Pacific Ridge Exploration Ltd.

Financial Statements
(An Exploration Stage Company)

December 31, 2010 and 2009

Management's Responsibility for Financial Reporting

The accompanying financial statements of Pacific Ridge Exploration Ltd. (the "Company") have been prepared by management in accordance with accounting principles accepted in Canada and contain estimates based on management's judgment. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Audit Committee of the Board of Directors has met with the Company's independent auditors to review the scope and results of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The Company's independent auditors, PricewaterhouseCoopers LLP, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards in Canada, and their report follows.

"*John S. Brock*" *(signed)*
John S. Brock
President and Chief Executive Officer

"*Lei Wang*" *(signed)*
Lei Wang
Chief Financial Officer

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Independent Auditor's Report

To the Shareholders of Pacific Ridge Exploration Ltd

We have audited the accompanying financial statements of Pacific Ridge Exploration Ltd ("Pacific Ridge", or the "Company"), which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of loss and comprehensive loss and statements of cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

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

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

We believe that the audit evidence we have obtained 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 the company as at December 31, 2010 and December 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "PricewaterhouseCoopers LLP"

Chartered Accountants
Vancouver, British Columbia
April 19, 2011

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Balance Sheets
(Expressed in Canadian dollars)

			December 31, 2010		December 31, 2009
Assets					
Current assets					
Cash and cash equivalents		$	4,830,077	$	964,714
Other receivables			37,583		61,978
Prepaid			17,375		18,000
			4,885,035		1,044,692
Property, plant and equipment	Note 3		55,172		10,496
Resource properties	Note 4		604,493		406,513
Reclamation bond			10,000		10,000
		$	5,554,700	$	1,471,701
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	144,534	$	107,663
Shareholders' Equity					
Capital stock	Note 5		39,593,241		34,021,981
Contributed surplus			2,920,733		2,372,195
Deficit			(37,103,808)		(35,030,138)
			5,410,166		1,364,038
		$	5,554,700	$	1,471,701

Nature of Operations (Note 1)
Subsequent Events (Note 10)

Approved on behalf of the
Board of Directors:

“John S. Brock” (signed)	*“Douglas Proctor“(signed)*
John S. Brock	Douglas Proctor

(See accompanying notes to financial statements)

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

		Year Ended December 31, 2010	2009
Administration expenses			
Insurance		15,685	15,463
Professional fees		79,519	69,023
Management and administrative services		119,796	101,616
Office operations and facilities		126,001	128,104
Shareholder communications and investor relations		106,142	65,164
Transfer agent and regulatory fees		27,961	38,338
Operating expenses		475,104	417,708
Other expenses (income)			
Amortization		9,315	4,498
Exploration costs	Note 4	1,460,156	432,098
Mining tax credit and government grant		(85,380)	(25,274)
Interest		395	(20,312)
Stock-based compensation	Note 5(c)	159,508	31,520
Write-off of resource assets	Note 4	54,572	-
		1,598,566	422,530
Loss before income taxes		(2,073,670)	(840,238)
Future income tax recovery		-	112,850
Loss and comprehensive loss for the year		$ (2,073,670)	$ (727,388)
Basic and diluted loss per common share		$ (0.07)	$ (0.03)
Weighted average number of common shares		30,226,263	22,220,589

(See accompanying notes to financial statements)

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Statements of Cash Flows
(Expressed in Canadian dollars)

