Valterra Resource
CORPORATION

(An Exploration Stage Company)

Audited Financial Statements

December 31, 2009 and 2008

Index	**Page**
Management's Responsibility for Financial Reporting	1
Auditors' Report to the Shareholders	2
Financial Statements	
Balance Sheets	3
Statements of Operations and Deficit	4
Statements of Comprehensive Loss and Accumulated Other Comprehensive Loss	5
Statements of Cash Flows	6
Notes to Financial Statements	7 – 37

Management's Responsibility for Financial Reporting

The accompanying financial statements of Valterra Resource Corporation (an exploration stage company) have been prepared by management in accordance with Canadian generally accepted accounting principles.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded, all transactions are authorized and duly recorded, and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner. The Board of Directors (the "Board") is responsible for ensuring that management fulfils its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board has reviewed the financial statements with management and the external auditors. Smythe Ratcliffe LLP, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the financial statements as at December 31, 2009 and 2008 and for the years then ended and their report is included herein.

"Lawrence Page"	*"Mahesh Liyanage"*
Lawrence Page, Q.C. President	Mahesh Liyanage, CA Chief Financial Officer

Vancouver, British Columbia
April 1, 2010

SmytheRatcliffe
CHARTERED ACCOUNTANTS

Auditors' Report

To the Shareholders of Valterra Resource Corporation
(An Exploration Stage Company)

We have audited the balance sheets of Valterra Resource Corporation (an exploration stage company) as at December 31, 2009 and 2008 and the statements of operations and deficit, comprehensive loss and accumulated other comprehensive loss, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
April 1, 2010

7th Floor 355 Burrard St
Vancouver, BC V6C 2G8

Tel: 604 687 1231
Fax: 604 688 4675
smytheratcliffe.com

Valterra Resource Corporation
(An Exploration Stage Company)
Balance Sheets

			December 31, 2009		December 31, 2008
Assets					
Current					
Cash		$	587,199	$	128,036
Receivables			11,828		12,602
Prepaid and deposits			2,081		9,317
			601,108		**149,955**
Reclamation bonds	Note 5		45,000		52,000
Equipment	Note 6		-		3,143
Investments	Note 7		20,000		4
Mineral properties	Note 8		2,344,315		1,978,136
		$	**3,010,423**	**$**	**2,183,238**
Liabilities					
Current					
Bank indebtedness	Note 9	$	197,808	$	199,330
Accounts payable and accrued liabilities			147,498		155,530
Due to related parties	Note 10		463,737		285,862
			809,043		**640,722**
Shareholders' Equity					
Share capital	Note 11		8,458,736		7,598,368
Contributed surplus	Note 11(b)		532,590		327,401
Accumulated other comprehensive loss			(5,000)		-
Deficit			(6,784,946)		(6,383,253)
			2,201,380		**1,542,516**
		$	**3,010,423**	**$**	**2,183,238**

Nature of operations and going concern (Note 1)
Contingencies and commitments (Note 14)
Subsequent events (Notes 8(c) and 15)

Approved on behalf of the Board:

"Derek Page"	""Lawrence Page
Derek Page	Lawrence Page, Q.C.

Valterra Resource Corporation
(An Exploration Stage Company)
Statements of Operations and Deficit

	Years ended December 31, 2009	2008
Expenses		
Administration	$ 109,869	$ 123,084
Amortization	3,143	1,094
Consulting	112,924	68,312
General exploration	19,952	17,620
Independent directors' fees	50,001	43,584
Interest	6,644	10,475
Investor relations	55,376	28,915
Office and general	30,746	48,414
Professional fees	119,674	165,263
Regulatory fees and taxes	7,881	14,453
Shareholders communications	6,258	2,314
Stock-based compensation (Note 11(h))	119,534	9,167
Transfer agent	8,624	7,778
Travel and promotion	1,063	24,175
	651,689	**564,648**
Other Items		
Foreign exchange loss	-	365
Write-off of accounts payable (Note 14(a))	-	(7,500)
Write-off of investments	4	-
Write-off of mineral properties	-	36,442
	4	**29,307**
Loss Before Future Income Tax Recovery	**651,693**	**593,955**
Future Income Tax Recovery (Note 12)	**(250,000)**	**(288,698)**
Net Loss for the Year	**401,693**	**305,257**
Deficit, Beginning of the Year	**6,383,253**	**6,077,996**
Deficit, End of the Year	**$ 6,784,946**	**$ 6,383,253**
Loss per share - basic and diluted	$ 0.01	$ 0.02
Weighted average number of common shares outstanding	26,802,134	20,193,288

Valterra Resource Corporation
(An Exploration Stage Company)
Statements of Comprehensive Loss and Accumulated Other Comprehensive Loss

	Years Ended December 31, 2009	2008
Net Loss for the Year	$ (401,693)	$ (305,257)
Other comprehensive income (loss)		
Unrealized loss on investment	(5,000)	-
Comprehensive Loss for the Year	**$ (406,693)**	**$ (305,257)**
Accumulated Other Comprehensive Income, Beginning of the Year	**$ -**	**$ -**
Unrealized loss on investment	(5,000)	-
Accumulated Other Comprehensive Loss, End of the Year	**$ (5,000)**	**$ -**

The accompanying notes are an integral part of these financial statements

Valterra Resource Corporation
(An Exploration Stage Company)
Statements of Cash Flows

Cash provided by (used for):		**Years ended December 31, 2009**		**2008**
Operating Activities				
Net loss for the year	$	(401,693)	$	(305,257)
Items not involving cash				
Amortization		3,143		1,094
Future income tax recovery		(250,000)		(288,698)
Stock-based compensation		119,534		9,167
Accounts payable written-off		-		(7,500)
Investments written-off		4		-
Mineral properties written-off		-		36,442
		(529,012)		(554,752)
Changes in Non-Cash Working Capital				
Receivables		774		30,123
Prepaid and deposits		7,236		586
Bank indebtedness		(1,522)		84
Accounts payable and accrued liabilities		(21,866)		127,475
Due to related parties		189,743		223,566
		174,365		381,834
Cash Used in Operating Activities		**(354,647)**		**(172,918)**
Investing Activities				
Expenditures on mineral properties		(351,942)		(1,595,310)
Proceeds from (acquisition of) reclamation bonds		7,000		(17,000)
Cash Used in Investing Activities		**(344,942)**		**(1,612,310)**
Financing Activities				
Proceeds from issuance of shares, net of share issue costs		1,158,752		1,112,809
Increase (Decrease) in Cash During the Year		**459,163**		**(672,419)**
Cash, Beginning of Year		128,036		800,455
Cash, End of Year	$	**587,199**	$	**128,036**

Supplemental cash flow information (Note 13)

1. Nature of Operations and Going Concern

Valterra Resource Corporation (the "Company") is an exploration stage company incorporated under the laws of Alberta.

