DISCOVERY VENTURES INC.

(An exploration stage company)

Financial Statements

Years ended December 31, 2010 and 2009

Chang Lee LLP
Chartered Accountants

606– 815 Hornby Street
Vancouver, B.C, V6Z 2E6
Tel: 604-687-3776
Fax: 604-688-3373
E-mail: info@changleellp.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
DISCOVERY VENTURES INC.
(An exploration stage company)

We have audited the accompanying financial statements of Discovery Ventures Inc. ("the Company"), which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and 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.

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 an audit to obtain reasonable assurance about whether the financial statements are free of 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 Company'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 Company'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 statement.

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

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

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 1 in the financial statements, which indicates that the Company incurred a deficit of $675,238 during the year ended December 31, 2010. Along with other matters as set forth in note 1, these indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada

CHANG LEE LLP

Chang Lee LLP
Chartered Accountants

606– 815 Hornby Street
Vancouver, B.C, V6Z 2E6
Tel: 604-687-3776
Fax: 604-688-3373
E-mail: info@changleellp.com

April 13, 2011

Chartered Accountants

DISCOVERY VENTURES INC.
(An exploration stage company)

Balance Sheets

	December 31, 2010	December 31, 2009
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	624,772	53,326
Short term investments	200,716	400,160
Receivables	24,216	12,285
Prepaid expenses	-	3,600
Total current assets	849,704	469,371
Equipment, net (Note 3)	1,126	-
Mineral property (Note 4)	408,042	83,042
Deferred exploration expenditures (Note 4)	273,251	291,653
Total assets	1,532,123	844,066
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	23,878	33,675
Due to a related party	140	1,477
Total current liabilities	24,018	35,152
SHAREHOLDERS' EQUITY		
Share capital (Note 5b)	1,950,722	1,053,845
Contributed Surplus (Note 5g)	274,151	135,742
Deficit	(716,768)	(380,673)
Total shareholders' equity	1,508,105	808,914
Total liabilities and shareholders' equity	1,532,123	844,066

Nature and Continuance of Operations (Note 1)
Commitments (Note 9)

On behalf of the Board:

"Kenneth C Phillippe"	*"David W Rees"*
Director	Director

The accompanying notes are an integral part of these financial statements

DISCOVERY VENTURES INC.
(An exploration stage company)

Statements of Operations, Comprehensive Loss and Deficit

	Years ended December 31, 2010	2009
	$	
General and Administrative Expenses		
Amortization	480	-
Bank charges	283	317
Filing and transfer agent fees	29,401	11,725
Investor relations	7,500	-
Management and office fees	24,000	24,000
Office expenses	3,940	5,470
Professional fees	59,816	41,823
Project investigation	2,250	-
Rent	16,500	18,000
Stock-based compensation (Note 4e)	177,225	78,517
Travel and promotion	15,515	9,712
	336,910	189,564
Other income (expenses)		
Interest income	815	1,087
Loss Before Income Tax	(336,095)	(188,477)
Future income tax recovery	-	38,200
Net loss and comprehensive loss for the year	(336,095)	(150,277)
Deficit, beginning of year	(380,673)	(230,396)
Deficit, end of year	(716,768)	(380,673)
Basic and diluted loss per share	(0.03)	(0.03)
Weighted average number of common shares		
- Basic and diluted	11,560,839	5,956,812

The accompanying notes are an integral part of these financial statements

DISCOVERY VENTURES INC.
(An exploration stage company)

