TARANIS RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Taranis Resources Inc.

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

Management's Responsibility for the 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.

Auditors' 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 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 auditors' 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 auditors consider 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 in our audits 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 Taranis Resources Inc. 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 to the consolidated financial statements which indicates Taranis Resources Inc. has incurred operating losses and does not have a current source of revenue. 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 Taranis Resources Inc.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

April 28, 2011

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TARANIS RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	2010	2009
ASSETS		
Current		
Cash	$ 173,514	$ 181,699
Receivables	66,559	22,080
Marketable securities (Note 4)	37,500	30,000
	277,573	233,779
Buildings and equipment (Note 5)	47,659	47,659
Mineral properties (Note 6)	4,407,016	3,658,324
	$ 4,732,248	$ 3,939,762
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 149,985	$ 262,268
Due to related parties (Note 7)	10,495	11,156
	160,480	273,424
Future income taxes (Note 11)	285,509	342,247
	445,989	615,671
Shareholders' equity		
Capital stock (Note 8)	5,772,038	4,655,346
Contributed surplus (Note 8)	949,418	687,418
Deficit	(2,435,197)	(2,018,673)
	4,286,259	3,324,091
	$ 4,732,248	$ 3,939,762

Nature and continuance of operations (Note 1)
Subsequent event (Note 14)

On behalf of the Board:

"John J.Gardiner" Director "George R. Kent" Director

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

TARANIS RESOURCES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED DECEMBER 31

	2010	2009
EXPENSES		
Consulting, travel and marketing	$ 43,788	$ 18,518
Licenses and fees	23,090	14,279
Office and miscellaneous	4,339	11,691
Professional fees	111,976	120,582
Property investigation	3,154	44,140
Stock-based compensation (Note 8)	242,800	-
Loss before other items and income taxes	(429,147)	(209,210)
OTHER ITEMS		
Foreign exchange gain	1,078	6,373
Unrealized gain on marketable securities	7,500	20,000
Write-off of mineral properties (Note 6)	(52,693)	-
	(44,115)	26,373
Loss before income taxes	(473,262)	(182,837)
Future income tax recovery (Note 11)	56,738	44,253
Loss and comprehensive loss for the year	(416,524)	(138,584)
Deficit, beginning of year	(2,018,673)	(1,880,089)
Deficit, end of year	$ (2,435,197)	$ (2,018,673)
Basic and diluted loss per common share	$ (0.02)	$ (0.01)
Weighted average number of common shares outstanding	25,046,969	18,933,162

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

TARANIS RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (416,524)	$ (138,584)
Items not affecting cash:		
Unrealized gain on marketable securities	(7,500)	(20,000)
Future income tax recovery	(56,738)	(44,253)
Stock-based compensation	242,800	-
Write-off of mineral properties	(52,693)	-
Unrealized foreign exchange	(661)	-
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(44,479)	56,353
Increase (decrease) in accounts payable and accrued liabilities	185,453	(61,580)
Net cash used in operating activities	(150,342)	(208,064)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral property expenditures	(821,858)	(235,573)
Mineral property cost recoveries	-	114,171
Net cash used in investing activities	(821,858)	(121,402)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital stock issued	1,041,000	350,000
Share issuance costs	(76,985)	(23,850)
Due to related parties	-	418
Net cash provided by financing activities	964,015	326,568
Decrease in cash during the year	(8,185)	(2,898)
Cash, beginning of year	181,699	184,597
Cash, end of year	$ 173,514	$ 181,699
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -

Supplemental disclosure with respect to cash flows (Note 10)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Taranis Resources Inc. (the "Company") is an exploration stage company incorporated in the Province of British Columbia. The Company is in the process of acquiring and exploring its mineral properties and has not yet determined whether the properties contain ore reserves that are economically recoverable.

These consolidated financial statements have been prepared in accordance with Canadian 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 operations rather than through a process of forced liquidation. The Company has incurred operating losses over the past several years and does not have a current source of revenue or sufficient financial resources to sustain operations in the long term.

The Company continues to be dependent upon its ability to finance its operations and exploration programs through financing activities that may include issuances of additional debt or equity securities. The recoverability of the carrying value of exploration projects, and ultimately, the Company's ability to continue as a going concern, is dependent upon the existence and economic recovery of reserves, the ability to raise financing to complete the development of the properties, and upon future profitable production or, alternatively, upon the Company's ability to dispose of its interest on an advantageous basis, all of which are uncertain.

