

Audited Financial Statements of

DOT RESOURCES LTD.

Years ended December 31, 2010 and 2009

MANAGEMENT'S REPORT

The accompanying financial statements and all information in the annual report are the responsibility of management.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Other financial information appearing throughout the report is presented on a basis consistent with the financial statements.

DOT Resources Ltd. has established procedures and systems of internal control designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced in a timely manner.

The Audit Committee of the Board of Directors has reviewed these financial statements with management and the independent auditors and reports its findings to the Board of Directors before such statements are approved by the Board of Directors.

The financial statements have been audited by KPMG LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. KPMG LLP have full and free access to the Audit Committee. The Audit Committee is responsible for determining their reappointment and the setting of their fees.

April 27, 2011

(Signed) "John J. Komarnicki"

Chairman of the Board and Chief Executive Officer

(Signed) "Donald D. McKechnie"

Vice-President Finance and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of DOT Resources Ltd.

We have audited the accompanying financial statements of DOT Resources Ltd., which comprise the balance sheets as at December 31, 2010 and 2009, the statements of loss, comprehensive loss and deficit and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes that DOT Resources Ltd. incurred a net loss of \$0.2 million during the year ended December 31, 2010 and, as of that date, DOT Resources Ltd.'s current liabilities exceeded its total current assets by \$0.8 million. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about DOT Resources Ltd.'s ability to continue as a going concern.

(Signed) "KPMG LLP"

Chartered Accountants

Calgary, Canada

April 27, 2011

DOT RESOURCES LTD.

Balance Sheets

As at December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 47,089	\$ 131,363
Accounts receivable	4,102	39,155
	51,191	170,518
Mineral properties and deferred exploration and development costs (note 3)	3,516,241	3,237,404
	\$ 3,567,432	\$ 3,407,922
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 405,240	\$ 313,864
Due to Alhambra	400,000	-
	805,240	313,864
Shareholders' equity:		
Share capital (note 5(b))	2,876,528	3,090,043
Warrants (note 5(c))	338,537	338,537
Contributed surplus (note 5(e))	761,242	666,783
Deficit	(1,214,115)	(1,001,305)
	2,762,192	3,094,058
Future operations and nature of operations (note 1)		
	\$ 3,567,432	\$ 3,407,922

See accompanying notes to financial statements.

APPROVED ON BEHALF OF THE BOARD:

(Signed) John J. Komarnicki, Director

(Signed) Clarence K. Wagenaar, Director

DOT RESOURCES LTD.

Statements of Loss, Comprehensive Loss and Deficit

Years ended December 31, 2010 and 2009

	2010	2009
Expenses:		
General and administrative	\$ 331,866	\$ 315,083
Stock-based compensation	94,459	89,380
Loss before taxes:	(426,325)	(404,463)
Future income tax reduction (note 4(b))	(213,515)	-
Net loss and comprehensive loss	(212,810)	(404,463)
Deficit, beginning of year	(1,001,305)	(596,842)
Deficit, end of year	<u>\$(1,214,115)</u>	<u>\$(1,001,305)</u>
Per share (note 8):		
Net loss per share, basic and diluted	\$ (0.00)	\$ (0.01)

See accompanying notes to financial statements.

DOT RESOURCES LTD.

Statements of Cash Flows

Year ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Operating:		
Net loss	\$ (212,810)	\$ (404,463)
Item not involving cash:		
Stock-based compensation	94,459	89,380
Future income tax reduction	(213,515)	-
	(331,866)	(315,083)
Change in non-cash working capital (note 7)	261,325	113,793
	(70,541)	(201,290)
Financing:		
Issue of shares	-	854,060
Shares issuance costs	-	(75,509)
Loan from Alhambra	400,000	-
	400,000	778,551
Investing:		
Mineral properties and deferred exploration and development costs	(278,837)	(789,929)
Change in non-cash working capital (note 7)	(134,896)	120,095
	(413,733)	(669,834)
Change in cash and cash equivalents	(84,274)	(92,573)
Cash and cash equivalents, beginning of year	131,363	223,936
Cash and cash equivalents, end of year	\$ 47,089	\$ 131,363

See accompanying notes to financial statements.

DOT RESOURCES LTD.

Notes to Financial Statements

Years ended December 31, 2010 and 2009

1. Future operations and nature of operations:

DOT Resources Ltd. (the "Corporation" or "DOT") was incorporated on May 17, 2007 under the Business Corporations Act (Alberta).