Statements of Cash Flows

	Years ended December 31, 2010	2009
	$	$
Cash flows from (used in)		
Operating activities		
Loss for the year	(336,095)	(150,277)
Adjustments:		
Amortization	480	-
Stock-based compensation	177,225	78,517
Accrued interest income	(156)	1,305
Future income tax recovery	-	(38,200)
	(158,546)	(108,655)
Changes in non-cash working capital:		
Receivables	(11,931)	(11,608)
Prepaid expenses	3,600	(100)
Accounts payable	(9,797)	4,977
Due to a related party	(1,337)	-
	(178,011)	(115,386)
Investing activities		
Acquisition of mineral property	(75,000)	(30,000)
Equipment purchased	(1,606)	-
Deferred exploration expenditures	18,402	(143,648)
Short term investment	199,600	(300,000)
	141,396	(473,648)
Financing activities		
Issuance of common shares for cash (net)	608,061	628,370
Increase in cash and cash equivalents	571,446	39,336
Cash and cash equivalents, beginning of year	53,326	13,990
Cash and cash equivalents, end of year	624,772	53,326
Supplemental Information		
Interest paid in cash	50	-
Income taxes paid in cash	-	-

The accompanying notes are an integral part of these financial statements

1. Nature and Continuance of Operations

The Company was incorporated on October 13, 1999 under the laws of British Columbia under the name 593960 British Columbia Ltd. and was inactive during the fiscal years 1999 to 2007. Commencing in the fiscal year 2008, the Company was reactivated with the purpose of assessing exploration opportunities in western Canada. On February 28, 2008 the Company changed its name to Discovery Ventures Inc. to better reflect a change in the focus of its principal business to the exploration of mineral interests.

The Company has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and exploration costs is dependent upon the existence of economically recoverable ore reserves, the ability of the Company to obtain necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposal of properties.

Although management has taken steps to verify title to mineral properties in which the Company has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and noncompliant with regulatory requirements.

These financial statements have been prepared in accordance with generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on the Company's ability to receive continued financial support from related parties, to obtain public equity financing, or to generate profitable operations in the future.

	December 31, 2010	December 31, 2009
Deficit	$ (716,768)	$ (380,673)
Working capital	$ 825,686	$ 434,219

2. Significant Accounting Policies

Estimates, assumptions and measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") 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 reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Areas requiring significant management estimates relate to the determination of impairment of mineral properties, expected tax rates for future income tax recoveries, fair value of stock-based payments and useful lives for amortization of long-lived assets.

Cash and cash equivalents

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents. There were no cash equivalents as at December 31, 2010 and 2009.

2. Significant Accounting Policies (cont'd…)

Short term investment

Short term investment, which is fixed term deposit held at the bank with a maturity of more than three months and less than twelve months at the time of issuance, is recorded at fair value. As at December 31, 2010, the Company has short term investment of $200,400 due on October 28, 2011 with an annual yield of 0.9%, and as at December 31, 2009, the Company's short-term investment was $400,000 due on October 28, 2010 with an annual yield of 0.2%.

Equipment and amortization

The Company records its acquisition of equipment at cost. Amortization is charged to operations on a declining balance basis at the following annual rates:

Computer equipment - 30%

Mineral property

All costs related to the acquisition, exploration and development of mineral properties, less option payments received, are capitalized by property. If economically recoverable reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. 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. If the Company transfers its right, title and interest in a property to a third party, a disposition is recorded. The proceeds less the accumulated costs related to the acquisition, exploration and development of the property is recognized as a gain or loss.

Deferred exploration costs

The Company records deferred exploration costs, which consist of costs attributable to the exploration of mineral property interests, at cost. All costs relating to the exploration of these mineral property interests are capitalized until the mineral property interests to which they relate to are placed into production, the mineral property interests are disposed of through sale or where management has determined there to be an impairment. If a mineral property interest is abandoned, the related deferred exploration costs will be written off to operations in the period of abandonment. General exploration costs not attributable to specific mineral property interests are written off at the end of each year.

Asset retirement obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. This would include obligations related to future removal of property and equipment, and site restoration costs. 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. The Company currently does not have any significant asset retirement obligations.

2. Significant Accounting Policies (cont'd…)

Impairment of long-lived assets

The Company follows the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3063, "Impairment of Long-Lived Assets". Section 3063 establishes standards for recognizing, measuring and disclosing impairment of long-lived assets held for use. The Company conducts its impairment test on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is recognized when the carrying amount of an asset to be held and used exceeds the undiscounted future net cash flows expected from its use and disposal. If there is an impairment, the impairment amount is measured as the amount by which the carrying amount of the asset exceeds its fair value, calculated using discounted cash flows when quoted market prices are not available.