	Year Ended December 31, 2010	2009
Cash flows used in operating activities		
Loss for the year	$ (2,073,670)	$ (727,388)
Items not affecting cash		
Amortization	9,315	4,498
Future income tax recovery	-	(112,850)
Stock-based compensation	159,508	31,520
Write-off of resource properties	54,572	-
	(1,850,275)	(804,220)
Changes in non-cash working capital items		
Other receivables	24,395	4,000
Prepaid	625	(18,000)
Accounts payable and accrued liabilities	36,871	(5,916)
Due to related parties	-	(3,707)
	61,891	(23,623)
	(1,788,384)	(827,843)
Cash flows used in investing activities		
Acquisition costs	(169,302)	(190,017)
Property, plant and equipment	(53,991)	-
Short-term investment	-	800,000
Reclamation bond	-	9,058
	(223,293)	619,041
Cash flows from financing activities		
Gross proceeds from flow-through financing	3,108,650	754,600
Gross proceeds from non-flow-through financing	2,542,550	65,191
Share issue costs	(325,410)	-
Proceeds from warrant exercises	551,250	-
	5,877,040	819,791
Increase in cash and cash equivalents	3,865,363	610,989
Cash and cash equivalents - beginning of year	964,714	353,725
Cash and cash equivalents - end of year	$ 4,830,077	$ 964,714
Supplemental cash flow information		
Interest received	$ 4,250	$ 19,629
Income tax paid	$ 4,645	$ -
Shares issued for resource assets	$ 83,250	$ 86,250
Non-cash share issue cost	$ 13,025	$ -

(See accompanying notes to financial statements)

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Statements of Shareholders' Equity
(Expressed in Canadian dollars)

	Common Shares										
	Shares		Amount		Warrants		Contributed Surplus		Deficit		Total Shareholders' Equity
Balance at December 31, 2008	20,997,576	$	33,346,072	$	-	$	2,223,393	$	(34,302,750)	$	1,266,715
Equity offering, net of issuance costs	4,475,000		702,509		117,282						819,791
Shares issued for resource properties	500,000		86,250								86,250
Future income taxes			(112,850)								(112,850)
Stock-based compensation							31,520				31,520
Net loss for the year									(727,388)		(727,388)
Balance at December 31, 2009	25,972,576		34,021,981		117,282		2,254,913		(35,030,138)		1,364,038
Equity offering, net of issuance costs (Note (5(a))	23,597,334		4,818,304		507,486						5,325,790
Share purchase warrants exercised	2,250,001		669,706		(118,456)						551,250
Shares issued for resource properties	450,000		83,250								83,250
Stock-based compensation							159,508				159,508
Net loss for the year									(2,073,670)		(2,073,670)
Balance at December 31, 2010	52,269,911	$	39,593,241	$	506,312	$	2,414,421	$	(37,103,808)	$	5,410,166

(See accompanying notes to financial statements)

1. NATURE OF OPERATIONS

Pacific Ridge Exploration Ltd. (the "Company" or "Pacific Ridge") is in the business of acquiring and exploring resource properties. All of the Company's resource property interests are currently located in Canada.

The Company has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for resource properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary capital to finance the operations and contribution from future joint venture partners.

These financial statements are prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As of December 31, 2010, the Company had an accumulated deficit of $37,103,808 (2009 - $35,030,138) and had approximately $2.56 million flow-through exploration expenditures commitment to be spent by the end of 2011.

During the year, the Company received gross proceeds of $5.88 million through private placements and exercise of warrants. Management believes that it has sufficient funds to pay its ongoing administrative and exploration expenditures and to meet its liabilities for the ensuing year.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and their basis of application is consistent with that of the previous year. The following is a summary of significant accounting policies used in the preparation of these financial statements:

Cash Equivalents

Cash equivalents include high-liquid investments that are readily convertible to known amounts of cash and have maturities of three months or less. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is provided on a declining balance basis at the annual rate of 30% for all property, plant and equipment.

Use of Estimates and Measurement Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets, liabilities, expenses, other income, and contingent assets and liabilities. Significant areas requiring the use of management estimates relate to amortization of equipment, the determination of the recoverability of resource properties, the valuation allowance of future tax assets and liabilities and the assumptions about the variables used in the calculation of stock-based compensation. Management believes the estimates are reasonable; however, actual results could differ from those estimates and would impact future results of operations and cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Resource Property Acquisition Costs

Resource properties consist of payments to acquire exploration and mining claims and property option payments. Acquisition costs are capitalized and deferred until such a time as the property is put into production or the property is disposed of, either through sale or abandonment or becomes impaired. If a property is put into production the costs of the acquisition will be written off over the life of the property on a unit of production basis based on the estimated proven and probable reserves. Proceeds received from the sale of any interest in a property will be credited against the carrying value of the property, with any excess included in the operations for the year. If a property is abandoned or has become impaired, the acquisition costs will be written off to operations.