On June 25, 2007, the Corporation entered into an Arrangement Agreement (the "Arrangement") with Alhambra Resources Ltd. ("Alhambra"). Under the terms of the Arrangement, which became effective August 29, 2007, Alhambra transferred, at Alhambra's carrying amount of \$933,424, its 100% interest in its claim units located in the Province of British Columbia, together with related assets and obligations pertaining thereto (the "Properties"), in exchange for 30,000,000 common shares of the Corporation.

The Corporation is a development stage company. The business of DOT consists of the exploration and development of its Properties. The Corporation is in the process of exploring its Properties and has not yet determined whether these Properties contain reserves that are economically recoverable.

DOT's ability to continue to conduct exploration activities is dependent upon the possible exercise of the Warrants issued as part of the private placement and DOT's ability to raise additional capital to fund such exploration activity. For the year ended December 31, 2010, the Corporation incurred a net loss of \$0.2 million and had a working capital deficiency of \$0.8 million at December 31, 2010. If the Corporation is unable to obtain suitable financing in the near future, it may be necessary for the Corporation to examine other strategic alternatives to enhance shareholder value, including seeking creditor protection, the possible sale of some or all of the Corporation's assets or the merger or sale of the Corporation with or to a larger, better financed entity,

These financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the appropriateness of the use of the going concern assumption.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

2. Significant accounting policies:

The Corporation's significant accounting policies are as follows:

(a) Mineral properties and deferred exploration and development costs:

The amount shown for mineral properties and deferred exploration and development costs includes the direct costs of acquiring, maintaining, exploring and developing properties, the costs of acquiring directly related equipment, an allocation of management fees and salaries based on time spent and other costs directly related to specific properties. All other costs, including administrative overhead, are expensed as incurred.

DOT RESOURCES LTD.

Notes to Financial Statements

Years ended December 31, 2010 and 2009

Management periodically reviews the carrying amounts of mineral properties and deferred exploration and development costs with internal and external mining professionals. A decision to abandon, reduce or expand activity on a specific project is based upon many factors including general and specific assessments of exploration results, anticipated future mineral prices, anticipated costs of developing and operating a producing mine and the general likelihood that the Corporation will continue exploration on the properties. The Corporation does not set a pre-determined holding period for properties with unproved reserves. However, properties which have not demonstrated positive exploration results at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and that carrying amounts are appropriate.

If a mineral property is abandoned or it is determined that its carrying amount cannot be supported by future production or sales, the related costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as mineral properties and deferred exploration and development costs represent unamortized costs to date and do not necessarily reflect present or future values.

Once commercial production begins, the accumulated costs of mineral properties will be amortized to operations on a unit of production basis over economically recoverable proved plus probable reserves as determined by the Corporation's independent geological and engineering consultant.

(b) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from those reported. Significant areas requiring the use of management estimates include the determination of impairment of mineral properties and deferred exploration and development costs, asset retirement obligations, and assumptions used in calculating stock-based compensation expense. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

The recoverability of amounts shown for mineral properties and deferred exploration and development costs is dependent upon the discovery of economically recoverable reserves, the ability of the Corporation to obtain necessary financing to develop the Properties and upon profitable production or the sale thereof.

(c) Asset retirement obligations ("ARO"):

The Corporation recognizes the fair value of ARO in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on the unit-of-production method over proved and probable reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is expensed to income in the period. Actual costs incurred

DOT RESOURCES LTD.

Notes to Financial Statements

Years ended December 31, 2010 and 2009

upon the settlement of the ARO are charged against the liability to the extent recorded. Any difference between the actual costs incurred and the liability recorded is recognized as a gain or loss in earnings in the period the costs are incurred. The Corporation has no ARO as at December 31, 2010 or 2009.

(d) Income taxes:

The Corporation uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(e) Stock-based compensation:

The Corporation has a stock-based compensation plan for employees and non-employees as described in Note 5(d). The Corporation uses the fair value method of accounting for stock options granted. The fair value of employee stock options is estimated on the date of grant and the resulting fair value is recorded as an expense over the vesting period of the stock option. The fair value of non-employee stock options is revalued each reporting date with the change in fair value of the unvested options expensed over the remaining vesting period. In determining the fair value of the stock options granted, the Black-Scholes model is used and assumptions regarding interest rates, underlying volatility of the Corporation's stock and expected life of the options are made.

(f) Loss per share:

Basic per share amounts are calculated using the weighted average common shares outstanding during the year. Diluted per share amounts are calculated using the treasury stock method, whereby it is assumed that proceeds from the exercise of stock options and warrants are used by the Corporation to repurchase the Corporation's shares at the weighted average market price during the year. Anti-dilutive options and warrants are not included in the calculation.