Stock-based compensation

The Company is required to expense, over the vesting period, the fair value of the options and awards granted. Accordingly, the fair value of the options at the date of grant is accrued and charged to operations, with a corresponding credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

Comprehensive income (loss)

Section 1530 establishes standards for reporting and presenting comprehensive income (loss), which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income (loss) comprises items recognized in comprehensive income (loss), but excluded from net income calculated in accordance with Canadian GAAP.

Earnings (Loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury method. The treasury method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. Diluted loss per share is equal to the basic loss per share as the outstanding options and warrants are anti-dilutive.

Flow-through common shares

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. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

Effective March 19, 2004, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants requires that, when flow-through expenditures are renounced, a portion of the future *income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, be recognized as a recovery of income taxes in the statement of operations.*

2. Significant Accounting Policies (cont'd…)

Future income taxes

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future income 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 income 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 income tax assets and liabilities of a change in tax rates is recognized in income in the period that the substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future income tax asset will be recovered, it provides a valuation allowance against the excess.

Segment information

The Company currently conducts substantially all of its operations in Canada in one business segment.

Recently issued accounting pronouncements

On February 13, 2008, Canada's Accounting Standard Board confirmed January 1, 2011 as the effective date for complete convergence of Canadian GAAP to International Financial Reporting Standards ("IFRS"). While the conceptual framework for IFRS and Canadian GAAP are similar, there are significant differences in recognition, measurement and disclosure requirements. The Company has completed its assessment of IFRS accounting policies and has reviewed its elections with its auditors. The implementation phase, which includes updating its data systems, internal controls over financial reporting and business activities such as financing and compensation arrangements, has been completed and the Company is in position to prepare IFRS compliant financial statements for its quarter ended March 31, 2011.

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests" which replace Section 1600 "Consolidated Financial Statements. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations".

2. Significant Accounting Policies (cont'd…)

Recently issued accounting pronouncements (cont'd…)

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption.

The Company is currently assessing the future impact of these amendments on its financial statements.

3. EQUIPMENT

	December 31, 2010			**December 31, 2009**		
	Cost	Accumulated amortization	Net Book Value	Cost	Accumulated amortization	Net Book Value
Computer equipment	$ 1,606	$ 480	$ 1,126	$ -	$ -	$ -

4. Mineral Properties

Rabbitt Mine Property

As at April 28, 2008, the Company signed an option agreement, whereby it may acquire a 100% undivided interest in 4 mineral claims situated in the Similkameen Mining Division, British Columbia in exchange for an immediate cash payment of $15,000 (paid) and the following future consideration.

a. $20,000 (paid) and 200,000 of the Company's common shares (issued) no later than 15 days after the date the Company's shares are listed, posted and called for trading on the TSX Venture Exchange (TSX initial trading date – October 30, 2009).
b. $25,000 (paid) no later than October 30, 2010 (1 year after the TSX initial trading date).
c. $25,000 no later than October 30, 2011 (2 years after the TSX initial trading date).
d. $30,000 no later than October 30, 2012 (3 years after the TSX initial trading date).

The Agreement is subject to 2% Net Smelter Return Royalty payable by the Company to the Optionor. The Company has the option to purchase the 2% Net Smelter Return Royalty at a purchase price of $1,000,000 per percentage point during the five year period commencing from that date upon which the Property is put into commercial production.

4. Mineral Properties (cont'd…)

Rabbitt Mine Mineral Property (cont'd…)

As at May 27, 2008, the Company signed an option agreement, whereby it may acquire a 100% undivided interest in 15 mineral claims situated in the Similkameen Mining Division, British Columbia in exchange for an immediate cash payment of $5,000 (paid) and the following future consideration.

