

MASUPARIA GOLD CORPORATION

FINANCIAL STATEMENTS

September 30, 2010 and 2009



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AUDITORS' REPORT

To the Shareholders,
Masuparia Gold Corporation

We have audited the balance sheets of Masuparia Gold Corporation as at September 30, 2010 and 2009 and the statements of operations and comprehensive loss, deficit 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 September 30, 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) "BDO CANADA LLP"

Chartered Accountants

Vancouver, Canada
January 28, 2011

MASUPARIA GOLD CORPORATION
BALANCE SHEETS
September 30, 2010 and 2009

	<u>ASSETS</u>	2010	2009 (Restated – Note 16)
Current			
Cash		\$ 8,473	\$ 173,343
Taxes receivable		5,804	3,276
Prepaid expenses		<u>18,828</u>	<u>17,112</u>
		33,105	193,731
Equipment – Note 4		6,896	18,078
Long-term investments – Note 3		378,765	295,622
Resource property costs – Note 5 and Schedule 1		<u>1,359,363</u>	<u>1,352,451</u>
		<u>\$ 1,778,129</u>	<u>\$ 1,859,882</u>
	<u>LIABILITIES</u>		
Current			
Accounts payable and accrued liabilities		\$ 38,248	\$ 49,022
Amounts due to related party – Note 7		<u>90,000</u>	<u>-</u>
		<u>128,248</u>	<u>49,022</u>
	<u>SHAREHOLDERS' EQUITY</u>		
Share capital – Note 6		15,310,468	15,310,468
Contributed surplus – Note 6		269,009	269,009
Accumulated other comprehensive income – Note 10		256,493	183,350
Deficit		<u>(14,186,089)</u>	<u>(13,951,967)</u>
		<u>1,649,881</u>	<u>1,810,860</u>
		<u>\$ 1,778,129</u>	<u>\$ 1,859,882</u>

Nature of Operations and Ability to Continue as a Going Concern – Note 1
Commitments – Notes 5 and 6

APPROVED ON BEHALF OF THE BOARD:

<u>David Baker</u> Director David Baker	<u>Earl Terris</u> Director Earl Terris
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SEE ACCOMPANYING NOTES

MASUPARIA GOLD CORPORATION
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
for the years ended September 30, 2010 and 2009

	2010	2009 (Restated - Note 16)
General and Administrative Expenses		
Amortization	\$ 2,394	\$ 5,209
Bank charges	1,439	2,281
Consulting fees – Note 7	42,343	60,667
Corporate and administration fees	24,000	25,000
Exploration assessment costs	-	11,500
Filing and transfer agent fees & services	16,615	34,474
Management fees – Note 7	72,000	62,000
Office & miscellaneous	3,728	3,916
Professional fees – Note 7	87,732	105,901
Rent, telephone, fax & internet – Note 7	54,757	65,590
Shareholders' communication & promotion	3,066	8,694
Travel	-	9,026
Wages and benefits	1,333	93,313
	<u>(309,407)</u>	<u>(487,571)</u>
Other items		
Interest income	-	354
Other income	-	1,918
Foreign exchange loss	(493)	(6,044)
Loss from disposition of equipment	(159)	(4,269)
Gain from disposition of subsidiary – Note 8	89,930	-
Write-off of mineral properties – Note 5	-	(2,205,100)
	<u>(220,129)</u>	<u>(2,700,712)</u>
Loss before income taxes	(220,129)	(2,700,712)
Income tax (expense) recovery	(13,993)	14,000
	<u>(234,122)</u>	<u>(2,686,712)</u>
Net loss for the year	(234,122)	(2,686,712)
Unrealized gain (loss) on available-for-sale assets – Note 3	<u>73,143</u>	<u>96,858</u>
Comprehensive loss for the year	<u>\$ (160,979)</u>	<u>\$ (2,589,854)</u>
Basic and diluted loss per share	<u>\$ (0.02)</u>	<u>\$ (0.72)</u>
Weighted average number of shares outstanding	<u>10,952,887</u>	<u>3,713,219</u>

