METALLUM RESOURCES INC.

(A Development Stage Entity)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Metallum Resources Inc. were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the year presented by the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the years presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the internal controls over financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

MSCM LLP

Accountants & Advisors for a Complex World

Independent Auditors' Report

To the Shareholders of
Metallum Resources Inc.
(A Development Stage Entity)

Report on the Consolidated Financial Statements

We have audited the consolidated balance sheets of Metallum Resources Inc. as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Metallum 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.

Signed: ***"MSCM LLP"***

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
April 26, 2011

Metallum Resources Inc.
(A Development Stage Entity)

CONSOLIDATED BALANCE SHEETS

(EXPRESSED IN CANADIAN DOLLARS)

December 31,		**2010**		2009
ASSETS				
Current				
Cash and cash equivalents	**$**	**5,573,650**	$	469,297
Sundry receivables		**3,878**		10,334
Prepaid expenses		**2,406**		4,569
Loan receivable (Notes 2 and 12)		**250,000**		500,000
Investment in Trelawney Resources Inc.		**-**		2,900,000
		5,829,934		3,884,200
Equipment (Note 6)		**16,002**		5,588
Other Assets				
Deferred mineral property expenditures (Note 7)		**122,706**		90,656
Mineral property acquisitions (Note 7)		**11,755**		11,755
		134,461		102,411
	$	**5,980,397**	$	3,992,199
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**56,758**	$	129,486
SHAREHOLDERS' EQUITY				
Capital stock (Note 8)		**5,950,804**		5,950,804
Stock options (Note 9)		**482,050**		152,036
Contributed surplus		**1,243,764**		1,211,413
Deficit		**(1,752,979)**		(3,501,540)
Accumulated other comprehensive income		**-**		50,000
		5,923,639		3,862,713
	$	**5,980,397**	$	3,992,199

Basis of Presentation (Note 1)
Proposed Transaction (Note 2)
Subsequent Events (Note 12)

Approved on Behalf of the Board:

"Greg Lipton"
Director

"Kevin Bullock"
Director

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

Metallum Resources Inc.
(A Development Stage Entity)
CONSOLIDATED STATEMENTS OF OPERATIONS
(EXPRESSED IN CANADIAN DOLLARS)

For the Years Ended December 31,	2010	2009
EXPENSES		
Stock-based compensation (Note 9)	$ 362,365	$ 25,082
Professional fees	204,685	377,844
Consulting fees	138,307	132,143
Insurance	32,744	23,806
Stock maintenance and exchange fees	25,249	44,857
Travel	25,028	5,872
Conference	20,281	2,918
Office and administration	17,194	8,237
Rent	13,200	13,200
Advertising and promotion	9,241	4,694
Amortization	5,796	1,446
Loss on sale of Chester Property (Note 7)	-	183,666
	854,090	823,765
Net loss for the year before the following:	(854,090)	(823,765)
Interest income	1,939	9,093
Gain on sale of investment in Trelawney Resources Inc.	2,600,712	-
NET INCOME (LOSS)	$ 1,748,561	$ (814,672)
Basic income (loss) per share (Note 10)	$ 0.03	$ (0.02)
Diluted income (loss) per share (Note 10)	$ 0.03	$ (0.02)
Weighted average number of common shares outstanding - basic (Note 10)	53,803,828	53,803,828
Weighted average number of common shares outstanding - diluted (Note 10)	55,875,938	53,803,828

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

Metallum Resources Inc.

(A Development Stage Entity)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(EXPRESSED IN CANADIAN DOLLARS)

For the Years Ended December 31,	**2010**	2009
NET INCOME (LOSS)	**$ 1,748,561**	$ (814,672)
Other comprehensive income (loss)		
Change in unrealized gains on available-for-sale investments	**-**	50,000
Reclassification of realized gains on available-for-sale investments to income on securities sold	**(50,000)**	-
COMPREHENSIVE INCOME (LOSS)	**$ 1,698,561**	$ (764,672)

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

Metallum Resources Inc.