Mineral Properties
e.

a. $10,000 (paid) no later than 15 days after the date the Company's shares are listed, posted and called for trading on the TSX Venture Exchange (TSX initial trading date – October 30, 2009).

b. $10,000 (paid) no later than October 30, 2010 (1 year after the TSX initial trading date).

c. $10,000 no later than October 30, 2011 (2 year after the TSX initial trading date).

d. $15,000 no later than October 30, 2012 (3 year after the TSX initial trading date).

The Agreement is subject to 2% Net Smelter Return Royalty payable by the Company to the Optionor. The Company has the option to purchase the 2% Net Smelter Return Royalty at a purchase price of $1,000,000 per percentage point during the five year period commencing from that date upon which the Property is put into commercial production.

Acquisition costs		**2010**	**2009**
		$	$
Balance, beginning of year		83,042	23,042
Additions during the year			
Property option payments	- for cash	35,000	30,000
	- for shares	-	30,000
Balance, end of year		118,042	83,042

Deferred exploration costs	Balance 2008	Additions	Balance 2009	Additions (Deductions)	Balance 2010
	$	$	$	$	$
Airborne and geological surveys	84,000	97,006	181,006	12,703	193,709
Assessments and reports	16,843	17,444	34,287	6,079	40,366
Project management fees	15,750	22,146	37,896	2,898	40,794
Soil sampling	-	23,437	23,437	-	23,437
Travel, supplies and field expenses	3,134	11,893	15,027	-	15,027
Exploration tax credit	-	-	-	(42,585)	(42,585)
Balance, end of year	119,727	171,926	291,653	(20,905)	270,748

Bralorne Mineral Property, Lillooet Mining Division, British Columbia

The Company acquired 30 claims located in the Lillooet Mining Division, British Columbia in consideration for $15,000 (paid) and 1,000,000 shares (issued), subject to a 2% Net Smelter Return Royalty. The Company has a further option to purchase one-half of the Net Smelter Return Royalty for $1.5 million.

4. Mineral Properties (cont'd…)

Bralorne Mineral Property, Lillooet Mining Division, British Columbia (cont'd…)

Acquisition costs		**2010**	**2009**
		$	**$**
Balance, beginning of year		-	-
Additions during the year			
Property option payments	– for cash	15,000	-
	– for shares	250,000	-
Balance, end of year		265,000	-

La Sarita Mining Property, Sonora, Mexico

Subject to the approval of the TSX Venture Exchange, the Company has entered into an option agreement dated December 3, 2010 (amended December 22, 2010) whereby the Company may acquire an 80% undivided interest in 4 mining concessions situated approximately 20 kilometres southeast of Moctezuma, Sonora, Mexico in exchange for an immediate cash payment of $25,000 (paid) and the following future consideration ("Property Payments"):

a. $225,000 and 1,000,000 of the Company's common shares on or prior to the Closing Date, being the TSX approval date, which is April 1, 2011 (amount paid and shares issued subsequent to the year end).
b. $300,000 on or prior to the first anniversary of the Closing Date,
c. $500,000 and 2,500,000 of the Company's common shares on or prior to the second anniversary of the Closing Date,
d. $1,000,000 and 3,000,000 of the Company's common shares on or prior to the third anniversary of the Closing Date,
e. $1,000,000 and 4,000,000 of the Company's common shares on or prior to the fourth anniversary of the Closing Date; and
f. 4,000,000 of the Company's common shares on or prior to the fifth anniversary of the Closing Date;

In addition the Company must incur the following Exploration Expenditures:

a. $300,000 on or prior to July 27, 2011;
b. $300,000 on or prior to July 27, 2012;
c. $500,000 on or prior to July 27, 2013; and
d. $800,000 on or prior to July 27, 2014.

The Company may make a one-time lump sum cash payment to the Optionor in lieu of any aforementioned remaining cash payments required with respect to Property Payments and Exploration Expenditures by paying one of the following:

a. $1,000,000 on or prior to July 27, 2011;
b. $1,250,000 on or prior to July 27, 2012;
c. $1,500,000 on or prior to July 27, 2013; or
d.
e. $2,000,000 on or prior to July 27, 2014.