Recorded costs of resource properties are not intended to reflect present or future values of the properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, those changes in future conditions could require a material change in the recognized amount.

Exploration Costs

Exploration expenditures are expensed as incurred.

Impairment of Long-Lived Assets

The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying amount of the assets. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Any differences between significant assumptions used and actual market conditions and/or the Company's performance could have a material effect on the Company's financial position and results of operations. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered.

Flow-through Financing

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investors. Proceeds received on the issue of such shares have been credited to share capital and the related exploration costs have been expensed. A future income tax liability is recognized, and shareholders' equity reduced, on the date the Company renounces the tax credits associated with the expenditures, provided there is reasonable assurance that the expenditures will be made.

The Company also recognizes the benefit of previously unrecognized future income tax assets relating to non-capital loss carry-forwards and exploration expenditures to offset the future income tax liability arising on a renouncement of expenditures. The corresponding credit reduces is shown as a future tax recovery.

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Future income tax assets and liabilities are determined based on the differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. The future tax assets or liabilities are calculated using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized. Future tax assets are recognized only to the extent that they are considered more likely than not to be realized.

Stock-based Compensation

The Company accounts for stock-based compensation at fair value. Compensation expense for options granted is determined based on the estimated fair value of the options at the time of grant using the Black-Scholes option pricing model. The cost is recognized over the vesting period of the respective options using the graded vesting attribution method and is charged to operations. Consideration paid on exercise of options is credited to share capital. The Company does not incorporate an estimated forfeiture rate for options that will not vest, but rather accounts for actual forfeitures as they occur.

Financial Instruments

Financial instruments are classified as one of the following: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income (loss). Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that is directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading

Loss per Common Share

Loss per common share is calculated using the weighted average number of shares outstanding during the year.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost less accumulated amortization with details listed below:

December 31, 2010			December 31, 2009		
Cost	Accumulated amortization	Net Book Value	Cost	Accumulated amortization	Net book value
$ 89,991	$ 34,819	$ 55,172	$ 36,000	$ 25,504	$ 10,496

(Expressed in Canadian dollars)

4. RESOURCE PROPERTIES

The Company has interests in mineral properties in Nunavut, and Yukon, Canada. A summary of capitalized acquisition costs for the years ended December 31, 2010 and 2009 was as follows:

Mineral Properties	Baker Uranium	Fyre Lake	Klondike Kate*	Tumbler Ridge	Wapiti	Other	Total
Balance, December 31, 2009	$ 96,000	$ 17,851	$ 238,090	$ 41,571	$ 13,000	$ 1	$ 406,513
Additions during the year		17,850	234,702				252,552
Write-off during the year				(41,571)	(13,000)	(1)	(54,572)
Balance, December 31, 2010	$ 96,000	$ 35,701	$ 472,792	$ -	$ -	$ -	$ 604,493

Mineral Properties	Baker Uranium	Fyre Lake	Klondike Kate*	Tumbler Ridge	Wapiti	Other	Total
Balance, December 31, 2008	$ 96,000	$ 1	$ -	$ 21,244	$ 13,000	$ 1	$ 130,246
Additions during the year		17,850	238,090	20,327	-	-	276,267
Balance, December 31, 2009	$ 96,000	$ 17,851	$ 238,090	$ 41,571	$ 13,000	$ 1	$ 406,513

* Klondike Kate project includes Mariposa, GoldCap/Polar Stewart and Eureka Dome properties

a) Klondike Kate Gold Project – Mariposa, Gold cap/Polar Stewart and Eureka/Moose Properties, Yukon