(A Development Stage Entity)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(EXPRESSED IN CANADIAN DOLLARS)

	Common Shares	Share Capital	Warrants	Stock Options	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance, December 31, 2008	53,803,828	$5,950,804	$ 828,000	$ 231,242	$ 279,125	$ -	$(2,686,868)	$4,602,303
Expiry of warrants	-	-	(828,000)	-	828,000	-	-	-
Stock-based compensation	-	-	-	25,082	-	-	-	25,082
Re-classification of expired stock options	-	-	-	(104,288)	104,288	-	-	-
Other comprehensive income	-	-	-	-	-	50,000	-	50,000
Net loss for the year	-	-	-	-	-	-	(814,672)	(814,672)
Balance, December 31, 2009	**53,803,828**	**$5,950,804**	**$ -**	**$ 152,036**	**$1,211,413**	**$ 50,000**	**$(3,501,540)**	**$3,862,713**
Stock-based compensation (Note 9)	-	-	-	362,365	-	-	-	362,365
Re-classification of expired stock options	-	-	-	(32,351)	32,351	-	-	-
Reclassification of realized gains on available-for-sale investments to income	-	-	-	-	-	(50,000)	-	(50,000)
Net income for the year	-	-	-	-	-	-	1,748,561	1,748,561
Balance, December 31, 2010	**53,803,828**	**$5,950,804**	**$ -**	**$ 482,050**	**$1,243,764**	**$ -**	**$(1,752,979)**	**$5,923,639**

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

Metallum Resources Inc.

(A Development Stage Entity)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(EXPRESSED IN CANADIAN DOLLARS)

For the Years Ended December 31,	2010	2009
CASH AND CASH EQUIVALENTS (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net income (loss) for the year	**$ 1,748,561**	$ (814,672)
Amortization	**5,796**	1,446
Loss on sale of Chester Property	**-**	183,666
Gain on sale of investment in Trelawney Resources Inc.	**(2,600,712)**	-
Stock-based compensation	**362,365**	25,082
Net change in non-cash working capital:		
Sundry receivables	**6,456**	(6,922)
Prepaid expenses	**2,163**	6,554
Accounts payable and accrued liabilities	**(72,728)**	78,604
	(548,099)	(526,242)
INVESTING ACTIVITIES		
Deferred mineral property expenditures	**(32,050)**	(4,195)
Net proceeds on sale of investments	**5,450,712**	-
Acquisition of equipment	**(16,210)**	(445)
	5,402,452	(4,640)
FINANCING ACTIVITIES		
Cash received (advanced) on loan receivable (Note 2)	**250,000**	(500,000)
CHANGE IN CASH AND CASH EQUIVALENTS	**5,104,353**	(1,030,882)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**469,297**	1,500,179
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 5,573,650**	$ 469,297
CASH AND CASH EQUIVALENTS CONSISTS OF:		
Cash	**$ 5,573,650**	$ 14,442
Guaranteed investment certificate	**-**	454,855
	$ 5,573,650	$ 469,297
SUPPLEMENTARY CASH FLOW INFORMATION:		
Interest received	**$ 1,939**	$ 4,239
Shares received on sale of Chester Property	**$ -**	$ 2,850,000

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

1. BASIS OF PRESENTATION

Metallum Resources Inc. (the "Company" or "Metallum") carries on business involving the acquisition, exploration and development of properties for the mining of precious and base metals. The Company holds an option to earn a 70% interest in a gold and silver property in the province of Chubut, Argentina.

The accompanying consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles ("GAAP"). The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities and commitments in the normal course of business. To date, the Company has not earned significant revenue, has an accumulated deficit of $1,752,979 and is considered to be in the development stage. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing and or achieve profitable operations in the future.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

As at December 31, 2010, the Company had cash and cash equivalents of $5,573,650 (2009 - $469,297) and working capital of $5,773,176 (2009 - $3,754,714). Management of the Company believes that it has sufficient funds to pay its ongoing work commitments, administrative expenses and its liabilities for the ensuing period as they fall due.

2. PROPOSED TRANSACTION

On February 27, 2009, the Company signed a Letter of Intent ("LOI"), as amended by agreement dated as of March 18, 2009 with Solfotara Mining Corporation ("Solfotara"), a private corporation incorporated under the laws of British Columbia, Canada with offices in Manila, Philippines and Vancouver, Canada for a reverse takeover ("RTO") of Metallum (herein the "Proposed Transaction"). The parties to the Proposed Transaction acted at arm's length. On November 6, 2009, Metallum and Solfotara signed a definitive agreement (the "Definitive Agreement") in relation to the Proposed Transaction.

To facilitate certain aspects of the Proposed Transaction, Metallum advanced to Solfotara, with the TSX Venture Exchange ("Exchange") approval, $250,000 to fund a property option payment due by Solfotara in respect to its Basay Property in the form of a secured convertible debenture ("Debenture"). If the Proposed Transaction were to be completed, the principal amount of the Debenture plus accrued interest was to be convertible into common shares of Solfotara at an agreed price. If the Proposed Transaction was not completed, Solfotara was required, unless the reason for the default lies with Metallum, to repay the Debenture advances with interest. Under the terms of the LOI, Metallum made an additional secured Debenture advance, as approved by the Exchange, of $250,000 (for a total of $500,000).