4. Mineral Properties (cont'd…)

La Sarita Mining Property, Sonora, Mexico (cont'd…)

Upon the Company having satisfied all of the aforementioned conditions set out above for Property Payments or upon a Lump Sum Payment, the Company will be deemed to have acquired an 80% undivided right, title and interest in the Property. The Company will then participate in an 80% interest in a joint venture for the purposes of further exploration and development work on the Property, and if warranted, the operation of one or more mines on the Property.

The Agreement is subject to a 3% Net Smelter Return Royalty payable by the Company to the Optionor from that date upon which the Property is put into commercial production. The Company has the option to purchase a 1.5% Net Smelter Return Royalty at a purchase price of $2,000,000.

Acquisition costs		**2010**	**2009**
		$	**$**
Balance, beginning of year		-	-
Additions during the year			
Property option payments	– for cash	25,000	-
Balance, end of year		25,000	-

Deferred Exploration Costs	**2010**	**2009**
	$	**$**
Balance, beginning of year	-	-
Additions during the year		
Assessments and reports	2,503	-
Balance, end of year	2,503	-

5. Share Capital

a. Authorized:

Unlimited number of common shares with no par value.

5. Share Capital (cont'd…)

b. Issued and outstanding:

	Number of Shares	Amount
		$
Balance, December 31, 2008	5,000,100	452,700
Shares issued for cash pursuant to Initial Public Offering		
- at $0.15 per share	5,000,000	750,000
- less share issue costs	-	(193,855)
- for corporate finance fee at a deemed price of $0.15 per share	100,000	15,000
Shares issued for mineral properties at a deemed price of $0.15 per share	200,000	30,000
Balance, December 31, 2009	10,300,100	1,053,845
Shares issued for mineral properties at a deemed price of $0.25 per share	1,000,000	250,000
Shares issued for cash pursuant to a private placement		
- at a price of $0.12 per unit	4,999,991	599,999
- less share issue costs	-	(40,996)
Shares issued for cash pursuant to the exercise of Agent's warrants at a price of $0.15 per share	129,138	19,371
Reallocated from contributed surplus on the exercise of Agent's warrants	-	14,780
Shares issued for cash pursuant to the exercise of stock options:		
- at a price of $0.15 per share	125,000	18,750
- at a price of $0.14 per share	78,125	10,938
Reallocated from contributed surplus on the exercise of stock options	-	24,035
Balance, December 31, 2010	16,632,354	1,950,722

Transactions for the year ended December 31, 2010

On October 27, 2010 the Company issued 1,000,000 common shares for mineral properties at a deemed price of $0.25 per share (see Note 4).

On October 15, 2010 the Company issued 4,999,991 units, at a price of $0.12 per unit, for a total of $599,999. Each unit comprises of one common share and one non-transferable share purchase warrant. Each warrant is exercisable into one common share at a price of $0.20 per share on or before October 15, 2012. The Company applied the residual value approach which allocates the net proceeds to the common shares up to their fair value and balance to warrants. All of the proceeds have been allocated to common shares and nil to warrants.

5. Share Capital (cont'd…)

b. Issued and outstanding (cont'd…)

During the fiscal year ended December 31, 2010 the Company issued 129,138 common shares upon the exercise of Agent's warrants at $0.15 per share. $14,780 was reallocated from contributed surplus to share capital accordingly.

During the fiscal year ended December 31, 2010 the Company issued 203,125 common shares upon the exercise of stock options. $24,035 was reallocated from contributed surplus to share capital accordingly.

Transactions for the year ended December 31, 2009:

The Company successfully completed its initial public offering of 5,000,000 common shares at a price of $0.15 per share for gross proceeds of $750,000. The proceeds used largely to finance exploration work on the Mineral property in the Similkameen Mining District of British Columbia and to provide for administrative expenses of the Company over the next year leaving approximately $100,000 as unallocated working capital. The Company paid the Agent, at the closing of the Offering, a $75,000 cash commission and issued 500,000 non-transferable Agent's warrants at an estimated value of $57,225, entitling the holder to acquire one common share at the price of $0.15 per common share until October 30, 2011. In addition the Company paid the Agent an administration fee in the amount of $10,000 and issued 100,000 common shares at a deemed value of $15,000 to the Agent as a corporate finance fee.

