDN $ 304,000) available to reduce future years' taxable income. The benefit of these non-capital losses has not been recognized in the Company's accounts as there is no reasonable assurance such benefit will be realized. If unused, the non-capital losses become no longer available to reduce taxable income after the end of the following taxation years:

2014	$	42,000
2015		43,000
2026		69,000
2027		8,000
2029		43,000
2030		107,000
	$	312,000

The Company has Canadian resource deductions available in excess of amounts expensed for accounting purposes of approximately $ 312,000 (CDN $ 324,000). These available deductions have no expiry date and can be offset against future taxable income. The potential tax benefit of these amounts has not been reflected in these accounts.

The Company also has net operating loss carryforwards for tax purposes of approximately $ 1,565,000 (2009 – $ 1,200,000) available for deduction against future taxable income in the United States.

The significant components of the Company's future income taxes are as follows as at December 31, 2010 and 2009:

	2010	2009
Future income tax assets		
Benefit of loss carryforwards	$ 493,000	$ 395,000
Benefit of resources tax pool	81,000	85,000
	574,000	480,000
Less: Valuation allowance	(574,000)	(480,000)
	$ –	$ –

The following is a reconciliation of the statutory combined federal and provincial income taxes to the effective income taxes:

	2010	2009
Income taxes (recovery) at statutory income taxes rates (2010 – 28.50%, 2009 – 30.00%)		
Expected income tax recovery	$ 227,000	$ 88,000
Effect of income tax rate changes	(22,000)	–
Unrecognized benefit of income tax losses	(205,000)	(88,000)
Actual income tax rate recovery	$ –	$ –

16. **RELATED PARTY TRANSACTIONS**

Unless otherwise stated, related party transactions are measured at the exchange amount, being the amount of consideration established and agreed to by the related parties.

During 2010, the Company was charged $ 81,716 (2009 – $ 77,864) for accounting, consulting, management services and casual labour provided by directors and officers of the Company, and by corporations owned by directors and officers and members of their immediate families. Also, during 2010, the Company was charged $ 59,476 (2009 – $ 67,874) for interest on the outstanding loans from related parties. As at December 31, 2010, accounts payable includes $ 12,230 (2009 – $ 119,090), and accrued interest payable includes $ 232,121 (2009 – $ 263,347) due to a director, a corporation owned by an officer of the Company and members of his immediate family. During 2009, the Company sold a note receivable at fair value to a corporation owned by a director of the Company for $ 85,000.

See Note 8.

17. **SUPPLEMENTAL CASH FLOW INFORMATION**

During 2010, the Company paid interest of $ 107,937 (2009 – $ 53,947).

In 2010 the Company recorded share issuance costs of $ 9,497 (CDN $ 9,570), for the fair value of shares and warrants issued in connection with a private placement (Note 9).

In 2009, the Company issued shares with a fair market value of $ 53,751 which has been capitalized to mineral properties related to its mineral lease agreement (Note 9).

18. **CAPITAL MANAGEMENT**

The Company manages as capital its share capital and long-term debt. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to acquire and explore mineral interests. The Company funds operations and exploration activities from the issuance of shares generally through private placements, obtaining loans and selling its assets held for sale.

There were no changes to the Company's approach to capital management during 2010 or 2009. The Company is not subject to externally imposed capital requirements.

19. **SUBSEQUENT EVENT**

See Note 9.