While the Company has been successful in obtaining its required financing in the past, there is no assurance that such financing will be available or be available on favourable terms. An inability to raise additional financing may impact the future assessment of the Company as a going concern. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements contained herein include the accounts of the Company and its wholly-owned subsidiaries. Significant inter-company balances and transactions have been eliminated upon consolidation.

Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. Significant accounts that require estimates relate to the impairment of mineral property interests, estimated useful lives for buildings and equipment, valuation allowances for future income tax assets, stock-based compensation and the valuation of warrants in private placements and shares issued in settlement of debt.

Marketable securities

Marketable securities are classified as held for trading and are measured at fair market value.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Buildings and equipment

Buildings and equipment is recorded at cost and amortization is calculated using the declining-balance method, unless otherwise noted, at the following annual rates:

Building	4%
Equipment	20%

Buildings and equipment were not used during the year, therefore no amortization was taken.

Mineral properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore 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.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

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. 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 asset retirement obligations.

Foreign currency translation

The Company's subsidiaries are integrated foreign operations and are translated into the Canadian dollar equivalent using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date, and non-monetary items are translated at historical exchange rates. Income and expense items are translated at rates approximating those in effect on the transaction dates. Translation gains and losses are reflected in the statement of operations for the year.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Income taxes

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

Stock-based compensation

Stock options granted to employees and non-employees are recorded at fair value on the date of grant and expensed over the vesting period. Any consideration paid by the option holders to purchase shares is credited to capital stock.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

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

Flow-through common shares

Resources expenditures for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. The Company records a future income tax liability and a reduction in capital stock for the estimated tax benefits transferred to shareholders. When the Company renounces flow-through expenditures, a portion of the Company's future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, will be recognized as a recovery of future income taxes in the statement of operations.

Comparative figures

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

Financial instruments

The Company classifies all financial instruments into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

The Company has classified its cash and marketable securities as held-for-trading. Receivables are classified as loans and receivables. Accounts payable and accrued liabilities and due to related parties are classified as other liabilities, which are measured at amortized cost.

Disclosures are provided about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

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

See Note 12 for relevant disclosures.

3. NEW ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company will be January 1, 2010 and will require the restatement for comparative purposes of amounts reported for the year ended December 31, 2010. The impact of the transition to IFRS on the Company's consolidated financial statements is currently being evaluated by management on an account for account basis.

Business Combinations, Non-controlling Interest and Consolidated Financial Statements

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

4. MARKETABLE SECURITIES

	2010	2009
Excalibur Resources Ltd. ("Excalibur")	$ 37,500	$ 30,000

4. MARKETABLE SECURITIES (cont'd…)

As at December 31, 2009, the Company held 2,000,000 shares of Excalibur. During fiscal 2010, Excalibur consolidated its issued shares on an eight pre-consolidated shares for one post-consolidation share basis, resulting in the Company holding 250,000 post-consolidation common shares of Excalibur.

5. BUILDINGS AND EQUIPMENT

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Buildings	$ 33,634	$ 1,280	$ 32,354	$ 33,634	$ 1,280	$ 32,354
Equipment	18,895	3,590	15,305	18,895	3,590	15,305
	$ 52,529	$ 4,870	$ 47,659	$ 52,529	$ 4,870	$ 47,659

Amortization for fiscal 2010 of $Nil (2009 - $Nil) is charged to exploration costs.

6. MINERAL PROPERTIES

2010	United States	Canada	Finland	December 31, 2010
Acquisition costs:				
Balance, beginning of year	$ -	$ 623,420	$ 129,079	$ 752,499
Additions	27,629	23,247	25,011	75,887
Disposals	(27,629)	(2,039)	-	(29,668)
Balance, end of year	-	644,628	154,090	798,718
Exploration costs:	-			
Balance, beginning of year	-	2,297,236	608,589	2,905,825
Assaying	-	11,302	126,874	138,176
Geological fees	-	-	60,724	60,724
Surveying	-	-	26,013	26,013
Drilling	-	-	500,585	500,585
	-	11,302	714,196	725,498
Exploration costs written off	-	(23,025)	-	(23,025)
Balance, end of year	-	2,285,513	1,322,785	3,608,298
Total costs	$ -	$ 2,930,141	$ 1,476,875	$ 4,407,016