The Company's shares trade on the Canadian National Stock Exchange. ("CNSX") under the symbol "VTA" and on the Frankfurt Stock Exchange under the symbol "3VA.F".

The Company is engaged in the exploration of mineral properties. The business of exploring for minerals involves a high degree of risk and there can be no assurance that any of the Company's current or future exploration programs will result in profitable mining operations. The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead and maintain its mineral interests. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete their exploration and development, and establish future profitable operations, or realize proceeds from the sale of the mineral properties.

These financial statements are prepared on a "going concern" basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Currently the Company is unable to self-finance operations, has limited resources, no source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its mineral property projects.

As at December 31, 2009, the Company had a working capital deficiency of $207,935 (2008: $490,767). The Company does not hold any revenue generating properties and thereby continues to incur losses. The Company has an accumulated deficit of $6,784,946 as at December 31, 2009 (2008: $6,383,253).

The Company has relied upon the issuance of share capital to finance its activities. Future capital requirements will depend on many factors including the Company's ability to execute its business plan. The Company intends to continue relying upon the issuance of share capital to finance its future activities (see Note 3) but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company. During the year, the Company raised a total of $1,158,752 (net of share issue costs) in private placements of flow-through and non-flow-through units (Note 11(c)). Inability to secure future financing could have a material adverse effect on the Company's business, results of operations and financial condition.

Failure to continue as a going concern may require restatement of assets and liabilities on a liquidation basis, which could differ materially from the going concern basis. These financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. Significant Accounting Policies

(a) Basis of Presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

(b) Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

(c) Mineral Properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized, net of recoveries, until such time as these mineral properties are placed into commercial production, sold or abandoned. If commercial production is achieved from a mineral property, the related capitalized costs will be amortized on a unit-of-production basis over the estimated life of the ore reserves. If a mineral property is abandoned, the related capitalized costs are written off to operations.

From time to time, the Company may acquire or dispose of all or part of its mineral property interests under the terms of property option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, option payments are recorded as property costs or recoveries when paid or received. When recoveries exceed the carrying value of the mineral property, the excess is reflected in the statements of operations.

The recoverability of amounts shown for mineral properties is dependent upon the Company's ability to:

(i) Obtain the necessary financing to complete the acquisition, exploration and development of its mineral properties.
(ii) Enter into mineral property acquisition, joint venture or option agreements with other entities.
(iii) Discover economically recoverable reserves within its mineral properties.
(iv) Obtain future profitable production from its mineral properties or sufficient proceeds from the disposition thereof.

2. Significant Accounting Policies, continued

(c) Mineral Properties, continued

On an ongoing basis, the Company evaluates each mineral property for potential impairment based on results obtained to date to determine the nature of exploration, other assessment and development work, if any, that is warranted in the future and the potential for recovery of the capitalized costs. Furthermore, if there is little prospect of future work on a property being carried out within a three-year period from completion of previous activities, the deferred costs related to that property are written down to the estimated amount recoverable unless there is persuasive evidence that an impairment allowance is not required. The amounts capitalized for mineral properties represent costs incurred to date less write-downs, and are not intended to reflect present or future values.

(d) Equipment

Equipment is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method at an annual rate of 20% for office equipment.

(e) Comprehensive Income

Comprehensive income is the change in net assets from transactions related to non-shareholder sources. The Company presents gains and losses, which would otherwise be recorded as part of net earnings, in "other comprehensive income" until it is considered appropriate to recognize them into net earnings.

(f) Financial Instruments

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item.

All financial instruments are classified as one of the following: held-for-trading, held-to-maturity, loans and receivables, available-for-sale 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).

2. Significant Accounting Policies, continued

(f) Financial Instruments, continued

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 financial instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as held-to-maturity, loans and receivables, or other financial liabilities are included in the initial carrying value of such instruments and amortized using the effective interest method. Transaction costs related to instruments classified as held-for-trading are expensed when incurred, while those costs related to instruments classified as available-for-sale are included in the initial carrying value.

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

(g) Stock-Based Compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged either to operations or mineral properties, with the offset credit to contributed surplus over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(h) Warrants

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced or issued, and any excess is allocated to warrants.

2. Significant Accounting Policies, continued

(i) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences), and loss carry-forwards.

Future income tax assets and liabilities are measured using the substantively enacted tax rates expected to be in effect when the temporary differences are likely to reverse.

The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially enacted. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(j) Flow-Through Shares

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for income tax purposes by the investors who purchased the shares. The proceeds from shares issued under flow-through share financing agreements are credited to capital stock. The tax impact to the Company of the renouncement is recorded on the date that the renunciation is filed with taxation authorities, through a decrease in capital stock and the recognition of a future tax liability.

A portion of the future income tax assets that were not previously recognized are recognized as a recovery of future income taxes in the statements of operations up to the amount of the future income tax liability.

(k) Loss per Share

Loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings per share. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to re-purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of conversions or exercise of options and warrants if they would be anti-dilutive.

2. Significant Accounting Policies, continued

(l) Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates 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 period. Significant areas requiring the use of management estimates include the determination of environmental obligations, asset retirement obligations ("ARO"), accrued liabilities, the impairment in value of mineral properties, valuation allowance for future tax assets, and determination of the assumptions used in the calculation of stock-based compensation and fair value of the warrants and options issued as finder's fees. While management believes the estimates used are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(m) Non-Monetary Transactions

Shares issued for consideration other than cash are valued at the quoted market price at the date of issuance.

(n) Asset Retirement Obligations

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount will be increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present the Company has determined that it has no material AROs to record in the financial statements.

2. Significant Accounting Policies, continued

(o) Accounting Changes

(i) Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Handbook Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company will evaluate the impact of the adoption of these sections when applicable.