On November 1, 2010, the Proposed Transaction was terminated following the withdrawal of conditional approval from the Exchange. As such, the distribution of the 7,029,334 shares of CDC to Metallum shareholders did not occur. Subsequent to the termination of the Proposed Transaction, the terms for repayment of the $500,000 convertible debenture were re-negotiated in favour of a non-interest bearing loan receivable, repayable in two equal instalments, the first in November 2010 and the second in May 2011. In November 2010, first payment was received as scheduled, with the second and final instalment being received subsequent to December 31, 2010, prior to the May 2011 deadline.

3. SIGNIFICANT ACCOUNTING POLICIES

Consolidation Principles

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Metallum S.A. These consolidated financial statements have been prepared in accordance with Canadian GAAP. All references to the Company should be treated as references to Metallum and its subsidiary.

Cash and Cash Equivalents

Cash consists of cash at banks and on hand; cash equivalents consist of highly liquid short-term investments, which may be settled on demand without penalty or within a maximum 90-day period from the date of purchase.

Financial Instruments and Comprehensive Income (Loss)

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the consolidated balance sheets at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost using the effective interest method. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in the statement of operations in the period in which they arise; available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is de-recognized or impaired at which time the amounts would be recorded in net income.

The Company has made the following classifications:

Cash and cash equivalents	Held-for-trading
Investment in Trelawney Resources Inc.	Available-for-sale Financial Assets
Loan receivable	Loans and Receivables
Accounts payable and accrued liabilities	Other Financial Liabilities

Transaction costs are expensed as incurred for financial instruments classified as held-for-trading. For other financial instruments, transaction costs are expensed on initial recognition. The Company accounts for regular purchases and sales of financial assets using trade date accounting.

Equipment

Equipment is recorded at cost and amortized over their estimated useful lives utilizing the following rates and methods:

Computer	30%	Declining balance
Furniture and fixtures	20%	Declining balance

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Assets

The Company considers its exploration costs to have the characteristics of property and equipment. As such, the Company defers all exploration costs, including acquisition costs, field exploration and field supervisory costs relating to the specific properties until those properties are brought into production, at which time, they will be amortized on a unit-of-production basis based on proven and probable reserves or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge will be made.

The recoverability of the amounts shown for deferred mineral property expenditures and mineral property acquisitions is dependent on the existence of economically recoverable reserves, the ability to obtain financing to complete the development of such reserves and meet its obligations under various agreements and the success of future operations or dispositions.

Impairment of Long-Lived Assets

The Company assesses the impairment of long-lived assets, which consist primarily of mineral properties, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of the asset to its net recoverable amount (which is normally determined using discounted value of future cash flows) or its fair value where there are no cash flows identified with the property. Where estimates of future net cash flows are not available, and where other conditions suggest impairment, management assesses fair value, primarily by reference to comparable transactions. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value. The amount of the impairment is charged to income in the period when the impairment is determined.

Asset Retirement Obligations

The Company recognizes its liabilities for obligations relating to the retirement of long-lived assets and obligations arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs are recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related asset, where one is identifiable, is recorded and amortized over the life of the asset. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, changes in the extent of environmental remediation required, changes in the means of reclamation or changes in the cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised. No liability has been recorded in these consolidated financial statements.

Future Income Taxes

Income taxes are calculated using the asset and liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the consolidated balance sheets are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using enacted or substantively enacted tax rates anticipated to apply in the periods that temporary differences are expected to reverse. The effect of a change in a tax rate is recognized in income in the period that includes the date of enactment or substantive enactment. The recognition of future benefits is limited to the extent that the realization of such benefits is more likely than not.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

The Company has a stock option plan which is described in Note 9. Stock options granted during the year are accounted for in accordance with the fair value method of accounting for stock-based compensation. Under this method compensation expense is measured at fair value at the date of grant using the Black-Scholes option pricing model and recognized on a straight-line basis over the vesting period with a corresponding credit to stock options. Balances in stock options are transferred to share capital when the options are exercised.

Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing earnings (loss) by the weighted average number of shares outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share. Diluted loss per share are computed similar to basic loss per share except that the weighted average shares outstanding is increased to include additional shares from the assumed exercise of stock options. If dilutive, the number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of revenue and expenses during the year. Actual results could differ from these estimates. During the fiscal years presented, management has made a number of significant estimates and valuation assumptions, including the recoverability of deferred mineral property expenditures, the fair value of stock-based compensation, future income taxes and the fair value of financial assets and liabilities. These estimates and valuation assumptions are based on present conditions and management's planned course of action as well as assumptions about future business and economic conditions. Should the underlying valuation assumption and estimates change, the recorded amounts could change by a material amount.

Future Accounting Changes

International Financial Reporting Standards (“IFRS”)

In January 2006, the CICA’s Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will be required to have prepared, in time for its first quarter of fiscal 2011 filing, comparative financial statements in accordance with IFRS for the three months ended March 31, 2011.

4. CAPITAL MANAGEMENT

The Company manages its capital with the following objectives:

(i) To ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and

(ii) To maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, comprising capital stock, stock options, contributed surplus, accumulated other comprehensive income and deficit which at December 31, 2010 totaled $5,923,639 (December 31, 2009 - $3,862,713).

The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is regularly updated based on activities related to its mineral properties. Selected information is frequently provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2010. The Company is not subject to any externally imposed capital requirements.

5. PROPERTY AND FINANCIAL RISK FACTORS

(a) Property Risks

The Company’s primary mineral property is the M-18 Property option. Unless the Company acquires or develops additional material properties, the Company will be mainly dependent upon this property. If no additional mineral properties are acquired by the Company, any adverse development affecting this property would have a material adverse effect on the Company’s financial condition and results of operations.

(b) Financial Risks

The Company’s activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including interest rate, foreign exchange rate, and commodity and equity price risk).

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

<u>Credit Risk</u>

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 cash and cash equivalents and loan receivable. Cash and cash equivalents are held with a reputable Canadian chartered bank and a reputable national brokerage firm which are closely monitored by management. Loan receivable pertains to funds advanced under the terms of the Proposed Transaction (See Note 2). Management believes that the credit risk with respect to financial instruments included in cash and cash equivalents and loan receivable is remote. As at December 31, 2010, no receivables were past due or considered impaired.

5. PROPERTY AND FINANCIAL RISK FACTORS (Continued)

(b) Financial Risks (Continued)

Liquidity Risk

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations as they become due, or can only do so at excessive cost. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or as a result of conditions specific to the Company. As at December 31, 2010, the Company had a cash and cash equivalents balance of $5,573,650 (December 31, 2009 - $469,297) to settle current liabilities of $56,758 (December 31, 2009 - $129,486). The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

Most of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market Risk

i) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. 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. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of its banks. As a result, the Company's exposure to interest rate risk is remote.

ii) Foreign Currency Risk

Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the entity's functional currency. The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in Argentina on a cash call basis from the operator of the Argentina project using Canadian currency. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. As a result, the Company's exposure to foreign currency risk is remote.

iii) Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities.

5. PROPERTY AND FINANCIAL RISK FACTORS (Continued)

(b) Financial Risks (Continued)

iii) Price Risk (Continued)

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve month period:

(i) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market price of precious and base metals. Precious and base metal prices have fluctuated widely in recent years. There is no assurance that, even if commercial quantities of precious and base metals may be produced in the future, a profitable market will exist for them.

As of December 31, 2010, the Company was not a precious or base metal producer. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

(c) Fair Value

The Company has designated, for accounting purposes, its cash and cash equivalents as held-for-trading, which are measured at fair value. Loan receivable is classified for accounting purposes as loans and receivables, which are measured at amortized cost which approximates fair market value due to their short-term nature. Accounts payable and accrued liabilities are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which approximates fair market value due to its short-term nature.

(d) Fair Value Hierarchy and Liquidity Risk Disclosure

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where measurement is required. The fair value of cash and cash equivalents approximates its carrying amounts due to the relatively short period to maturity. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the balance sheets, have been prioritized into three levels as per the fair value hierarchy included in GAAP. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data.