6. MINERAL PROPERTIES (cont'd…)

2009	Canada	Finland	December 31, 2009
Acquisition costs:			
Balance, beginning of year	$ 620,821	$ 93,850	$ 714,671
Additions	2,599	35,229	37,828
Balance, end of year	623,420	129,079	752,499
Exploration costs:			
Balance, beginning of year	2,262,291	469,622	2,731,913
Assaying	9,075	18,269	27,344
Geological fees	44,312	10,717	55,029
Surveying	-	200,126	200,126
Drilling	5,584	-	5,584
	58,971	229,112	288,083
Exploration costs recovered:	(24,026)	(90,145)	(114,171)
Balance, end of year	2,297,236	608,589	2,905,825
Total costs	$ 2,920,656	$ 737,668	$ 3,658,324

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

Nevada Properties

WSM Claims

During fiscal 2010, the Company acquired by staking a 100% interest in 189 WSM claims located in White Pine County, Nevada. Due to significant changes in Nevada state mining law enacted subsequent to the acquisition, the Company relinquished its interest in these claims and wrote off the acquisition costs.

Finland

Kettukuusikko Property

The Company has six mineral claims located in the Republic of Finland known as the Kettukuusikko Gold Deposit. Pursuant to an agreement with the Finnish Government, the Company was required to incur staged exploration expenditures of EUR 1,421,860 to October 2008. Any future commercial production from the property covered by this agreement is subject to a 2% Net Smelter Returns royalty ("NSR"). The claims are in good standing until February 2012 to November 2013, subject to renewal.

6. MINERAL PROPERTIES (cont'd…)

Finland (cont'd…)

Kettukuusikko Property (cont'd…)

The Company also entered into an agreement with Royal Gold, Inc. ("Royal Gold") pursuant to which Royal Gold funded exploration expenditures on the Kettukuusikko Gold Prospect sufficient to earn a 2% NSR on the prospect and copies of the exploration data.

Other Properties

The Company has certain other mineral claims located in the Republic of Finland.

The Company agreed to grant Royal Gold a 2% NSR on any new properties acquired in the Republic of Finland prior to November 4, 2008. Two such claim groups (Marskinkuusikko 1 – 3 and Naakenavaara 1 - 4) were acquired and so Royal Gold holds a 2% NSR on these claims.

Royal Gold also had the option to acquire a 51% interest in any of these new properties in consideration for incurring 200% of the amounts expended by the Company on exploration activities and terminating the 2% NSR on the property. Royal Gold had the right to acquire an additional 24% of the property by funding a feasibility study and arranging financing to bring the property into commercial production. Royal Gold has terminated this option with respect to the Naakenavaara property.

British Columbia Properties

Thor Property

The Company has a 100% interest in certain mineral rights entitled the Thor Property located in the Revelstoke Mining District of British Columbia, Canada.

During fiscal 2010 the Company acquired a 100% interest in 6 additional claims for the sum of $15,000.

The Company has acquired additional contiguous mineral claims by staking.

Sullivan South Property

During fiscal 2009, the Company acquired by staking several mineral claims in the Cranbrook Mining District. After evaluation by the Company, title to these claims was relinquished in 2010.

7. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties as follows:

a) Paid or accrued professional fees of $27,300 (2009 - $24,500) and share issue costs of $11,200 (2009 - $9,000) to a personal corporation controlled by a director.

b) Paid or accrued deferred exploration costs of $87,719 (2009 - $206,715) and project evaluation costs of $14,008 (2009 - $29,430) to a company controlled by a director.

7. RELATED PARTY TRANSACTIONS (cont'd…)

c) Paid or accrued consulting and other costs of $24,355 (2009 - $10,163) to companies controlled by directors.

d) Paid or accrued professional fees of $15,000 (2009 - $14,860) to a director.

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

Included in accounts payable and accrued liabilities is $65,145 (2009 - $217,900) due to directors and companies controlled by directors of the Company.

Amounts due to related parties are due to a director and companies controlled by directors of the Company and are non-interest bearing and have no specific terms of repayment.