The Company paid an additional $36,630 in expenses relating to this transaction, including legal and filing fees. The Company's common shares were approved for listing on the TSX Venture Exchange and commenced trading on October 30, 2009.

During the fiscal year ended December 31, 2009 the Company issued 200,000 common shares for mineral properties at a deemed price of $0.15 per share (see Note 4).

c. Escrow Shares

As at December 31, 2010, the Company has 1,860,060 (2009: 2,790,090) common shares held in escrow. These common shares in escrow are released as follows: 10% (310,010 common shares) released on the date the Company's securities were listed on a Canadian exchange (October 30, 2009) and 15% (465,015 common shares) released every six months thereafter, subject to acceleration provisions provided for in National Policy 46-201 – *Escrow for Initial Public Offerings.*

d. Flow-through shares

Proceeds from common shares issued pursuant to flow-through financings are credited to capital stock. Once incurred, these expenditures are included in mineral properties, but are not available as a tax deduction to the Company as the tax expenditures have been renounced to the investors.

5. Share Capital (cont'd…)

e. Stock Options (cont'd…)

The Company has a stock option plan whereby 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. During the fiscal year ended December 31, 2008 the Company granted 500,000 incentive stock options to directors and officers, exercisable at $0.15 per share for a two year period commencing after the date the Company's shares are listed, posted and called for trading on the TSX Venture Exchange (TSX initial trading date). No stock-based compensation was been recorded in the fiscal year ended December 31, 2008. The estimated fair value of the options in the amount of $57,225 was recognized when the options vested on the TSX initial trading date – October 30, 2009. During the fiscal year ended December 31, 2010, 250,000 of these options were forfeited, 125,000 were exercised, and 125,000 (2009: 500,000) remain outstanding.

The Company granted 500,000 additional incentive stock options on November 12, 2009, exercisable on or before November 12, 2011 at a price of $0.14 per share where the exercise price is lower than the market price at the date of grant. The weighted average fair value of the options granted was estimated at $0.12 per share using the Black-Scholes option-pricing model. 12.5% of the options vested upon TSX approval, and 12.5% every three months thereafter. During the fiscal year ended December 31, 2010, 250,000 of these options were forfeited, 78,125 were exercised, and 171,875 (2009: 500,000) remain outstanding. $35,630 of stock-based compensation was recorded in the fiscal year ended December 31, 2010 (2009: $21,292).

The Company granted 1,000,000 additional incentive stock options to consultants on September 14, 2010, exercisable on or before September 14, 2015 at a price of $0.135 per share where the exercise price is lower than the market price at the date of grant. The fair value of the unvested options at December 31, 2010 was revalued using the Black-Scholes option pricing model. 12.5% of the options vested upon TSX approval, and 12.5% every three months thereafter. $144,054 of stock-based compensation was recorded in the fiscal year ended December 31, 2010.

Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessary provide reliable measure of the far value of the Company's stock options.

The fair value of options granted during the year has been estimated as at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2010	2009
Risk-free interest rate	2.56%	1.29%
Expected dividend yield	0%	0%
Share price volatility	125%	147%
Expected life of options	5 years	2 years

5. Share Capital (cont'd…)

f. Stock Options (cont'd…)

A summary of stock option activity for the years is as follows:

	Number of options	Weighted-average exercise price
Balance, December 31, 2008	500,000	$ 0.15
- Options granted, expiring November 9, 2011	500,000	0.14
Balance, December 31, 2009	1,000,000	0.14
- Options granted, expiring September 14, 2015	1,000,000	0.135
- Options forfeited	(500,000)	0.14
- Options exercised	(203,125)	0.15
Balance, December 31, 2010	1,296,875	$ 0.14