SEE ACCOMPANYING NOTES

MASUPARIA GOLD CORPORATION
STATEMENTS OF DEFICIT
for the years ended September 30, 2010 and 2009

	2010	2009 (Restated – Note 16)
Deficit, beginning of the year	\$(13,951,967)	\$(11,265,255)
Net loss for the year	(234,122)	(2,686,712)
Deficit, end of the year	\$(14,186,089)	\$(13,951,967)

SEE ACCOMPANYING NOTES

MASUPARIA GOLD CORPORATION
STATEMENTS OF CASH FLOWS
for the years ended September 30, 2010 and 2009

	2010	2009 <small>(Restated – Note 16)</small>
<hr/>		
Operating Activities		
Loss for the year	\$ (234,122)	\$(2,686,712)
Charges not affecting cash:		
Amortization	2,394	5,209
Write-off of mineral properties	-	2,205,100
Gain from disposition of subsidiary	(89,930)	-
Income tax recovery	(10,000)	(14,000)
Loss from disposition of equipment	159	4,269
	<hr/>	<hr/>
	(331,499)	(486,134)
Changes in non-cash working capital balances:		
Taxes receivable	(2,201)	(644)
Prepaid expenses and advances	(1,705)	4,103
Accounts payable and accrued liabilities	(10,523)	(251,382)
	<hr/>	<hr/>
	(345,928)	(734,057)
Financing Activity		
Issuance of common shares	-	1,355,250
Advances received (paid)	90,000	(765,000)
	<hr/>	<hr/>
	90,000	590,250
Investing Activities		
Deferred exploration costs	(6,912)	144,728
Advance on mineral property expenditures	-	(422)
Proceeds from disposition of subsidiary	95,971	-
Proceeds from disposition of equipment	1,572	3,152
Equipment acquisition	-	(479)
	<hr/>	<hr/>
	90,631	146,979
Effect on cash from foreign exchange	427	22,147
	<hr/>	<hr/>
Increase (decrease) in cash during the year	(164,870)	25,319
Cash, beginning of the year	173,343	148,024
	<hr/>	<hr/>
Cash, end of the year	\$ 8,473	\$ 173,343
	<hr/> <hr/>	<hr/> <hr/>
Supplementary information:		
Cash paid for:		
Interest	\$ -	\$ -
Taxes	\$ 23,993	\$ -
Non-Cash Transactions – Note 15		

SEE ACCOMPANYING NOTES

MASUPARIA GOLD CORPORATION
SCHEDULE OF RESOURCE PROPERTY COSTS
for the years ended September 30, 2010 and 2009

Schedule 1

	<u>Greywacke</u>	<u>Tenoriba</u>	<u>Sucara</u>	<u>Total</u>
Balance, September 30, 2008	<u>1,347,268</u>	<u>2,272,226</u>	<u>82,272</u>	<u>3,701,766</u>
Deferred exploration expenditures				
Assays (recovery)	(4,292)	44,733	-	40,441
Consulting fees	9,000	9,423	-	18,423
Drilling (recovery)	(97)	(14,150)	-	(14,247)
Equipment rental and repairs (recovery)	(648)	9,293	-	8,645
Field work and field supplies	775	13,596	-	14,371
Mapping and reports	-	9,364	-	9,364
Mining concession tax	-	5,694	320	6,014
Permits	433	-	-	433
Office overhead	-	3,454	-	3,454
Staking and maintenance	12	-	-	12
Value added taxes (recovery)	-	(247,337)	-	(247,337)
Wages and casual labour	-	<u>16,212</u>	-	<u>16,212</u>
	<u>5,183</u>	<u>(149,718)</u>	<u>320</u>	<u>(144,215)</u>
Write-off of mineral properties	<u>-</u>	<u>(2,122,508)</u>	<u>(82,592)</u>	<u>(2,205,100)</u>
Balance, September 30, 2009	<u>1,352,451</u>	<u>-</u>	<u>-</u>	<u>1,352,451</u>
Deferred exploration expenditures				
Assays	1,879	-	-	1,879
Consulting fees	4,500	-	-	4,500
Permits	520	-	-	520
Staking and maintenance	<u>13</u>	<u>-</u>	<u>-</u>	<u>13</u>
	<u>6,912</u>	<u>-</u>	<u>-</u>	<u>6,912</u>
Balance, September 30, 2010	<u>\$ 1,359,363</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,359,363</u>