Mariposa Property

In October 2009, the Company entered into an option agreement to acquire a 100% interest in 203 claims, subsequently acquired additional 43 claims, located in Dawson City, Yukon, known as the Mariposa property. The principal terms of the agreement require the Company to pay $120,000 in cash, issue 4,000,000 common shares and incur $600,000 (incurred) exploration expenditures over five years as follows:

	Cash	Shares	Cumulative work expenditures
On initial date (paid and issued)	$ 20,000	250,000	$ 100,000
On or before October 1, 2010 (paid and issued)	$ 20,000	200,000	$ 200,000
On or before October 1, 2011	$ 20,000	300,000	$ 300,000
On or before October 1, 2012	$ 20,000	400,000	$ 400,000
On or before October 1, 2013	$ 20,000	400,000	$ 600,000
On or before October 1, 2014	$ 20,000	450,000	
Upon production notice being given		1,000,000	
Upon commencement of commercial production		1,000,000	

(Expressed in Canadian dollars)

4. RESOURCE ASSETS (Continued)

The property is subject to a 2% net smelter return ("NSR") and may be purchased, at any time after a production notice has been given, 1% NSR for $1,000,000.

Goldcap/Polar Stewart and Eureka/Moose

The Company staked 212 mineral claims comprising Goldcap and Eureka/Moose properties in June 2009.

In July 2009, the Company entered into an option agreement with Ryanwood Exploration Inc. ("Ryanwood") to acquire a 100% interest in 149 mineral claims located in Dawson City, Yukon, known as the Polar Stewart property. Pursuant to the terms of the agreement, consideration to exercise the option is to pay $300,000, issue 1,250,000 common shares and undertake exploration expenditures totalling $1,500,000 ($96,946 incurred) over a five year period as follows:

	Cash	Shares	Cumulative work expenditures
On initial date (paid and issued)	$ 75,000	250,000	Nil
On or before June 30, 2010 (paid and issued)	$ 65,000	250,000	$ 50,000
On or before June 30, 2011	$ 60,000	250,000	$ 300,000
On or before June 30, 2012	$ 50,000	250,000	$ 800,000
On or before June 30, 2013	$ 50,000	250,000	$ 1,500,000

The property is subject to 2% NSR and $25,000 advance minimum royalty from 2014 onwards. 1% of the NSR may be purchased at any time for $2,000,000.

b) Baker Basin Uranium Project, Nunavut

The Company owns a 100% interest in the Baker Basin Uranium Project subject to an underlying agreement with Kivalliq Energy ("Kivalliq") wherein Kivalliq has the option to back-in to a 20% working interest when a prefeasibility study may be produced.

On September 23, 2008, the Company entered into an option/joint venture agreement with Aurora Energy Resources Inc. ("Aurora"). In late 2009, Aurora advised that upon completion of land use requirements, they will formally relinquish their option on the property.

c) Fyre Lake Massive Sulphide Project, Yukon

The Company owns a 100% interest in the Fyre Lake property by staking claims

d) Tumbler Ridge Phosphate Project and Wapiti Phosphate Project, British Columbia

These two properties were acquired in 2008 through claim staking. Preliminary exploration work was carried out in 2008. However, due to lack of exploration merits these two properties have been written off in the current year.

(Expressed in Canadian dollars)

4. RESOURCE ASSETS (Continued)

The table below summarizes the exploration costs for the year ended December 31, 2010 and 2009:

	December 31, 2010	December 31, 2009
Analysis	118,695	78,261
Consulting services	279,428	205,921
Data and reports	36,129	3,614
Personnel	484,756	28,435
Transportation	248,425	100,259
Travel and other	292,723	15,608
Total	$ 1,460,156	$ 432,098

5. CAPITAL STOCK

a) Common Share

Authorized - unlimited common shares without par value.

Issued and outstanding - 52,269,911 common shares were outstanding as of December 31, 2010.