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Capital stock		
	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Unlimited Class A preferred shares with a par value of $1			
Common shares issued			
Balance, December 31, 2008	18,207,875	$ 4,707,696	$ 687,418
Private placement	2,500,000	350,000	-
Share issue costs	-	(15,850)	-
Tax benefits renounced to flow-through share subscribers	-	(386,500)	-
Balance, December 31, 2009	20,707,875	4,655,346	687,418
Private placement	5,000,000	1,000,000	-
Options exercised	200,000	64,400	(23,400)
Share issue costs	-	(88,185)	-
Share issue costs – options granted	-	(42,600)	42,600
Shares issued in settlement of debt	915,385	183,077	-
Stock-based compensation - options granted	-	-	242,800
Balance, December 31, 2010	26,823,260	$ 5,772,038	$ 949,418

Private placements

During fiscal 2010, the Company issued 5,000,000 units at a price of $0.20 per unit for gross proceeds of $1,000,000. Each unit consisted of one common share and one share purchase warrant exercisable at $0.30 until April 15, 2012, subject to potential early expiry. The Company also issued finder's options entitling the holders to purchase up to 248,500 units at a price of $0.20 until April 15, 2012. Finder's options were valued at $42,600 using the Black-Scholes option pricing model, with a risk free rate of 0%, expected life of 2 years, annualized volatility of 172% and dividend rate of 0%. Each finder's unit has the same terms as the units issued pursuant to the private placement. The Company also paid finder's fees of $49,700 in respect of the private placement and paid or accrued $38,485 in other share issuance costs.

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

Private placements (cont'd…)

During fiscal 2009, the Company:

a) Issued 500,000 units at $0.20 per unit for gross proceeds of $100,000. Each unit consisted of one common share and one share purchase warrant, with each warrant entitling the holder to acquire one additional common share at $0.25 until March 4, 2011.

b) Issued 2,000,000 units at $0.125 per unit for gross proceeds of $250,000. Each unit consisted of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of $0.25 until November 4, 2011. The Company also issued finder's warrants entitling the holders to purchase up to 28,000 common shares at a price of $0.25 per share until November 4, 2011. The estimated value of the finders' options was not considered significant, consequently, no amount was recorded on grant.

Settlement of debt

During fiscal 2010, the Company settled debts to various related parties of $183,077 (US$171,000) through the issuance of 915,385 common shares.

Stock options and warrants

The Company has a stock option plan whereby, from time to time, at the discretion of the Board of Directors, stock options are granted to directors, officers, employees and certain consultants. The exercise price of each option is based on the market price of the Company's common stock at the date of grant, subject to a minimum price of $0.10. The options can be granted for a maximum term of 5 years and vest at the discretion of the Board of Directors.

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants			Stock Options (including Finders' Options)		
	Number		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
Outstanding, December 31, 2008	1,680,433	$	0.75	1,851,271	$	0.40
Granted	2,528,000		0.25	-		-
Outstanding, December 31, 2009	4,208,433		0.55	1,851,271		0.40
Granted	5,000,000		0.30	1,548,500		0.24
Expired	(1,680,433)		1.00	(601,271)		0.53
Exercised	-		-	(200,000)		0.21
Outstanding, December 31, 2010	7,528,000	$	0.28	2,598,500	$	0.29
Number currently exercisable	7,528,000	$	0.28	2,598,500	$	0.29

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

Stock options and warrants (cont'd…)

The following options and warrants to acquire common shares of the Company were outstanding at December 31, 2010:

	Number of Shares/Units	Exercise Price	Expiry Date
Options	100,000	$ 0.35	January 16, 2011 (1)
	450,000	0.55	November 7, 2012
	600,000	0.20	October 15, 2013
	600,000	0.21	February 10, 2015
	600,000	0.30	December 31, 2015
Warrants	500,000	0.25	March 4, 2011 (2)
	2,000,000	0.25	November, 4, 2011
	5,000,000	0.30	April 15, 2012 (3)
Finder's options	248,500	0.20	April 15, 2012 (4)
Finder's warrants	28,000	0.25	November 4, 2011

(1) Subsequent to December 31, 2010, theses options expired unexercised.

(2) Subsequent to December 31, 2010, these warrants expired unexercised.

(3) Each warrant is exercisable at $0.30 into one common share until April 15, 2012 (subject to potential acceleration if the closing price of the Company's shares is $0.50 or greater for 20 consecutive trading days).

(4) Each finder's option is exercisable at $0.20 into one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share at $0.30 until April 15, 2012 (subject to potential acceleration if the closing price of the Company's shares is $0.50 or greater for 20 consecutive trading days).