SEE ACCOMPANYING NOTES

MASUPARIA GOLD CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010 and 2009

Note 1 Nature of Operations and Ability to Continue as a Going Concern

The Company was incorporated on July 7, 1981, under the Company Act of British Columbia and its common shares are publicly traded on the TSX Venture Exchange (the "TSX").

The Company is in the development stage and is in the process of exploring its resource properties and has not determined whether these properties contain reserves which are economically recoverable. The recoverability of amounts shown for resource property costs is dependent upon the discovery of economically recoverable reserves and the ability to obtain the necessary financing to complete their exploration and development.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At September 30, 2010, the Company had not yet achieved profitable operations, has accumulated losses of \$14,186,089 since inception, has a working capital deficiency of \$95,143 and expects to incur further losses in the development of its business, which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

Note 2 Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. Actual results may differ from these estimates.

The financial statements have, in management's opinion, been properly prepared within the framework of the significant accounting policies summarized below:

a) Principles of Consolidation

These financial statements include the accounts of the Company and its wholly-owned subsidiary, Minera Masuparia S.A.de C.V. ("Minera") up until April 12, 2010 at which time Minera was disposed of. As a result the financial statements only include consolidated operations up until the date of disposition (Note 8). All inter-company transactions have been eliminated

Note 2 Significant Accounting Policies – (cont'd)

b) Equipment and Amortization

Equipment is recorded at cost. The Company provides for amortization of furniture and equipment using the declining balance method at a rate of 20% per annum. Additions during the year are amortized at one half rates.

c) Resource Property Costs

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries and are not intended to represent present or future values.

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

d) Asset Retirement Obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. As at September 30, 2010 and 2009, the Company has determined that it does not have any asset retirement obligations.

Note 2 Significant Accounting Policies – (cont'd)

e) Basic and Diluted Loss Per Share

Basic loss per share is calculated by dividing the net loss for the year available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti dilutive. Basic and diluted loss per share are the same for the years presented.

For the year ended September 30, 2010, potentially dilutive common shares (relating to share purchase options and warrants outstanding) totalling 1,530,000 (2009: 1,543,000) were not included in the computation of loss per share because their effect was anti-dilutive.

f) Stock-based Compensation

The Company has a stock-based compensation plan, whereby stock options are granted in accordance with the policies of regulatory authorities. The fair value of all share purchase options granted is expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

g) Income Taxes

The Company accounts for income taxes by the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely-than-not to be realized.

h) Foreign Currency Translation

The Company's functional currency is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities and foreign currency denominated expenses are translated at exchange rates in effect at the time of each transaction. Gains and losses on translation are included in the results from operations.

Note 2 Significant Accounting Policies – (cont'd)

i) Financial Instruments

The Company has designated its financial instruments as follows: cash is classified as held-for-trading which is measured at fair value. Long-term investments are classified as available for sale which are measured at fair value, with unrealized gains and losses recorded in other comprehensive income until the asset is realized, at which time they will be recorded in net earnings (losses). Accounts payable and accrued liabilities and amounts due to related party are classified as other liabilities. They are initially measured at fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.