During the year, the Company completed three non-brokered private placements raising total gross proceeds of $5,651,200:

i) On December 22, 2010, the Company issued 8,588,834 flow-through and 6,478,500 non-flow-through units at a price of $0.30 per unit. Each flow-through unit comprised one common share with no warrants. Each non-flow-through unit consisted of one common share and one-half of one share purchase warrant exercisable at $0.45 per share for a one year period. These warrants have an acceleration provision (See Note 5(b)).

The Company paid $211,830 finders' fees and issued 706,100 agent's warrants which have the same terms and conditions as the warrants above.

ii) On September 16, 2010, the Company issued 500,000 units at $0.19 per unit for gross proceeds of $95,000. Each unit was comprised of one common share and one transferable share purchase warrant exercisable at $0.25 per share expiring September 16, 2011. A finder's fee of $5,130 was paid.

iii) On August 20, 2010, the Company issued 3,800,000 flow-through units at $0.14 per unit and 4,200,000 non-flow-through units at $0.12 per unit for gross proceeds of $1,036,000. Each flow-through unit consisted of one common share and one–half of one transferable share purchase warrant. Each non-flow-through consisted of one common share and one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $0.15 until August 20, 2011.

The Company paid $28,240 cash and issued 30,000 common shares for the finders' fees.

(Expressed in Canadian dollars)

5. CAPITAL STOCK (Continued)

a) Common Share (Continued)

The fair value of the warrants issued during the year was calculated using the Black-Scholes pricing with the following assumptions:

	December 31, 2010	December 31, 2009
Annual volatility	79.14% - 91.59%	126% - 146%
Risk-free rate	1.30%	2.61%
Expected life	1 year	1 year
Annual dividends	0%	0%

During 2009, the Company issued 3,800,000 flow-through units and 675,000 non-flow-through units at unit price of $0.20 for gross proceeds of $895,000. Each of the unit consisted of one-half of one share purchase warrant exercisable at $0.25 for one year.

b) Share Purchase Warrants

A summary of the warrants outstanding as of years ended December 31 is as follows:

	December 31, 2010			December 31, 2009		
	Number of Warrants		Weighted Average Exercise Price	Number of Warrants		Weighted Average Exercise Price
Outstanding, beginning of year	2,237,501	$	0.25	-	$	-
Issued	10,545,351	$	0.27	2,237,501	$	0.25
Expired	(100,000)	$	0.25	-	$	-
Exercised	(2,250,001)	$	0.25	-	$	-
Outstanding, end of year	10,432,851	$	0.27	2,237,501	$	0.25

Among the warrants outstanding, 3,945,350 warrants are subject to acceleration. Should the closing market price of the Company's shares trade in excess of $0.60 per share for 20 consecutive trading days ("Triggering Event"), the Company may, within five days of the Triggering Event, issue a notice to those warrant holders and accelerate the warrant expiry date to the 21st day after the notice is given.

The current expiry dates for the warrants outstanding are as follow:

Expiry Date		Exercise Price	Warrants Outstanding
August 20, 2011	$	0.15	5,987,501
September 16, 2011	$	0.25	500,000
December 22, 2011	$	0.45	3,945,350
	$	0.27	10,432,851

(Expressed in Canadian dollars)

5. CAPITAL STOCK (Continued)

c) Stock Options

The Company has a stock option plan in place authorizing the granting of stock options to qualified optionees to purchase a total of up to 10% of the then issued and outstanding common shares of the Company. Stock option transactions and the number of stock options outstanding are summarized below:

	December 31, 2010		December 31, 2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	712,500	$ 0.93	1,412,500	$ 0.78
Granted	1,530,000	$ 0.20	-	$ -
Cancelled	(712,500)	$ 0.93	(525,000)	$ 0.57
Forfeited	-	$ -	(175,000)	$ 0.80
Outstanding, end of year	1,530,000	$ 0.20	712,500	$ 0.93

As of December 31, 2010, 1,530,000 stock options were outstanding and exercisable at $0.20 with weighted average remaining life of four years.