(g) Cash and cash equivalents:

Cash and cash equivalents consist of bank balances and term deposits with maturity dates of three months or less at the time of acquisition.

(h) Financial instruments:

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and amounts due to Alhambra.

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

All financial instruments are measured at fair value on initial recording except in specific circumstances. Changes in fair value in subsequent periods depend on whether the financial instrument has been classified as: "held for trading", "held to maturity", "loans and receivables", "available for sale" or "other financial liabilities". "Held for trading" financial assets and financial liabilities are measured at fair value with changes in fair value recognized in earnings. "Available for sale" financial assets are measured at fair value, with changes in fair value recognized in other comprehensive income. "Held to maturity" financial assets and "loans and receivables" and "other financial liabilities" are measured at amortized cost. The Corporation has classified its cash and cash equivalents as "held for trading", its accounts receivable as "loans and receivables" and its accounts payable and accrued liabilities and amounts due to Alhambra as "other financial liabilities".

3. Mineral properties and deferred exploration and development costs:

Of the \$3,516,241 in costs recorded to December 31, 2010 (December 2009 - \$3,237,404), a total of \$933,424 represents costs expended on the Properties by Alhambra and sold to the Corporation pursuant to the Arrangement (see note 1). The Properties consist of 49 contiguous claim units in south-central British Columbia covering five (5) zones of copper/gold mineralization. No depletion or depreciation has been recorded during the period.

Details of total mineral properties and deferred exploration and development costs are as follows:

	Inception to date	Year ended December 31, 2010	Year ended December 31, 2009
Balance, beginning of year	\$ -	\$ 3,237,404	\$ 2,447,475
Acquisition costs	933,424	-	-
Drilling	1,983,638	275,235	676,800
Geology	229,703	-	-
Geophysics	272,286	-	52,330
Other	97,190	3,602	60,799
Balance, end of year	\$ 3,516,241	\$ 3,516,241	\$ 3,237,404

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

4. Income taxes:

- (a) Significant components of future income tax assets at December 31, 2010 and 2009 are as follows:

	2010	2009
Future income tax assets:		
Mineral properties and deferred exploration and development costs	\$ 302,116	\$ 515,631
Non-capital losses	306,771	210,649
Share issue costs	25,012	39,745
	633,899	766,025
Valuation allowance	(633,899)	(766,025)
	\$ -	\$ -

Due to the limited information available to the Corporation as to the technical and economical parameters of the Properties, the Corporation did not consider it more likely than not that it would be able to realize a future tax benefit on continuing operations and as a result, a valuation allowance is provided against the future tax assets.

- (b) The tax provision differs from that which would be expected from applying the combined Canadian federal and provincial income tax rates of 28% (2008 – 29%) to net loss as follows:

	2010	2009
Expected income tax reduction	\$ (119,371)	\$ (117,294)
Difference resulting from:		
Stock-based compensation	26,449	25,920
Financing costs	-	(21,897)
Change in tax rates	11,533	16,452
Change in valuation allowance	(132,126)	96,819
	\$ (213,515)	\$ -

The Corporation has Canadian non-capital losses, for which no benefit has been recognized in the financial statements of approximately \$1,227,083 which commence expiry in 2027.

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Notes to Financial Statements

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5. Share capital:

(a) Authorized:

Unlimited voting common shares; and

Unlimited preferred shares for which none have been issued.

(b) Issued and outstanding:

Common shares	Year ended December 31, 2010		Year ended December 31, 2009	
	Number	Amount	Number	Amount
Balance, beginning of year	55,734,333	\$ 3,090,043	41,500,001	\$ 2,650,029
Issued pursuant to a private placement	-	-	14,234,332	854,060
Ascribed to warrants	-	-	-	(313,155)
Ascribed to broker options	-	-	-	(25,382)
Share issue costs	-	-	-	(75,509)
Tax effect of flow-through share renunciation	-	(213,515)	-	-
Balance, end of year	55,734,333	\$ 2,876,528	55,734,333	\$ 3,090,043

Pursuant to a private placement completed on September 23, 2009, the Corporation issued 14,234,332 flow through units (the "FT Units") at a purchase price of \$0.06 per FT Unit for an aggregate gross proceeds of \$854,060. Each FT Unit consists of one flow-through common share and one non-flow-through common share purchase warrant (a "Warrant"). Each Warrant is exercisable into one common share of the Corporation until September 23, 2011 at a price of \$0.12 per common share. The terms and conditions of the private placement require that the Corporation spend the proceeds of the FT Units on Canadian Exploration Expenditures as defined in section 66.1(6) of the Canadian tax act and such expenditures be renounced to the purchasers of the FT Units.