CICA Handbook Section 3862, Financial Instruments - Disclosure, increases the disclosures currently required to enable users to evaluate the significance of financial instruments for an entity's financial position and performance. The standard establishes a three-tier hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Company's investments. The hierarchy of inputs and description of inputs is described as follows:

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

Financial instruments classified as level 1 – quoted prices in active markets include cash and long-term investments. The Company has no financial instruments classified as level 2 or 3.

j) Impairment of Long-lived Assets

Long-lived assets and intangibles held and used by the Company are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the carrying value is greater than the future expected cash flow, an impairment loss is recognized. An impairment loss is calculated as the difference between the fair value, calculated using discounted cash flows when quoted market prices are not available and the carrying amount of the asset. During the year ended September 30, 2009, the Company abandoned some of its mineral properties totalling \$2,205,100 (Note 5). There was no write-down or impairment of mineral properties during the year ended September 30, 2010.

Note 2 Significant Accounting Policies – (cont'd)

k) Environmental Costs

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the cost can be reasonably estimated.

l) Revenue Recognition

Revenue from administrating the Greywacke exploration project as operator is recognized when services are rendered and collection is reasonably assured. The Company assesses customer credit worthiness, both before entering into contracts and throughout the revenue recognition process. No revenues were recognized during the fiscal years ended September 30, 2010 and 2009.

m) Long Term Investments

Long term investments in marketable securities are classified as available for sale and are recorded at fair value at each balance sheet date with the changes in fair value recognized in comprehensive income.

n) Recently Adopted Canadian Accounting Standards

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, provides guidance on how to take into account an entity's own credit risk and the credit risk of the counter party in determining the fair value of financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. The adoption of this standard did not have an impact on the Company's financial statements.

Mining Exploration Costs

On March 27, 2009, EIC-174, Mining Exploration Costs, provides guidance on the capitalization of exploration costs and the impairment review of exploration costs. The adoption of this standard did not have an impact on the Company's financial statements.

Note 2 Significant Accounting Policies – (cont'd)

o) Future Accounting Standards

Business Combinations

CICA Handbook Section 1582, Business Combinations, replaces Section 1581, Business Combinations and provides the Canadian equivalent to International Financial Reporting Standards (“IFRS”) 3, Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The adoption of this standard is not expected to have a material impact on the Company’s financial statements

Consolidations and Non-controlling Interests

Section 1601, Consolidated Financial Statements, and Section 1602, Non-Controlling Interests, replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), Consolidated and Separate Financial Statements. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company expects to adopt this standard on October 1, 2011. The adoption of this standard is not expected to have a material impact on the Company’s financial statements.

International Financial Reporting Standards (“IFRS”)

In 2006, AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company’s transition date of October 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Note 3 Long-term Investments

As at September 30, 2010, the Company had available for sale 1,847,636 common shares of Goldbrook Ventures Inc. ("Goldbrook"), a public company related by virtue of common directors.

Long-term investments were recorded at fair value as at September 30, 2010 and 2009 in accordance with the accounting policy on financial instruments.

	<u>September 30,</u> <u>2010</u>	<u>September 30,</u> <u>2009</u>
<u>Long-term investments</u>		
1,847,636 Goldbrook shares at market (cost \$86,272)	\$ 378,765	\$ 295,622

During the year ended September 30, 2010, the Company recorded an unrealized gain on available-for-sale assets of \$73,143 (2009: \$96,858) to comprehensive income due to an increase in fair value of the price of the Goldbrook common shares.

Note 4 Equipment

	<u>September 30, 2010</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Furniture and equipment	<u>\$ 28,296</u>	<u>\$ 21,400</u>	<u>\$ 6,896</u>
	<u>September 30, 2009</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Furniture and equipment	<u>\$ 41,908</u>	<u>\$ 23,830</u>	<u>\$ 18,078</u>

In April 2010, the Company disposed its Mexico subsidiary, Minera Masuparia S.A. de C.V., including the equipment in the subsidiary (Note 8).