The Company applies the fair value method of accounting for stock options. Options pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

The fair value of options granted was estimated at the grant date based on the Black-Scholes option-pricing model, using the following assumptions:

	December 31, 2010	December 31, 2009
Risk-free interest rate	1.47%	Nil
Expected share price volatility	111.88%	Nil
Expected option life in years	2.5	Nil
Expected dividend yield	Nil	Nil

6. CAPITAL MANAGEMENT

The Company's objective in managing its capital is to maintain the ability to continue as a going concern and to continue to explore on various properties for the benefits of its stakeholders.

The Company's capital includes the components of shareholders' equity. Capital requirements are driven by the Company's exploration activities on its mineral property interests. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses to budget on all exploration projects and overheads to manage costs, commitments and exploration activities.

The Company's operations have been and will continue to be funded by the sale of equity to investors.

7. FINANCIAL INSTRUMENTS

The Company has classified cash and cash equivalents as held-for-trading; other receivables as loans and receivables; accounts payable and accrued liabilities as other financial liabilities.

Fair Values

As at December 31, 2010, the recorded amounts for cash and cash equivalents are at fair value. Other receivables, accounts payable and accrued liabilities approximate their fair values due to their short-term nature.

Currency Risk

The Company has no foreign currency denominated assets or liabilities except for occasional and immaterial US dollar expenses.

Interest Rate Risk

The Company's cash held in bank accounts earn interest at variable interest rates and the short term investment is held in a Guaranteed Investment Certificates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a material impact on the expected cash flows.

Credit Risk

The Company has its cash and short-term investment deposited with a large, federally insured, commercial bank. Other credit risk is limited to trade receivables in the ordinary course of business, which consist primarily of GST receivable. The balance of trade receivables are not significant.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities and through the management of its capital structure. At December 31, 2010, the Company had cash and cash equivalents of $4,830,077 (2009 - $964,714).

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices in active markets for identical assets or liabilities,
Level 2 – valuation methods that make use of directly or indirectly observable inputs, and
Level 3 – valuation methods that make use of unobservable market data used as inputs.

The fair value of the Company's cash and cash equivalents is their carrying value (level 2). The fair value of the Company's receivables and payables approximates their carrying value given their short-term nature.

(Expressed in Canadian dollars)

8. INCOME TAXES

A reconciliation of the combined Canadian federal and provincial income taxes at statutory rates and the Company's effective income tax expense is as follows:

		2010		2009
Income tax recovery at statutory rates	$	(590,996)	$	(252,071)
Increase (decrease) in taxes from				
Non-deductible expenses		344,925		9,544
Reduction in tax rates and other		138,459		220,940
Change in valuation allowance		107,612		(91,263)
	$	-	$	(112,850)

A potential future income asset of approximately $5,529,497 arises from the following:

		2010		2009
Non-capital loss carry-forwards	$	468,382	$	295,287
Other deductible tax pools		5,061,115		5,125,911
		5,529,497		5,421,198
Valuation allowance		5,529,497		5,421,198
	$	-	$	-

The Company has reduced the value of the potential future income tax asset to $nil through the application of a valuation allowance as the Company does not have any current source of income to which the tax losses can be applied.

At December 31, 2010, included in the computation of the future tax assets noted above, the Company had approximately $1,873,528 of losses available for carry-forward and $20,800,115 of resource pools. The loss carry-forward can be offset against income for Canadian income tax purposes in future years and will expire between 2011 and 2030.

9. SEGMENTED INFORMATION

The Company has one business segment, the exploration of mineral properties. All of the Company's assets are located in Canada.

10. SUBSEQUENT EVENTS

a) 1,123,143 warrants were exercised at price of $0.15 for gross proceeds of $168,472.
b) 1,080,000 stock options were granted to the Company's directors, officers and consultants at an exercise price of $0.30 until January 6, 2016.