The Company has the following options outstanding and exercisable:

		Options outstanding			Options exercisable	
	Range of exercise prices	Number of shares	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
2010	$ 0.14 - $ 0.15	1,296,875	3.82 years	$ 0.14	439,453	$ 0.14
2009	$ 0.14 - $ 0.15	1,000,000	1.85 years	$ 0.14	625,000	$ 0.15

f. Warrants

A summary of warrant activity for the years is as follows:

	Number of warrants	Weighted-average exercise price
Balance, December 31, 2008	-	$ -
Warrants issued pursuant to initial public offering	500,000	0.15
Balance, December 31, 2009	500,000	0.15
Warrants exercised	(129,138)	0.15
Warrants issued pursuant to private placement	4,999,991	0.20
Balance, December 31, 2010	5,370,853	$ 0.20

5. Share Capital (cont'd…)

f. Warrants (cont'd…)

The weighted average fair value of the 500,000 Agent's warrants granted on October 30, 2009 was estimated at $0.10 per share using the Black-Scholes option-pricing model, using the following assumptions: risk-free interest rate of 1.43%, dividend yield of 0%, volatility of 147% and expected life of approximately 2 years. The estimated fair value of the warrants, totaling $57,225 was recognized as part of share issuance costs. 129,138 warrants were exercised during the fiscal year ended December 31, 2010.

On October 15, 2010 the Company issued 4,999,991 units, comprising one common share and one non-transferable share purchase warrant, at a price of $0.12 per unit. Each warrant is exercisable into one common share at a price of $0.20 per share on or before October 15, 2012. The Company accounts for warrants using the residual method whereby the Company allocates a portion of the proceeds to the fair value of the common shares and the balance to warrants.

g. Contributed Surplus

Balance, December 31, 2008		$ -
Stock-based compensation	- for agent's warrants issued	57,225
	- for stock options granted	78,517
Balance, December 31, 2009		135,742
Stock-based compensation	- for stock options granted	177,225
Issuance of shares exercised	- for agent's warrants	(14,780)
	- for stock options exercised	(24,036)
Balance, December 31, 2010		$ 274,151

6. Related party transactions

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

a) Paid or accrued management fee of $24,000 (2009 - $24,000) to a director and officer.

b) Paid or accrued rent of $16,500 (2009 - $18,000) to a company controlled by a party related to a director and officer.

c) Paid or accrued $23,324 (2009 - $178,278) to a company owned by a former director of the Company for services performed and expenses incurred on the Rabbitt Mine Property. Included in accounts payables and accrued liabilities is $Nil (2009 - $28,278) owing a company owned by a director of the Company.

d) Payable of $140 to a director and officer (2009 - $1,477) representing taxes owed on rent.

e) Prepaid expenses include $Nil (2009: $3,600) for rent and management fees prepaid to a director and officer and to a company controlled by a party related to a director and officer.

f) Included in professional fees is $11,500 (2009: $7,750) paid to an officer and director for accounting services.

6. Related party transactions (cont'd…)

g) Paid professional fees of $12,527 (2009: $17,648) to a law firm of which a former director of the Company is a partner.

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related party.

7. Income taxes

The Company does not have any income tax liabilities during the current year and, accordingly, no income taxes are recorded. The potential income tax benefits associated with losses incurred by the Company have not been recorded in the accounts as future income tax assets as they are offset by valuation allowance due to uncertainty of utilization of tax losses. These losses may be available to reduce taxable income in the future years.