In connection with the private placement, the Corporation paid a 6% brokers commission totaling \$31,080 on 8,633,333 of the FT Units issued together with 863,333 brokers options. Each broker option entitles the holder to acquire one non-flow-through unit ("NFT Unit") until September 23, 2011 at a price of \$0.10 per NFT Unit. Each NFT Unit consists of one common share and one non-flow-through purchase warrant, each warrant of which contains all the same terms and conditions as the Warrants.

By February 28, 2010 the Corporation had incurred all the eligible expenditures as required under the flow through share agreements.

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

(c) Warrants:

	Year ended December 31, 2010		Year ended December 31, 2009	
	Number	Amount	Number	Amount
Balance, beginning of year	15,097,665	\$ 338,537	5,749,999	\$ 319,547
Expired unexercised	-	-	(5,749,999)	(319,547)
Issued pursuant to private placement	-	-	14,234,332	313,155
Ascribed to broker warrants	-	-	863,333	25,382
Balance, end of year	15,097,665	\$ 338,537	15,097,665	\$ 338,537

The Warrants issued as part of the issue of the FT Units were valued at a price of \$0.022 per Warrant or a total of \$313,155. The broker warrants issued as compensation related to the issue of the FT Units were valued at a price of \$0.0294 per broker warrant or a total of \$25,382. Both the Warrants and the broker units were valued based on a risk free interest rate of 1.32% and an average volatility rate over the two year term of the warrants and broker warrants of 150%.

On August 29, 2009, 5,749,999 warrants and 690,000 agents' options issued as part of the Corporation's initial public offering on August 29, 2007 expired unexercised.

(d) Options:

The Corporation has a stock option plan under which directors, officers, employees and consultants of the Corporation are eligible to receive stock options. The aggregate number of common shares to be issued upon the exercise of all stock options granted under the plan shall not exceed 10% of the issued common shares of the Corporation at the time of granting of the options. Options granted under the plan generally have a term of three to five years but may not exceed five years and vest at terms to be determined by the directors at the time of grant. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policies of the stock exchange on which the Corporation's common shares are then listed.

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

A summary of the status of the Corporation's stock option plan is as follows:

	Year ended December 31, 2010		Year ended December 31, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	4,075,000	\$ 0.15	2,325,000	\$ 0.20
Granted	-	-	2,200,000	0.10
Expired	(1,875,000)	0.20	-	-
Forfeited	-	-	(450,000)	0.20
Outstanding, end of year	2,200,000	\$ 0.10	4,075,000	\$ 0.15
Exercisable, end of year	1,650,000	\$ 0.10	2,425,000	\$ 0.18

A summary of the status of the Corporation's stock option plan is as follows:

	Outstanding		Exercisable	
	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
Exercise price				
\$0.10	2,050,000	3.7	1,537,500	3.7
\$0.10	150,000	3.8	112,500	3.8
	2,200,000	3.7	1,650,000	3.7

During the year ended December 31, 2009, the Corporation issued options to purchase 2,200,000 common shares of the Corporation. Each option has an exercise price of \$0.10 per common share, has a term of five years from the date of grant and is exercisable as to twenty-five per cent (25%) immediately and 25% thereafter on each of the dates which are six (6), twelve (12) and eighteen (18) months from the date of grant.

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

The fair value of the options granted in 2009 is estimated on the date of grant using the Black-Scholes option-pricing model. The total fair value of the options was determined to be \$163,496 using the following weighted-average assumptions:

	2009
Fair value of options granted (\$/share)	0.07
Expected life (years)	5.00
Risk-free interest rate (%)	2.55
Expected volatility (%)	150
Expected dividend yield (%)	–

(e) Contributed surplus:

A reconciliation of contributed surplus is as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Balance, beginning of year	\$ 666,783	\$ 257,856
Stock-based compensation expense	74,879	89,380
Expiration of warrants	–	319,547
Balance, end of year	\$ 741,662	\$ 666,783