	Level One	Level Two	Level Three
Cash and cash equivalents	$ 5,573,650	$ -	$ -

(EXPRESSED IN CANADIAN DOLLARS)

6. EQUIPMENT

December 31, 2010	**Cost**	**Accumulated Amortization**	**Net Book Value**
Computer	$ 22,599	$ 10,597	**$ 12,002**
Furniture and fixtures	7,867	3,867	**4,000**
	$ 30,466	$ 14,464	**$ 16,002**

December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Computer	$ 6,389	$ 5,801	$ 588
Furniture and fixtures	7,867	2,867	5,000
	$ 14,256	$ 8,668	$ 5,588

7. DEFERRED MINERAL PROPERTY EXPENDITURES AND MINERAL PROPERTY ACQUISITIONS

For the Years Ended December 31,	**2010**	2009
M-18 Property Option, Argentina		
Balance, beginning of year	**$ 102,411**	$ 89,156
Acquisition costs	**-**	11,755
Professional and consulting	**32,050**	1,500
	32,050	13,255
Balance, end of year	**$ 134,461**	$ 102,411
Chester Township, Ontario		
Balance, beginning of year	**$ -**	$ 2,563,824
Engineering and consulting	**-**	1,500
Other	**-**	1,195
Sale of Chester Township property	**-**	(2,566,519)
	-	(2,563,824)
Balance, end of year	**$ -**	$ -
TOTAL DEFERRED MINERAL PROPERTY EXPENDITURES	**$ 134,461**	$ 102,411

(EXPRESSED IN CANADIAN DOLLARS)

7. DEFERRED MINERAL PROPERTY EXPENDITURES AND MINERAL PROPERTY ACQUISITIONS (Continued)

Mineral property acquisitions consist of:

	2010	2009
Chester Township, Ontario; 92.5% of eleven patented gold mining claims	$ -	$ 399,790
Chester Township, Ontario; 92.5% of eighteen unpatented mining claims	-	192,357
Sale of Chester Township property	-	(592,147)
M-18 Property Option, Argentina	11,755	11,755
	$ 11,755	$ 11,755

M-18 Property Option, Argentina

On June 4, 2007, the Company signed an Option and Joint Venture Agreement dated March 1, 2007 ("M-18") to earn a 70% interest in the M-18 gold and silver property in the province of Chubut in Argentina from Silver Standard Resources Inc. ("Silver Standard"). The M-18 Property comprises 6,300 hectares measuring nine kilometres east-west by seven kilometres north-south. In the first quarter of fiscal 2009, and again in the first quarter of 2011 the Company negotiated an amendment to the underlying agreement dated March 1, 2007, in favour of a new "Effective Date" of April 14, 2011.

The Company is required to spend $US 1,000,000 over four years on exploration on M-18 to earn its 70% interest. Cumulative exploration expenditures on each anniversary date of April 14th will be $US 250,000 by the first anniversary, $US 500,000 by the second anniversary, $US 750,000 by the third anniversary, and $US 1,000,000 by the fourth anniversary. Likewise, cumulative option payments for the property will occur as follows: $US 15,000 on the first anniversary date, $US 25,000 on the second anniversary date, $US 35,000 on the third anniversary date, and $US 50,000 on the fourth anniversary date.

All proposed exploration on the property will be through a management committee comprised of equal representation of the Company and Silver Standard until the Company exercises its option. However, the Company will determine how exploration funds will be spent on the property. If the Company does exercise its option it will then have the majority voting regarding operations on the property. If a NI 43-101 compliant resource estimate shows that the property is silver dominant, that is, greater than 50% of the value of the resource estimate, Silver Standard will have the option to back-in for a 51% interest in the property by incurring $US 1,000,000 in exploration costs. If Silver Standard exercises its back-in right, it shall be entitled to majority voting. The financial obligations noted above commence on the revised first anniversary date of April 14, 2012.

Chester Township, Ontario

The Chester gold property in Chester Township, Ontario, is situated approximately 121 kilometres south-southwest of Timmins, and 162 kilometres north-northwest of Sudbury. The Chester project is composed of 92.5% of eleven patented, contiguous mining claims, and eighteen unpatented mining claims.

On November 27, 2009 the Company closed a definitive agreement with Trelawney Resources Inc. ("Trelawney") to sell its 92.5% undivided legal and beneficial interest in its Chester Property. Consideration for the purchase consisted of (i) the issuance to the Company by Trelawney of 5,000,000 common shares in the capital of Trelawney on the closing date (received and valued at $2,850,000); and (ii) a 1% (one percent) net smelter return (NSR) royalty from production to be granted to the Company at such time as the price of gold exceeds USD $1,000 per troy ounce. At the time of closing, the Chester Property had total deferred expenditures, deferred acquisition costs net of prior amounts received from earn-in agreements of $125,000 amounting to $3,033,666 which were disposed of for the 5,000,000 shares of Trelawney. The resulting loss on disposition of $183,666 has been recorded in the consolidated statement of operations in fiscal 2009.