Note 5 Resource Property Costs

a) Greywacke

On May 21, 2001, the Company entered into an option agreement whereby the Company could earn a 51% interest in four mineral claims located in northern Saskatchewan for the following consideration:

- i) \$10,000 (paid);
- ii) 16,665 common shares (issued); and
- iii) incurring exploration of \$850,000 (incurred).

Note 5 Resource Property Costs – (cont'd)

b) Ungava Property

On July 30, 2004, the Company reached an agreement with Goldbrook Ventures Inc. (“Goldbrook”), whereby Goldbrook acquired 100% of the Company’s interest in this property. As consideration Goldbrook delivered 3,000,000 common shares to the Company.

This Agreement replaced the option previously granted to Goldbrook by the Company to earn up to an 80% interest in the Property. The Property is subject to a 1% net smelter return royalty on any mineral production from the Property. Goldbrook has the option to purchase one-half of this royalty for \$1 million.

c) Sucara

By agreements dated April 2007, the Company announced the acquisition of two options to purchase a 100% interest in the Sucara property. The Sucara property consisted of two mining claims totalling 161 hectares located in the State of Chihuahua, Mexico in the municipality of Guadalupe y Calvo. During the year ended September 30, 2009, the Company terminated these option agreements and wrote off \$82,592 in acquisition costs and deferred exploration costs.

d) Tenoriba

By agreements dated April 2007, the Company announced the acquisition of two options to purchase a 100% interest in the Tenoriba property. The Tenoriba property consisted of three mining claims totalling 8,100 hectares, located in the municipality of Guadalupe y Calvo, State of Chihuahua, Mexico. During the year ended September 30, 2009, the Company terminated these option agreements and wrote off \$2,122,508 in acquisition costs and deferred exploration costs.

Note 6 Share Capital

a) Authorized:

Unlimited number of common shares without par value

b) Issued:

	<u>Number</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Balance, September 30, 2008	1,455,887	13,688,968	269,009
For cash:			
– pursuant to a private placement – at \$0.50	1,497,000	748,500	-
– pursuant to a private placement – at \$0.1125	8,000,000	900,000	-
Share issue costs	-	(27,000)	-
Balance, September 30, 2009 and 2010	<u>10,952,887</u>	<u>\$ 15,310,468</u>	<u>\$ 269,009</u>

Note 6 Share Capital – (cont'd)

b) Issued: – (cont'd)

On October 8, 2008, the Company closed a non-brokered private placement of 1,497,000 units of the Company at a price of \$0.50 per unit for gross proceeds of \$748,500. Each unit is comprised of one common share of the Company and one transferrable common share purchase warrant. Each warrant is exercisable into one additional common share of the Company for a period of two years from the closing date of the private placement at an exercise price of \$1.00. The Company applied the residual approach and allocated all proceeds to common shares and none to warrants. Finders' fees were paid in the amount of \$27,000.

On August 26, 2009, the Company closed a non-brokered private placement of 8,000,000 shares of the Company at a price of \$0.1125 per share for gross proceeds of \$900,000. No finder's fees were paid in respect of this private placement.

c) Share Consolidation

At the annual and special general meeting of shareholders held on June 15, 2009, the shareholders of the Company approved the consolidation of the Company's common shares on a one new for ten old (1:10) basis. The Company effected the share consolidation from July 16, 2009. The Company has retrospectively restated the number of shares and issue prices per share in these financial statements on the new basis to reflect the consolidation.

d) Commitments:

i) Stock-based Compensation Plan

The Company has a stock option plan under which it is authorized to grant options to directors, officers, consultants or employees for up to a maximum of 10% of the issued and outstanding common shares of the Company. The exercise price under each option shall be set in accordance with regulatory policies and may not be granted at an exercise price of less than the closing price of the Company's shares traded through the TSX Venture Exchange on the grant date. Stock options have a maximum term of five years.