(ii) International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the transition to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements for its March 31, 2011 interim financial statements. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended December 31, 2010. The Company is currently evaluating the impacts of the conversion on the Company's financial statements and is considering accounting policy choices available under IFRS.

3. Capital Management

The Company considers its capital under management to be comprised of shareholders' equity and bank indebtedness. The Company's objectives of capital management are to support the Company's normal operating requirements on an ongoing basis, continue the exploration of its mineral properties and support any expansionary plans. The Company has funded these requirements primarily through the issuance of share capital.

The Company's primary process for managing capital consists of the ongoing assessment of current capital resources against budgeted exploration and administrative expenditures. To maintain or adjust the capital structure, the Company may issue new shares.

The Company is not subject to externally imposed capital requirements other than those related to its credit facility disclosed in Note 9. The Company is in compliance with those capital requirements and there have been no changes in the Company's approach to capital management during the year.

4. Financial Instruments

The Company's financial instruments comprise cash, investments, bank indebtedness, accounts payable and accrued liabilities, and due to related parties. The Company has classified its financial instruments into the following categories:

Financial instrument	Category	Carrying value	2009	2008
Cash	Held-for-trading	Fair value	$ 587,199	$ 128,036
Investments	Available-for-sale	Fair value	$ 20,000	$ 4
Bank indebtedness	Other financial liabilities	Amortized cost	$ 197,808	$ 199,330
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	$ 147,498	$ 155,530
Due to related parties	Other financial liabilities	Amortized cost	$ 463,737	$ 285,862

The carrying values of cash, bank indebtedness, accounts payable and accrued liabilities, and due to related parties are a reasonable estimate of their fair values due to the relatively short time period to maturity. The fair value of amounts due to related parties have not been disclosed as their fair value cannot be reliably measured since there is no quoted market price for such an instrument.

4. Financial Instruments, continued

The fair value of the investment at December 31, 2009 was based on its quoted market value and is classified within level 1 of the fair value hierarchy. The fair value of the investments at December 31, 2008 was based on their carrying value, as there was no quoted market price in an active market for the investments.

The Company is exposed to the following risks arising from its financial instruments:

(a) Interest Rate Risk

The Company is exposed to interest rate risk on its bank indebtedness, as the payments fluctuate with changes in interest rates.

Based on the current balance of the bank indebtedness, an assumed 0.5% increase or decrease in interest rates would not have a material effect on the Company's results of operations.

(b) Credit Risk

The Company's financial assets that are exposed to credit risk consist primarily of cash of $587,199 (2008: $128,036) as at December 31, 2009. The Company mitigates credit risk by risk management policies that require cash deposits or short-term investments be invested with Canadian chartered banks rated BBB or better, or commercial paper issuers R1/A2/P2 or higher. All investments must be less than one year in duration.

(c) Currency Risk

The Company is not exposed to significant currency risk.

4. Financial Instruments, continued

(d) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations as they become due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due by forecasting cash flows for operations and anticipated investing and financing activities. The Company normally maintains sufficient cash to meet the Company's business requirements. However, at December 31, 2009 the cash balance of $587,199 would be insufficient to meet the cash requirements for the Company's administrative overhead, maintaining its mineral interests, meeting its flow-through obligations and continuing with its exploration program in the coming year. Therefore, the Company will be required to raise additional capital in order to fund its operations in 2010. At December 31, 2009, the Company had accounts payable and accrued liabilities of $147,498 (2008: $155,530) due within the current operating period and amounts due to related parties of $463,737 (2008: $285,862), with no stated terms of repayment, that the Company intends to repay within the current operating period.

5. Reclamation Bonds

The Company has posted bonds against any potential land restoration costs that may be incurred in the future on certain properties. The monies are held in trust, earning nominal interest and may be released after required reclamation is satisfactorily completed. As at December 31, 2009, the amount on deposit was $45,000 (2008: $52,000), of which $35,000 is for the Swift Katie Property, and $10,000 is for the Star Property. During the year ended December 31, 2009, the Company received a bond refund of $7,000 for Gus Property, which was written off at December 31, 2008.

6. Equipment

	Cost	Accumulated Amortization	Net Book Value 2009
Equipment	$ 4,707	$ 4,707	$ -

	Cost	Accumulated Amortization	Net Book Value 2008
Equipment	$ 4,707	$ 1,564	$ 3,143

7. Investments

The Company has an investment in Tosca Mining Corp. ("Tosca") common shares, classified as available-for-sale. The 100,000 Tosca shares were obtained pursuant to a property option agreement on the Swift Katie Property as disclosed in Note 8(b)(i).

		2009 Fair Market Value		2008 Fair Market Value
Tosca Mining Corp.				
100,000 common shares (2008 – Nil)	$	20,000	$	-

The Company wrote off its investments in each of Hester Creek Estate Winery, Abridean Inc., BioVan Inc. and Cardiovascular Solutions Inc. for a total of $4. These investments were purchased in the period 1999-2000 for a total of $2,350,000 and were written down to $1 each in the period 2001-2002 due to other than temporary decline in their recoverable amount.

The Company transferred its shares of Abridean Inc. to a third party during 2009.

8. Mineral Properties

The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

During 2009, the Company had interests in three mineral properties, located in British Columbia, Canada. These were Star, Swift Katie and Toughnut.

8. Mineral Properties (continued)

A summary of capitalized acquisition and exploration expenditures on the Company's properties for the year ended December 31, 2009 follows:

Mineral Properties	**Star** $	**Swift Katie** $	**Toughnut** $	**Total** $
Acquisition costs				
Balance as at December 31, 2008	6,727	146,316	-	153,043
Additions during the year	26,757	47,573	19,453	93,783
Recoveries	-	(60,000)	-	(60,000)
Balance as at December 31, 2009	**33,484**	**133,889**	**19,453**	**186,826**
Exploration costs				
Balance as at December 31, 2008	373,245	1,451,848	-	1,825,093
Assays and analysis	15,482	-	-	15,482
Camp and supplies	2,126	101	101	2,328
Drilling	57,371	-	1,000	58,371
Environmental	1,335	2,205	-	3,540
Equipment rental and field supplies	3,880	2,430	140	6,450
General exploration	18	4	4	26
Geological services	6,104	1,250	-	7,354
Project supervision	152,703	33,157	21,532	207,392
Stock-based compensation	9,675	15,097	-	24,772
Travel	5,394	711	576	6,681
Net additions during the year	254,088	54,955	23,353	332,396
Balance as at December 31, 2009	**627,333**	**1,506,803**	**23,353**	**2,157,489**
Total acquisition and exploration costs as at December 31, 2009	**660,817**	**1,640,692**	**42,806**	**2,344,315**