	2010	**2009**
Canadian basic statutory rate	28.5%	30.5%

Future income taxes assets result principally from temporary differences in the recognition of loss carry forwards and expense items for financial and income tax reporting purposes. Significant components of the company's future tax assets as of December 31, 2009 and 2008 are as follows:

	2010 **$**	**2009** **$**
Loss before income taxes	336,095	188,477
Income tax recovery at statutory rates	93,200	57,500
Non-deductible items for tax purpose	(200)	(100)
Unrecognized item for tax purposes	(50,500)	(23,900)
Recognized item for tax purposes	9,200	-
Tax rate difference	(2,200)	(300)
Changes in valuation allowance	(52,100)	-
Total income tax recovery	-	38,200

Future income tax liability	**2010** **$**	**2009** **$**
Non-capital loss carry forwards	94,200	9,200
Mineral property and deferred exploration cost	(129,100)	(61,900)
Share issuance costs	30,100	29,700
Changes in valuation allowance	4,800	17,900
Future income tax liability	-	-

The loss carry forward for tax purposes which has not been recognized in the financial statements amounts to approximately $330,565 at December 31, 2010 (2009 - $164,159) and is available to reduce future income taxes payable. These losses expire as follows:

7. Income taxes (cont'd…)

2014	$	45
2015	$	45
2026	$	91
2027	$	45
2028	$	29,895
2029	$	109,681
2030	$	190,763
Total	$	330,565

The Company has resource pools of approximately $228,000 (2009 - $172,000) available to offset future taxable income. The tax benefit of these amounts is available for carry-forward indefinitely.

8. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, receivables, accounts payable and accrued liabilities and due to a related party. The Company has designated its cash and cash equivalents and short-term investments as held-for-trading, which is measured at fair value. Receivables are classified as loans and receivables and are measured at amortized costs. Accounts payable and accrued liabilities and due to a related party are classified as other financial liabilities, which are measured at amortized cost. The fair value of cash and cash equivalents, short-term investments, receivables, accounts payable and accrued liabilities and due to a related party are equal to their carrying value due to their short-term maturity.

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to accounts receivable. The Company believes it has no significant credit risk.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2010, the Company had a cash and cash equivalents and short term investment balance of $825,088 (2009 - $453,486) to settle current liabilities of $24,018 (2009 - $35,152). All of the Company's financial liabilities have contractual maturities of less than 30 days 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, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

The Company has cash and cash equivalents balances and no interest-bearing debt. The Company believes it has no significant interest rate risk.

8. Financial Instruments (Cont'd…)

(b) Foreign currency risk

As at December 31, 2010 and 2009, the Company's expenditures are in Canadian dollars, any future equity raised is expected to be predominantly in Canadian dollars. The Company believes it has no significant foreign exchange rate risk.

On December 31, 2010, short-term investments consisted of fixed guaranteed investment certificates redeemable before maturity, which bear interest at an annual variable rate of 0.9% and mature on October 28, 2011. During the 2010 and 2009 fiscal years, cash and cash equivalents were not subject to any interest on bank balances. Sensitivity to a plus or minus 1% change in rates is not material to the statement of loss and comprehensive loss.

The Company does not hold balances in foreign currencies which would give rise to exposure to foreign exchange risk.

Fair value hierarchy

The Company applied the following fair value hierarchy which prioritizes the inputs used in the valuation methodologies in measuring fair value into three levels:

The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

For the years ended December 31, 2010 and 2009, cash and cash equivalents and short-term investments are assessed to be Level 1 instruments.

9. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its resource properties and to maintain flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents.

The Company manages the capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. As at December 31, 2010, the Company has not entered into any debt financing.

9. Capital Management (cont'd…)

The Company is dependent on the capital markets as its sole source of operating capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects.

10. Commitments

The Company entered into a consulting agreement with a director of the Company to provide services for $2,000 per month for one year period ending July 1, 2011.

See Note 4.

11. Supplemental Disclosure With Respect To Cash Flows

The significant non-cash transactions during the fiscal year ended December 31, 2010 were as follow:

a) 1,000,000 common shares issued for mineral properties at a deemed value of $250,000.

12. Comparative Figures

Certain of comparative figures have been reclassified to conform with the presentation adopted in the current period.

13. Subsequent Events

a) Subsequent to the year-end, the Company issued 900,000 stock options to the directors and 630,018 stock options to consultants at $0.28 per share, exercisable up to January 26, 2013.

b) Subsequent to the year-end, 150,420 Agent's warrants were exercised at $0.15 per warrant.

c) See Note 4.