Stock-based compensation

During fiscal 2010, the Company granted 1,300,000 (2009 – Nil) options to directors. Accordingly, using the Black-Scholes option pricing model, the stock options are recorded at fair value in the statement of operations. Total stock-based compensation recognized in the statement of operations during fiscal 2010 was $242,800 (2009 - $Nil) and the weighted average fair value per option granted was $0.19 (2009 - $Nil). This amount was also recorded as contributed surplus on the balance sheet.

The following weighted average assumptions were used for the valuation of stock options:

	2010	2009
Risk-free interest rate	2.46%	-
Expected life of options	5	-
Annualized volatility	99.57%	-
Dividend rate	-	-

9. SEGMENTED INFORMATION

The Company's one reportable operating segment is the acquisition and exploration of mineral properties.

The Company's capital assets are located in the following geographic locations:

	2010	2009
Finland	$ 1,476,875	$ 737,668
Canada	2,977,800	2,968,315
	$ 4,454,675	$ 3,705,983

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

a) Accruing mineral property expenditures of $75,919 through accounts payable and accrued liabilities as at December 31, 2010.

b) Settling accounts payable and accrued liabilities of $183,077 through the issuance of 915,385 common shares.

c) Incurring share issuance costs valued at $42,600 through the issuance of 248,500 finders' options pursuant to a private placement.

d) Accruing share issuance costs of $11,200 through accounts payable and accrued liabilities as at December 31, 2010.

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

a) Accruing mineral property expenditures of $201,778 through accounts payable and accrued liabilities at December 31, 2009.

b) Renouncing expenditures of $1,546,000 related to flow-through shares issued in fiscal 2008 resulting in share issuance cost of $386,500.

11. INCOME TAXES

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

		2010		2009
Loss before income taxes	$	(473,262)	$	(182,837)
Expected income tax recovery	$	(136,086)	$	(59,233)
Stock-based compensation not deductible for income tax purposes		69,198		-
Other items		(19,789)		(20,391)
Write-off of mineral properties		16,538		-
Recognized (Unrecognized) benefits of losses not reflected in accounts		13,401		35,371
Net income tax recovery	$	(56,738)	$	(44,253)

Net income tax recovery is comprised of a current recovery on flow-through share renunciations of $Nil (2009 - $120,753) less future income expense of $Nil (2009 - $Nil) on the unrealized loss on marketable securities.

b) Significant components of the Company's future income tax assets and liabilities are as follows:

		2010		2009
Future income tax assets (liabilities)				
Resource properties	$	(408,577)	$	(415,856)
Losses available for future periods		361,126		312,758
Other items		50,027		42,248
		2,576		(60,850)
Valuation allowance		(288,085)		(281,397)
Net future income tax liability	$	285,509	$	342,247

The Company has non-capital losses carried forward for income tax purposes in the USA and Canada of approximately $1,302,000 which can be applied against future years' taxable income. These losses will expire through to 2030. Future tax benefits which may arise as a result of these non-capital losses and share issue costs have been offset by a valuation allowance and have not been recognized in these financial statements.

During fiscal 2009, the Company renounced exploration expenditures of $1,546,000 resulting in share issuance costs of $386,500, a future income tax recovery of $44,253 and a future income tax liability of $342,247.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Cash and marketable securities are carried at fair value using a level 1 fair value measurement. The carrying value of receivables, accounts payable and accrued liabilities and due to related parties approximate their fair value because of the short-term nature of these instruments.

Financial risk factors

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 fulfill its payment obligations. The Company's credit risk is primarily attributable to short-term investments included in cash. Management believes that the credit risk concentration with respect to financial instruments included in cash is remote. Receivables are due primarily from a government agency.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at December 31, 2010, the Company had a cash balance of $173,514 (2009 - $181,699) to settle current liabilities of $160,480 (2009 - $273,424). All of the Company's financial liabilities 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. These fluctuations may be significant.

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions when deemed appropriate. Management periodically monitors such investments and makes adjustments as necessary but does not believe interest rate risk to be significant.

(b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in United States Dollars or Euros. Management believes the risk is not currently significant as only a small portion of these assets and liabilities as at December 31, 2010 are denominated in United States Dollars or Euros.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

Financial risk factors (cont'd…)

Market risk (cont'd…)

(c) Price risk

The Company is not a producing entity so is not directly exposed to fluctuations in commodity prices. The Company is exposed to price risk with respect to 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. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

13. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital and cash.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

14. SUBSEQUENT EVENT

Subsequent to December 31, 2010, the Company issued 3,000,000 common shares for gross proceeds of $600,000 upon completion of a private placement.