8. Mineral Properties, continued

A summary of capitalized acquisition and exploration expenditures on the Company's properties for the year ended December 31, 2008 follows:

Mineral Properties	**Gus**	**Star**	**Swift Katie**	**Total**
	$	**$**	**$**	**$**
Acquisition costs				
Balance as at December 31, 2007	3,642	-	93,295	96,937
Additions during the year	1,267	6,727	53,021	61,015
Write-off	(4,909)	-	-	(4,909)
Balance as at December 31, 2008	**-**	**6,727**	**146,316**	**153,043**
Exploration costs				
Balance as at December 31, 2007	200	-	591,064	591,264
Assays and analysis	1,254	30,896	76,958	109,108
Camp and supplies	2,707	9,459	11,828	23,994
Drilling	-	223,666	412,939	636,605
Environmental	-	460	5,020	5,480
Equipment rental and field supplies	2,600	6,145	21,281	30,026
General exploration	-	2,387	1,335	3,722
Geological services	9,541	22,210	229,509	261,260
Project supervision	14,829	30,430	75,862	121,121
Project support	-	38,684	15,607	54,291
Travel	402	8,908	10,445	19,755
Write-off	(31,533)	-	-	(31,533)
Net additions during the year	(200)	373,245	860,784	1,233,829
Balance as at December 31, 2008	**-**	**373,245**	**1,451,848**	**1,825,093**
Total acquisition and exploration costs as at December 31, 2008	**-**	**379,972**	**1,598,164**	**1,978,136**

On December 3, 2008, the Company decided to relinquish the option agreement to earn a 100% interest in the Gus Property located near Salmo in the Nelson Mining District of southern British Columbia without liability by giving written notice of the termination to the optionor. Accordingly, $36,442 (acquisition costs of $4,909 and exploration costs of $31,533) was written off during the year ended December 31, 2008.

8. Mineral Properties, continued

(a) Star Property

Pursuant to an agreement dated May 13, 2008, the Company can earn a 100% undivided interest in the Star claims group (“Star Property”) subject to a net smelter return royalty (“NSR”) of 3% with a buy down option to 2% before the commencement of commercial production for $1,500,000.

To earn a 100% undivided interest in the Star Property, the Company is required to make staged payments totaling US $300,000 and incur total exploration expenditures of $400,000 as follows:

(i) US $20,000 and incur in the aggregate a minimum of $100,000 in exploration expenditures on or before May 13, 2009 (paid and incurred);

(ii) US $25,000 and incur in the aggregate a minimum of $200,000 in exploration expenditures on or before May 13, 2010;

(iii) US $25,000 and incur in the aggregate a minimum of $300,000 in exploration expenditures on or before May 13, 2011;

(iv) US $30,000 and incur in the aggregate a minimum of $400,000 in exploration expenditures on or before May 13, 2012; and

(v) US $40,000 on or before May 13, 2013, 2014 and 2015, US $50,000 on or before May 13, 2016 and US $30,000 on or before May 13, 2017.

(b) Swift Katie Property

Pursuant to an agreement dated July 21, 2006 (the "Option Agreement") as amended, Manex Resource Group Inc. ("Manex"), a private company controlled by the President of the Company, acquired an option from the Optionors to purchase the Swift Katie Property located near Salmo in the Nelson Mining District of southern British Columbia. The option was assigned by Manex to the Company for $2,500.

On December 18, 2008, an amended and restated agreement was signed by all Optionors to amend the requirements on cash payments, exploration expenditures and issuing shares.

8. Mineral Properties, continued

(b) Swift Katie Property, continued

Pursuant to the amended agreement, in order to earn a 60% interest in the property, the Company was required to make cash payments totaling $85,000 (reduced from $120,000), incur aggregate exploration expenditures of $600,000 and issue 640,000 common shares (increased from 440,000 common shares) by December 31, 2009, which conditions were met.

To earn the remaining 40% interest in the Swift Katie property, the Company must make cash payments, incur exploration expenditures and issue shares to the Optionors as follows:

- Pay $60,000, incur $350,000 in exploration expenditures and issue 225,000 of its common shares on or before December 31, 2010; and

- Pay an additional $60,000, incur an additional $350,000 in exploration expenditures and issue an additional 225,000 of its common shares on or before December 31, 2011.

The Optionors of the property retain a 2% NSR on the property if the Company earns a 60% interest and a 3% NSR if the Company earns a 100% interest in the property. The Company has the option to purchase one-half of the NSR for $1,000,000 per 1% at any time prior to the commencement of commercial production.

Beginning December 31, 2010 and annually thereafter the Company is required to make an annual advance minimum royalty payment of $35,000, increasing to $50,000 annually in December 2012 and thereafter. These payments will be adjusted annually according to the CPI base of December 31, 2006. Annual advance minimum royalty payments are deductible from future NSR royalty payments.

On August 21, 2009, the Company entered into an option agreement with JRTL Capital Corp. ("JRTL") on the Swift Katie mineral property. On December 3, 2009, JRTL changed its name to Tosca.

Pursuant to the agreement, the Company granted Tosca a working option to acquire a 60% interest in the Swift Katie property subject to the reservation of a 3% NSR over the property in favour of the original property optionors.

8. Mineral Properties, continued

(b) Swift Katie Property, continued

In order to maintain the working option in good standing and to earn the 60% interest in the property, Tosca is required to make staged cash payments to the Company in the total amount of $155,000 and issue 500,000 of its common shares, and incur exploration expenditures on the property aggregating $3,000,000 as follows:

(i) Pay $35,000 and issue 100,000 shares on or before December 15, 2009 (paid and issued);

(ii) Pay $60,000, issue 100,000 shares and incur $250,000 of exploration expenditures on or before December 31, 2010;

(iii) Pay $60,000, issue 100,000 shares and incur $500,000 of exploration expenditures on or before December 31, 2011;

(iv) Issue 100,000 shares and incur $750,000 of exploration expenditures on or before December 31, 2012;

(v) Issue 100,000 shares and incur $750,000 of exploration expenditures on or before December 31, 2013; and

(vi) Incur $750,000 of exploration expenditures on or before December 31, 2014.