6. Related party transactions:

- (a) The Corporation and Alhambra have an Administrative and Corporate Services Contract (the "Contract") whereby the Corporation agrees to engage Alhambra to provide management, administration and corporate services to the Corporation. The Contract provides for a monthly remuneration of \$20,000 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing thirty (30) days prior written notice. During the year ended December 31, 2010, the Corporation incurred \$240,000 under the Contract (2009 – \$240,000). The amount owing under the Contract as of December 31, 2010 was \$359,433 (2009 – \$105,353). Effective January 1, 2011, Alhambra has agreed to suspend billing DOT for services provided under the Contract until further notice. During the year Alhambra advanced DOT \$400,000 to assist DOT with its outstanding obligations while DOT is contemplating various options regarding the financing of its exploration plans.
- (b) During the year ended December 31, 2010, the Corporation incurred \$1,731 (2009 – \$18,847) in costs from a corporation controlled by a former director and officer of the Corporation. All amounts were recorded to mineral properties and deferred exploration and development costs. The amount owing to the company controlled by a former director and officer as of December 31, 2010 was \$nil (2009 – \$6,342).

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Years ended December 31, 2010 and 2009

(c) During the year ended December 31, 2010, the Corporation incurred \$26,779 (2009 – \$36,972) in costs from a law firm in which an officer of the Corporation is a partner. Of the total \$26,779 (2009 - \$9,980) was recorded as general and administrative expense and \$nil (2009 – \$26,992) as share issue costs. The amount owing to the law firm as of December 31, 2010 was \$4,814 (2009 - \$9,292).

7. Supplemental cash flow information:

Changes in non-cash working capital are as follows:

	2010	2009
Accounts receivable	\$ 35,053	\$ (30,107)
Accounts payable and accrued liabilities	91,376	263,995
	\$ 126,429	\$ 233,888
Relating to:		
Operating activities	\$ 261,325	\$ 113,793
Investing activities	(134,896)	120,095
	\$ 126,429	\$ 233,888

8. Loss per share:

Basic and diluted loss per share is calculated using the weighted average number of shares outstanding during the period of 55,734,333 (2009 – 45,360,820). Excluded from the calculation were 15,097,665 warrants, 2,200,000 options and 863,333 broker options as their effect would have been anti-dilutive.

9. Management of capital:

The Corporation defines capital that it manages as its shareholders' equity. The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to maintain investor confidence and to not expose the Corporation to excess risk. As DOT is a development stage company, it is dependent on external financing to fund its exploration programs and pay for administrative costs. Due to the fact that the Corporation does not have cash flow from operations to service debt financing, the Corporation's capital programs are funded through equity financing.

Management reviews its capital management approach on an ongoing basis. There were no changes to this approach during the year ended December 31, 2010. The Corporation is not subject to externally imposed capital requirements.

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

10. Financial instruments:

(a) Overview

The Corporation has exposure to the following risks from its use of financial instruments:

- (i) Credit risk
- (ii) Liquidity risk
- (iii) Market risk

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives and policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. These risks are discussed with Management and to the extent the Board determines that the risks are of such a nature that they need to be mitigated, procedures are put in place. To date, no specific risk management tools have been put in place to mitigate these risks.

(b) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its obligation.

Cash and cash equivalents consist of bank balances and short-term deposits that are redeemable at any time at the option of the Corporation. The Corporation manages the credit exposure related to short-term investments by depositing the cash equivalents only with large banks within a particular region which management believes the risk of loss to be remote. Accounts receivable primarily relate to GST receivable from the government of Canada, the credit risk of which is considered very low.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at December 31, 2010 nor was it required to write-off any receivables during the nine months ended December 31, 2010. The Corporation does not consider any of its receivables to be past due at December 31, 2010.

(c) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they come due. Due to the fact that the Corporation has no operations that generate cash flow to meet such obligations, and is a development stage company, the Corporation requires external financing to ensure all of its obligations are met on a timely basis. To date the Corporation has been successful in raising the funds necessary to meet its obligations and fund its capital program.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, commodity prices and interest rates, will affect the Corporation's net earnings. The objective of market risk management is to manage and control market risk exposures within

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

acceptable limits, while maximizing returns. Due to the fact that the Corporation does not currently operate in foreign jurisdictions, does not sell or buy commodities and does not have debt financing, it is not subject to market risk.

(e) Fair value of financial investments

Section 3862, Financial instruments – Disclosures requires an explanation about how fair value is determined for assets and liabilities measured in the financial statements at fair value and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of input as follows:

Level 1: observable inputs such as quoted prices in active markets;

Level 2: inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and

Level 3: unobservable inputs for the asset or liability in which little or no market data exists therefore requiring an entity to develop its own assumptions.

As at December 31, 2010 the financial assets measured at fair value on the Corporation's balance sheet using level 1 inputs are cash and cash equivalents.