No stock options were granted during the years ended September 30, 2010 and 2009.

Note 6 Share Capital – (cont'd)

d) Commitments: – (cont'd)

i) Stock-based Compensation Plan – (cont'd)

A summary of the Company's outstanding stock options as of September 30, 2010 and 2009 is as follows:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Outstanding and exercisable at September 30, 2008	54,762	\$6.94
Expired	<u>(8,762)</u>	\$30.00
Outstanding and exercisable at September 30, 2009	46,000	\$2.55
Forfeited	<u>(13,000)</u>	\$2.55
Outstanding and exercisable at September 30, 2010	<u><u>33,000</u></u>	\$2.55

At September 30, 2010, there were 33,000 stock options outstanding and fully vested entitling the holders thereof the right to purchase one common share for each option held as follows:

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
33,000	\$2.55	November 5, 2011

Weighted average contractual life remaining is 1.10 years.

Note 6 Share Capital – (cont'd)

d) Commitments: – (cont'd)

ii) Share Purchase Warrants – (cont'd)

A summary of the Company's outstanding share purchase warrants at September 30, 2010 and 2009 is presented below:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Outstanding and exercisable at September 30, 2008	821,350	\$2.96
Issued	1,497,000	\$1.00
Expired	(124,000)	\$2.55
Expired	(400,000)	\$3.50
Expired	<u>(297,350)</u>	\$2.40
Outstanding and exercisable at September 30, 2009 and 2010	<u><u>1,497,000</u></u>	\$1.00

At September 30, 2010, there were 1,497,000 share purchase warrants outstanding entitling the holders thereof the right to purchase one common share for each warrant held as follows:

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,497,000	\$1.00	October 8, 2010

The weighted average contractual life remaining is 0.02 years (See Note 14).

Note 7 Related Party Transactions

During the years ended September 30, 2010 and 2009, the Company was charged the following amounts by companies owned by directors:

	<u>2010</u>	<u>2009</u>
Management fees	\$ 72,000	\$ 62,000
Consulting fees – financial	15,000	22,500
– investors’ relations	24,000	27,000
Equipment rental	17,438	17,438
Professional fees	18,000	12,250
Rent	<u>6,000</u>	<u>5,000</u>
	<u>\$ 152,438</u>	<u>\$ 146,188</u>

These charges were measured by the exchange amount which is the amount agreed upon by the transacting parties.

At September 30, 2010, the Company had an advance payable of \$90,000 (2009: \$Nil) to a company controlled by a director of the Company. The advance payable was unsecured, non-interest bearing payable on demand.

Note 8 Sale of Mexican Subsidiary

On April 12, 2010, the Company sold 100% of its shares in its Mexican subsidiary, Minera to an unrelated third party for gross proceeds of \$95,971 less \$23,993 withheld for Mexican income tax purposes. A gain in the amount of \$89,930 was recognized on the statement of operations and comprehensive loss as the amount of gross proceeds of \$95,971 less \$6,041 being the net book value of the net assets of Minera.

Note 9 Segmented Information

On April 12, 2010, the Company disposed its Mexico subsidiary, Minera, for gross proceeds of \$95,971, 25% of which has been withheld for Mexican income tax purposes.

As at September 30, 2010, the Company is primarily engaged in mining exploration activities in Canada. Segmented operations and identifiable assets are as follows:

	Years ended September 30	
	2010	2009 (Restated – Note 16)
Loss from operations		
Canada	\$ (225,982)	\$ (405,280)
Mexico	<u>(8,140)</u>	<u>(2,281,432)</u>
	<u>\$ (234,122)</u>	<u>\$ (2,686,712)</u>
Identifiable assets		
Canada	\$ 1,778,129	\$ 1,828,799
Mexico	<u>-</u>	<u>31,083</u>
	<u>\$ 1,778,129</u>	<u>\$ 1,859,882</u>