In addition, commencing December 31, 2010 and annually thereafter, Tosca will be required to make annual advance minimum royalty payments to the Company of $35,000 increasing annually to $50,000 on December 31, 2012 and thereafter. The annual advance minimum royalty payments made are deductible from the NSR payments required to be made.

The agreement has a provision for a joint venture operation agreement between the Company and Tosca upon Tosca acquiring a 60% interest in the property.

(c) Toughnut Property

On March 10, 2009, the Company entered into an option agreement to acquire a 100% undivided interest in the Toughnut property, comprising nine mineral claims and one Crown grant located in the Nelson Mining Division of British Columbia (the “Toughnut Property”).

On March 16, 2010, an amendment was signed by the Optionors to amend the requirements on cash payments, exploration expenditures and issuing shares.

8. Mineral Properties, continued

(c) Toughnut Property, continued

Pursuant to the amended agreement, to acquire a 100% interest in the Toughnut Property, the Company is required to make staged payments totaling $200,000, incur total exploration expenditures of $1,250,000, and issue 450,000 of its common shares to the optionors over five years as follows:

(i) Pay $5,000 and issue 100,000 shares on March 9, 2009 (paid and issued);

(ii) Issue 100,000 shares (issued subsequent to December 31, 2009) on or before March 10, 2010;

(iii) Pay $30,000 on or before August 1, 2010;

(iv) Incur not less than $300,000 of exploration expenditures on or before September 30, 2010;

(v) Pay $35,000, issue 50,000 shares and incur not less than an aggregate $500,000 of exploration expenditures on or before March 10, 2011;

(vi) Pay $40,000, issue 50,000 shares and incur not less than an aggregate $750,000 of exploration expenditures on or before March 10, 2012;

(vii) Pay $40,000, issue 50,000 shares and incur not less than an aggregate $1,000,000 of exploration expenditures on or before March 10, 2013; and

(viii) Pay $50,000, issue 100,000 shares and incur not less than an aggregate $1,250,000 of exploration expenditures on or before March 10, 2014.

The optionors of the Toughnut Property retain a 1% NSR on three mineral claims and 2% on the reminder of the property. The Company has the option to purchase one-half of the optionors' NSR by payment of the sum of $1,000,000.

In addition to the optionors' NSR of 1% on the three mineral claims, there is an underlying royalty, pursuant to which third parties are entitled to a 1% NSR on these three mineral claims, up to a maximum aggregate amount of $1,000,000.

9. Bank Indebtedness

Bank indebtedness is due on demand, bears interest at prime plus 1% per annum and is secured by a letter of credit from Schroders (C.I.), a company owned by a shareholder of the Company. During 2006, the Company issued 200,000 shares at an agreed price of $0.20 per share, as consideration for the guarantee. The balance as at December 31, 2009 is $197,808 (2008: $199,330).

Under the credit facility letter the Company is required to obtain written consent from the bank prior to paying or declaring any dividends, reducing its share capital, reorganizing or changing of control.

10. Related Party Balances and Transactions

Following are the related party transactions that the Company entered into during the year ended December 31, 2009:

(a) Under the service agreement between the Company and a company privately held by a director and officer of the Company, the Company was charged as follows:

- $106,650 (2008: $127,766) for office space and general administration services;
- $55,106 (2008: $55,820) for professional services;
- $45,262 (2008: $27,500) for consulting services;
- $41,737 (2008: $14,730) for investor relations services;
- $191,172 (2008: $240,780) for geological consulting services in relation to mineral properties; and
- $3,218 (2008: $5,978) representing the mark-up on out-of-pocket expenses, which are included in office and general expenses.

Amounts payable under the agreement at December 31, 2009 were $369,887 (2008: $244,864).

(b) Fees in the amount of $63,142 (2008: $44,042) were charged by a company privately held by a director and officer of the Company and included in investor relations, professional fees, share issue costs and mineral property expenditures. Amounts payable as at December 31, 2009 were $58,675 (2008: $28,398).

(c) Consulting fees relating to office administration of $24,000 (2008: $25,250) were charged by a private company controlled by an officer of the Company. Amounts payable as at December 31, 2009 were $10,500 (2008: $12,600).

(d) Consulting fees relating to corporate development and financing activities of $23,500 (2008: $62,500) were charged by a private company controlled by a director and an officer of the Company and were included in consulting fees and share issue costs. Amounts payable as at December 31, 2009 were $24,675 (2008: $Nil).

The total amounts payable to related parties as at December 31, 2009 is $463,737 (2008 - $285,862).

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Amounts due to related parties are non-interest-bearing, unsecured and without specific terms of repayment. Amounts are expected to be repaid within a year.

11. Share Capital and Contributed Surplus

(a) Authorized

(i) Unlimited common shares without par value; and
(ii) Unlimited preference shares without par value.

11. Share Capital and Contributed Surplus, continued

(b) Issued and Outstanding

The issued share capital is as follows:

Common shares	Number of shares		Amount		Contributed surplus
Balance as at December 31, 2007	**17,746,439**	**$**	**6,779,211**	**$**	**282,280**
Issued					
Private placement, net of share issue costs	5,000,000		1,113,346		-
Shares for mineral property acquisition	310,000		30,463		-
Stock-based compensation	-		-		9,167
Value assigned to agent warrants	-		(35,954)		35,954
	5,310,000		1,107,855		45,121
Tax benefits renounced to flow-through share subscribers	-		(288,698)		-
Balance as at December 31, 2008	**23,056,439**		**7,598,368**		**327,401**
Issued					
Private placements, net of share issue costs	14,416,104		1,158,752		-
Shares for mineral property payment	210,000		12,500		-
Stock-based compensation	-		-		144,305
Value assigned to agent warrants	-		(32,768)		32,768
Value assigned to agent options	-		(28,116)		28,116
	14,626,104		1,110,368		205,189
Tax benefits renounced to flow-through share subscribers	-		(250,000)		-
Balance as at December 31, 2009	**37,682,543**	**$**	**8,458,736**	**$**	**532,590**

(c) Private Placements

<u>Fiscal Year Ended December 31, 2009</u>

The Company completed the following private placements during the year ended December 31, 2009:

(i) Combination of Flow-Through and Non-Flow-Through Units Private Placement:

In June 2009, the Company closed the first tranche of a non-brokered private placement consisting of 850,000 units at $0.20 per unit for gross proceeds of $170,000, of which $93,500 were to be spent on Canadian exploration expenditures. Each unit consisted of one flow-through share at $0.11 per share, one non-flow-through share at $0.09 per share, and one share purchase warrant exercisable to purchase one additional non-flow-through share at an exercise price of $0.15 per share for a period of two years.