(EXPRESSED IN CANADIAN DOLLARS)

8. CAPITAL STOCK

(a) AUTHORIZED

Unlimited number of common shares

(b) ISSUED

	SHARES	AMOUNT
Balance - December 31, 2009 and 2010	**53,803,828**	**$ 5,950,804**

9. STOCK OPTIONS

The following table reflects the continuity of stock options for the period:

	NUMBER OF STOCK OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
Balance - December 31, 2008	2,745,000	$0.10
Expired/Cancelled	(675,000)	0.10
Balance - December 31, 2009	2,070,000	0.10
Granted (i)	2,700,000	0.145
Expired	(495,000)	0.10
Balance - December 31, 2010	**4,275,000**	**$0.13**

(i) On November 8, 2010, the Company granted 2,700,000 compensation options to directors and officers, exerciseable for a period of 5 years at $0.145. The options were assigned a fair value of $362,365, using the Black-Scholes valuation model with the following assumptions: a five year expected life, volatility of 156.35%, risk-free interest rate of 1.89% and a dividend yield of 0%. These options vested immediately upon grant.

The following table reflects the stock options outstanding as at December 31, 2010:

Expiry Date	Exercise Price ($)	Weighted Average Life Remaining	Options Outstanding	Black-Scholes Value
November 8, 2015	0.145	4.86 years	2,700,000	$ 361,800
February 20, 2012	0.135	1.14 years	100,000	13,000
May 1, 2013	0.10	2.33 years	1,325,000	103,350
November 7, 2013	0.10	2.85 years	150,000	3,900
	0.13	3.92 years	4,275,000	$ 482,050

As at December 31, 2010, all of the 4,275,000 issued and outstanding stock options were fully vested and exercisable. These fully vested stock options have a weighted average exercise price of $0.13 and a weighted average life remaining of 3.92 years.

(EXPRESSED IN CANADIAN DOLLARS)

10. BASIC AND DILUTED INCOME (LOSS) PER SHARE

Years Ended December 31,	**2010**	2009
Net income (loss) for the year	**$ 1,748,561**	$ (814,672)
Earnings (loss) per share:		
Basic	**$ 0.03**	$ (0.02)
Diluted	**$ 0.03**	$ (0.02)
Weighted average number of common shares outstanding - basic	**53,803,828**	53,803,828
Dilutive effect of stock options	**2,072,110**	-
Weighted average number of shares outstanding - diluted	**55,875,938**	53,803,828

11. INCOME TAXES

The following table reconciles the expected income tax recovery at the Canadian Federal and Provincial statutory rate of 31% (2009 - 31%) to the amount recognized in the statement of operations:

	2010	2009
Income (loss) before recovery of income taxes	**$ 1,748,561**	$ (814,672)
Expected income tax expense (recovery)	**$ 542,100**	$ (252,500)
Permanent differences	**106,100**	7,800
Tax rate changes and other adjustments	**(16,300)**	(66,800)
(Realized) Unrealized gain on sale of investment	**(419,000)**	7,700
(Decrease) Increase in valuation allowance	**(212,900)**	303,800
Income tax expense reflected in the statements of operations	**$ -**	$ -
The Company's income tax expense (recovery) is allocated as follows:		
Current tax	**$ -**	$ -
Future tax	**-**	-
	$ -	$ -

(EXPRESSED IN CANADIAN DOLLARS)

11. INCOME TAXES (Continued)

The Company's future income tax assets and (liabilities) as at December 31, 2010 and 2009 are as follows:

Future Income Tax Assets		2010		2009
Investments	$	-	$	(6,300)
Equipment		-		1,000
Mineral properties		229,400		418,800
Share issue costs		6,700		33,300
		236,100		446,800
Less: allocated against future income tax liabilities		(2,200)		-
Less: valuation allowance		(233,900)		(446,800)
Net future income tax assets	$	-	$	-

Future Income Tax Liabilities		2010		2009
Equipment	$	(2,200)	$	-
Less: reduction due to allocation of applicable future income tax assets		2,200		-
Net future income tax liabilities	$	-	$	-

12. SUBSEQUENT EVENTS

a) Subsequent to December 31, 2010, the residual outstanding balance of the loan receivable was received in full, in accordance with the terms of the underlying note. Accordingly, all security associated with this loan has been discharged.

b) In the first quarter of fiscal 2011 the Company negotiated an amendment to the underlying agreement with Silver Standard dated March 1, 2007 pertaining to the M-18 property, in favour of a new "Effective Date" of April 14, 2011.