11. Share Capital and Contributed Surplus, continued

(c) Private Placements, continued

Fiscal Year Ended December 31, 2009, continued

(i) Combination of Flow-Through and Non-Flow-Through Units Private Placement, continued

The Company paid $3,900 in finders' fees, $4,956 in legal and regulatory fees, and issued 32,500 warrants to finders at an exercise price of $0.15 per share for a period of two years. The warrants were fair valued at $0.079 each using the Black-Sholes option pricing model (Note 11(h)).

(ii) Non-Flow-Through Units Private Placements

In June 2009, the Company closed the first tranche of a non-brokered private placement consisting of 2,322,222 units at $0.09 per unit for gross proceeds of $209,000. Each unit consisted of one non-flow-through share and one share purchase warrant exercisable to purchase one additional non-flow-through share at an exercise price of $0.15 per common share for a period of two years.

The Company paid $2,970 in finders' fees, $6,585 in legal and regulatory fees, and issued 55,000 warrants to finders at an exercise price of $0.15 per share for a period of two years. The warrants were fair valued at $0.079 each using the Black-Sholes option pricing model (Note 11(h)).

In July 2009, the Company completed the second tranche of this private placement. The second tranche consisted of 1,756,950 units at $0.09 per unit for gross proceeds of $158,126. Each unit consisted of one non-flow-through share and one share purchase warrant exercisable to purchase one additional non-flow-through share at an exercise price of $0.15 per common share for a period of two years.

The Company paid $4,050 in finders' fees, $6,066 in legal and regulatory fees and issued 75,000 warrants to finders at an exercise price of $0.15 per share for a period of two years. The warrants were fair valued at $0.10 each using the Black-Sholes option pricing model (Note 11(h)).

In December 2009, the Company completed a non-brokered private placement consisting of 312,500 units at $0.08 per share for gross proceeds of $25,000. Each non-flow-through unit issued consisted of one non-flow-through common share and one share purchase warrant exercisable to purchase one additional non-flow-through common share at an exercise price of $0.10 for a period of two years.

In relation to the December 2009 non-flow-through private placement, the Company paid $600 in finders' fees, $1,000 in legal and regulatory fees, and issued 7,500 warrants to finders at an exercise price of $0.10 per share for a period of two years. The warrants were fair valued at $0.05 each using the Black-Sholes option pricing model (Note 11(h)).

11. Share Capital and Contributed Surplus, continued

(c) Private Placements, continued

Fiscal Year Ended December 31, 2009, continued

(iii) Flow-Through Units Private Placements

In July 2009, the Company completed a non-brokered private placement of 1,068,182 units at $0.11 for gross proceeds of $117,500. Each unit consisted of one flow-through share and one-half of one share purchase warrant. Each full warrant is exercisable to purchase one additional non-flow-through share at an exercise price of $0.15 per common share for a period of two years.

The Company paid $6,600 in finders' fees and issued 100,000 warrants to finders at an exercise price of $0.15 per share for a period of two years. The warrants were fair valued at $0.10 each using the Black-Sholes option pricing model (Note 11(h)).

In December 2009, the Company completed a non-brokered flow-through private placement for gross proceeds of $558,000. The Company issued 6,975,000 flow-through units at $0.08 each. Each unit consisted of one flow-through common share and one-half of one share purchase warrant. Each whole warrant is exercisable to purchase one additional non-flow-through common share at an exercise price of $0.15 per share for a period of two years.

The Company paid $2,280 in finder's fees, $14,867 in legal and regulatory fees, $25,000 in due diligence fees, issued 281,250 finders' units, 28,500 finder's warrants and 562,500 agents' options in relation to this private placement. Each finders' unit consist of one non-flow-through common share and one-half of one share purchase warrant. All 169,125 warrants issued to finders are exercisable to purchase one additional non-flow-through common share at an exercise price of $0.15 per share for a period of two years. The warrants were fair valued at $0.05 each using the Black-Sholes option pricing model (Note 11(h)).

Each agent's option is exercisable to purchase one unit at $0.08 for a period of two years (Note 11(g)). The agent's options were fair valued at approximately $0.05 per option using the Black-Sholes option pricing model (Note 11(h)). If exercised, each unit will consist of one non-flow-through common share and one-half of one share purchase warrant. Each warrant is exercisable to purchase one additional non-flow-through common share at an exercise price of $0.15 per share for a period of two years.

In summary, the Company raised $1,237,626 through the issuance of 14,416,104 common shares, incurred $78,874 in cash share issue costs, of which $20,400 were for finders' fees, $25,000 for due diligence fees, and $33,474 for legal and regulatory fees. In addition, the Company recorded non-cash share issue costs of $22,500 on the issuance of 281,250 units issued to finders, $32,768 on the issuance of 439,125 warrants to finders and $28,116 on the issuance of 562,500 agent's options.

11. Share Capital and Contributed Surplus, continued

(c) Private Placements, continued

Fiscal Year Ended December 31, 2008

On July 7, 2008, the Company closed a non-brokered private placement consisting of 4,000,000 flow-through common shares at $0.25 per share for gross proceeds of $1,000,000. The Company also closed a non-brokered private placement of 1,000,000 units at $0.25 per unit for gross proceeds of $250,000. Each unit comprises one non-flow-through common share and one-half one share purchase warrant, with one full warrant allowing for the purchase of one common share at $0.30 per share until July 7, 2010.

Share issue costs were as follows:

(i) 250,000 share purchase warrants were issued to the agents, each warrant exercisable at $0.30 to July 7, 2009. The share purchase warrants were valued at $0.14 per warrant, using the Black-Scholes option pricing model, for a cost of $35,954; and

(ii) general cash share issue costs in the amount of $136,654.

(d) Shares Issued for Mineral Property

Fiscal Year Ended December 31, 2009

The Company issued 110,000 common shares, with a fair market value of $5,500, in connection with the Swift Katie Property acquisition (Note 8(b)).

The Company issued 100,000 common shares, with a fair market value of $7,000, in connection with the Toughnut Property acquisition (Note 8(c)).

Fiscal Year Ended December 31, 2008

In 2008, the Company issued 310,000 common shares, valued at $31,000, in lieu of the cash payment for the Swift Katie Property. The cash share issuance cost incurred was $537.

(e) Stock Options

As at December 31, 2009 and 2008, the Company had a stock option plan (the “Plan”) allowing for the reservation of common shares issuable under the Plan to a maximum 10% of the number of issued and outstanding common shares of the Company at any given time.

11. Share Capital and Contributed Surplus, continued

(e) Stock Options, continued

The terms of any stock option granted under the Plan may not exceed five years and the exercise price may not be less than the closing price of the Company's shares on the last business day immediately preceding the date of grant, less any permitted discount. On an annual basis, the Plan requires approval by the Company's shareholders and submission for regulatory review and acceptance.

The Company's share options for the years ended December 31, 2009 and 2008 are summarized as follows:

Exercise Price	Fair Value at Grant Date	Expiry Date	Issued and Outstanding December 31, 2008	Granted	Forfeited	Issued and Outstanding December 31, 2009
$0.25	$0.19	October 9, 2012	1,345,000	-	10,000	1,335,000
$0.28	$0.21	December 4, 2012	10,000	-	-	10,000
$0.25	$0.17	May 26, 2013	50,000	-	50,000	-
$0.10	$0.05	February 24, 2014	-	50,000		50,000
$0.10	$0.09	August 11, 2014	-	1,600,000	-	1,600,000
			1,405,000	**1,650,000**	**60,000**	**2,995,000**
Weighted average exercise price			$0.25	$0.10	$0.25	$0.17
Weighted average fair value			$0.25	$0.06	$0.17	$0.11
Weighted average contractual life in years			3.80	5	-	3.78

Exercise Price	Fair Value at Grant Date	Expiry Date	Issued and Outstanding December 31, 2007	Granted	Forfeited	Issued and Outstanding December 31, 2008
$0.25	$0.19	October 9, 2012	1,500,000	-	155,000	1,345,000
$0.28	$0.21	December 4, 2012	10,000	-	-	10,000
$0.25	$0.17	May 26, 2013	-	50,000	-	50,000
			1,510,000	**50,000**	**155,000**	**1,405,000**
Weighted average exercise price			$0.25	$0.25	$0.25	$0.25
Weighted average contractual life in years			4.78	5	-	3.80

11. Share Capital and Contributed Surplus, continued

(f) Share Purchase Warrants

The Company's share purchase warrants for the years ended December 31, 2009 and 2008 are summarized as follows:

Exercise Price	Expiry Date	Balance December 31, 2008	Issued	Expired	Balance December 31, 2009
$0.30	July 7, 2009	250,000	-	250,000	-
$0.30	July 7, 2010	500,000	-	-	500,000
$0.15	June 12, 2011	-	3,172,222	-	3,172,222
$0.15	June 12, 2011	-	87,500	-	87,500
$0.15	July 17, 2011	-	1,756,950	-	1,756,950
$0.15	July 17, 2011	-	75,000	-	75,000
$0.15	July 24, 2011	-	534,091	-	534,091
$0.15	July 24, 2011	-	100,000	-	100,000
$0.15	December 23, 2011	-	3,487,500	-	3,487,500
$0.15	December 23, 2011	-	169,125	-	169,125
$0.10	December 23, 2011	-	312,500	-	312,500
$0.10	December 23, 2011	-	7,500	-	7,500
		750,000	**9,702,388**	**250,000**	**10,202,388**
Weighted average exercise price		$0.30	$0.15	-	$0.16
Weighted average remaining contractual life in years		1.18	2.00	-	1.63

Exercise Price	Expiry Date	Balance December 31, 2007	Issued	Expired	Balance December 31, 2008
$0.30	September 25, 2008	392,000	-	392,000	-
$0.30	July 7, 2009	-	250,000	-	250,000
$0.30	July 7, 2010	-	500,000	-	500,000
		392,000	**750,000**	**392,000**	**750,000**
Weighted average exercise price		$0.30	$0.30	$0.30	$0.30
Weighted average fair value		$0.15	$0.14	$0.15	$0.14
Weighted average remaining contractual life in years		0.74	1.2	-	1.18

11. Share Capital and Contributed Surplus, continued

(g) Agent's Options

The Company issued 562,500 agent's options in relation to a private placement. Each agent's option is exercisable to purchase one unit at $0.08 for a period of two years. Each unit is comprised of one share and one-half of one share purchase warrant. Each whole warrant is exercisable to purchase one share at $0.15 for two years. The agent's options were fair valued at $0.05 per option using the Black-Sholes option pricing model (Note 11(h)).

Exercise Price	Expiry Date	Balance December 31, 2008	Issued	Expired	Balance December 31, 2009
$0.08	December 23, 2011	-	562,500	-	562,500
Weighted average exercise price		-	$0.08	-	$0.08
Weighted average remaining contractual life in years		-	2.0	-	1.98

(h) Fair Value Determination

The fair values of share purchase warrants issued to agents and stock options granted were calculated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2009			2008	
	Options	Agent's Options	Warrants	Options	Warrants
Risk-free interest rate	2.59%	1.40%	1.34%	3.43%	3.20%
Expected share price volatility	137.18%	516.64%	347.21%	85.83%	170.24%
Expected option/warrant life in years	5.0	2.0	2.0	5.0	1.0
Expected dividend yield	0%	0%	0%	0%	0%

11. Share Capital and Contributed Surplus, continued

(h) Fair Value Determination, continued

The total calculated fair value of stock-based compensation for the years ended December 31, 2009 and 2008 was allocated as follows:

		2009		2008
Consultants	$	12,386	$	-
Directors and officers		83,703		9,167
Management company employees		48,217		-
Total	**$**	**144,306**	**$**	**9,167**
Included in the statements of operations and deficit	$	119,534	$	9,167
Included in mineral properties		24,772		-
	$	**144,306**	**$**	**9,167**

The total calculated fair value of $60,884 (2008: $35,954) for the warrants issued to finders and the options granted to agents for the year ended December 31, 2009 were allocated to share issue costs.

Option pricing models require the input of highly subjective assumptions. Changes in the subjective input assumptions can materially affect the fair value estimate and, therefore, the existing models may not necessarily provide a single reliable measure of the fair value of the Company's stock options and agent's and finder's warrants.

12. Income Taxes

A reconciliation of the income tax benefit (provisions) with amounts determined by applying the Canadian income tax rates to the consolidated loss for each fiscal year ended December 31 is:

	2009	**2008**
Loss before income taxes	$ 651,693	$ 593,955
Income tax recovery at statutory rates	$(195,508)	$(187,096)
Temporary differences	(18,455)	(461)
Stock-based compensation	35,860	2,888
Change in timing differences	52,862	96,145
Change in valuation allowance	(187,859)	(189,556)
Effect on change in tax rate	63,100	(10,618)
Future income tax recovery	$(250,000)	$(288,698)

During the years ended December 31, 2009 and 2008, the Company issued 6,322,222 common shares on a flow-through basis for gross proceeds of $1,093,500 that were fully spent during those years. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. During the year ended December 31, 2009, the Company renounced to investors exploration expenditures of $1,000,000 (2008: $916,500) related to flow-through shares resulting in a future income tax recovery of $250,000 (2008: $288,698) (Note 11(c)).

12. Income Taxes, continued

The significant components of the Company's future income tax assets and liabilities are as follows:

		2009		2008
Future income tax assets (liabilities):				
Share issue costs	$	198,086	$	161,824
Excess of exploration expenditures book value over tax value		(1,930,547)		(905,778)
Excess of long-term investments tax value over book value		1,245,500		1,242,998
Excess of tax value over book value of equipment		28,343		25,200
Non-capital loss carry-forwards		3,077,553		2,716,495
		2,618,935		3,240,739
Tax rate		25.00%		26.00%
		654,734		842,593
Valuation allowance		(654,734)		(842,593)
Future income tax assets	$	-	$	-

A valuation allowance has been recognized as it is more likely than not that the Company will not realize the future benefit of these income tax assets.

Subject to certain restrictions, the Company has losses of approximately $3,077,000 available to reduce future taxable income as follows:

	2009
2010	$ 247,000
2014	396,000
2015	316,000
2026	374,000
2027	564,000
2028	586,000
2029	594,000
	$ 3,077,000

13. Supplemental Cash Flow Information

		2009		2008
Cash Items				
Income tax paid	$	-	$	-
Interest paid	$	7,070	$	11,612
Share issue costs	$	78,874	$	137,191
Non-Cash Items				
Investing Activities				
Mineral property costs included in accounts payable	$	13,834	$	-
Mineral property costs included in due to related parties	$	-	$	11,868
Stock-based compensation included in mineral properties	$	24,772	$	-
Financing Activities				
Fair value of agent warrants	$	32,768	$	35,954
Fair value of agent options	$	28,116	$	-
Shares issued for mineral properties	$	12,500	$	31,000
Shares received for mineral properties	$	25,000	$ -	
Tax benefits renounced to flow-through share subscribers	$	250,000	$	288,698
Cash reserved for flow-through expenditures	$	583,971	$	127,000
Unrestricted cash	$	3,228	$	1,036

14. Contingencies and Commitments

(a) Contingencies

During 2008, the Company wrote off $7,500 in accounts payable, resulting in a recovery of expenses. Management believes these amounts are not liabilities of the Company; however, there is no assurance that these amounts will not be claimed in the future. The likelihood of the Company having to pay these amounts in the future is unknown at this time.

14. Contingencies and Commitments, continued

(b) Commitments

Service agreement

Under a service agreement, as amended, between the Company and a company privately held by a director and officer of the Company, the Company is charged $8,000 monthly for office space and general administration services. The agreement may be cancelled at any time upon one year's notice and expires on June 30, 2012.

Year ending December 31,	2010
Commitment - service agreement	$96,000

Flow-through exploration expenditures

The Company is committed to incur qualifying Canadian exploration expenditures of $1,760,957 relating to the private placements of flow-through shares completed in the period July 2008 to December 31, 2009, of which $1,000,000 was spent by December 31, 2009 and $760,957 is to be spent by December 31, 2010.

Funds raised through the issuance of flow-through shares are required to be expended on qualifying Canadian mineral exploration expenditures, as defined pursuant to Canadian income tax legislation. The flow-through gross proceeds less the qualified expenditures made to date represent the funds received from flow-through share issuances that have not been spent and are held by the Company for such expenditures.

As at December 31, 2009, the Company has incurred qualifying expenditures of approximately $1,168,590 with respect to exploration activities at its mineral properties, with a remaining commitment of $592,367 to be incurred by December 31, 2010.

15. Subsequent Event

Property Acquisition

On January 13, 2010, the Company entered into an option agreement to acquire a 100% undivided interest in the Rozan Property situated near Nelson, British Columbia. The property comprises 32 mineral claims.

15. Subsequent Event, continued

Property Acquisition, continued

To acquire a 100% interest in the Rozan Property, the Company is required to make staged payments totaling $200,000, incur total exploration expenditures of $1,000,000 and issue 350,000 units (each unit consisting of one common share and one warrant, each warrant exercisable at $0.06 for a period of five years) as follows:

a. Issue 50,000 units on signing of the agreement (issued);

b. Pay $30,000, issue 50,000 units and incur not less than an aggregate $50,000 of exploration expenditures on or before January 13, 2011;

c. Pay $30,000, issue 50,000 units and incur not less than an aggregate $250,000 of exploration expenditures on or before January 13, 2012;

d. Pay $40,000, issue 50,000 units and incur not less than an aggregate $500,000 of exploration expenditures on or before January 13, 2013;

e. Pay $40,000, issue 50,000 units and incur not less than an aggregate $750,000 of exploration expenditures on or before January 13, 2014; and

f. Pay $60,000, issue 100,000 units and incur not less than an aggregate $1,000,000 of exploration expenditures on or before January 13, 2015.

The optionor of the Rozan Property retains a 2% NSR on the property. The Company has the option to purchase one-half of the optionor's NSR by paying $500,000.

In addition to the optionor's NSR of 2% on the property, there is an underlying royalty, pursuant to which a third party is entitled to a 1% NSR on the property. The additional 1% NSR is subject to a right of first purchase by the optionor. Should the optionor acquire the additional 1% NSR on the property, the Company will have first right of purchase to acquire this royalty should the optionor elect in the future to sell it to a third party.