Note 10 Accumulated Other Comprehensive Income

	2010	2009 (Restated – Note 16)
Balance, beginning of the year	\$ 183,350	\$ 86,492
Unrealized gain on available-for-sale financial assets during the year (Note 3)	<u>73,143</u>	<u>96,858</u>
Balance, end of the year	<u>\$ 256,493</u>	<u>\$ 183,350</u>

Note 11 Income Taxes

The Company has accumulated non-capital losses totalling \$2,230,000 available to reduce future years' taxable income. These losses expire as follows:

	<u>Canada</u>
2014	\$ 218,000
2015	293,000
2026	186,000
2027	553,000
2028	266,000
2029	355,000
2030	<u>359,000</u>
	<u>\$ 2,230,000</u>

The Company has accumulated capital losses of \$1,472,000 which may be carried forward indefinitely and applied against future capital gains.

The Company has accumulated Canadian exploration and development expenditures totalling \$5,356,000 available to reduce future years' taxable income. These expenditures carry forward indefinitely and can be applied to taxable income at various rates.

A reconciliation of income taxes at statutory rates is as follows:

	2010	2009 (Restated– Note 16)
a) Loss before income taxes	<u>\$ (220,129)</u>	<u>\$ (2,700,712)</u>
Statutory income tax rates	<u>28.88%</u>	<u>30.13%</u>
Computed income tax recovery	\$ (63,600)	\$ (813,600)
Non-deductible stock-based compensation and other items	26,293	121,700
Non-deductible portion of capital gains	(11,200)	-
Share issue costs	-	(6,800)
Expiry of loss carry-forward	31,300	69,400
Effect of reduction in statutory rate	8,200	90,100
Lower tax rate in foreign jurisdiction	-	48,500
Increase in valuation allowance	<u>23,000</u>	<u>476,700</u>
Total income tax expense (recovery)	<u>\$ 13,993</u>	<u>\$ (14,000)</u>

Note 11 Income Taxes – (cont'd)

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

	<u>2010</u>	<u>2009</u>
Non-capital loss carryforwards	\$ 552,000	\$ 1,169,000
Capital loss carryforwards	184,000	195,000
Resource costs	999,000	999,000
Share issue costs	14,000	23,000
Equipment	11,000	12,000
Other	20,000	20,000
Marketable securities	<u>(37,000)</u>	<u>(26,000)</u>
	1,743,000	2,392,000
Less: valuation allowance	<u>(1,743,000)</u>	<u>(2,392,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

The tax benefit of net operating losses carried forward and the associated valuation allowance was reduced by \$672,000 (2009 - \$Nil) related to the net operating losses that expired as a result of the disposition of the Company's subsidiary (Note 8). The Company has recorded a valuation allowance against its future income tax assets based on the extent that it is more likely-than-not that sufficient taxable income will not be realized during the carry-forward periods to utilize all the future tax assets.

Note 12 Capital Disclosure

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity, as well as cash.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash.

The Company is dependent on the capital markets as its sole source of operating capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects.

The company is not subject to any capital requirements imposed by a regulator.

Note 13 Financial Instruments

Fair Value of Financial Instrument

Financial instruments include cash, long-term investments, accounts payable and accrued liabilities and amounts due to related party. The fair value of these financial instruments approximates their carrying value. In management's opinion, the Company is not exposed to significant interest or credit risks arising from these financial instruments except as follows:

Liquidity Risk

The Company is exposed to liquidity risk which is the risk that the Company will encounter difficulty in selling all of the long-term investments at an amount equivalent to its carrying cost.

Commodity Price Risk

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market prices of gold.

Note 14 Subsequent Events

In October 2010, the 1,497,000 share purchase warrants with an exercise price of \$1.00 per share expired unexercised.

Subsequent to year end \$55,000 in advances were received from a Company controlled by a director. These amounts have no specific terms of repayment and are non-interest bearing.

Note 15 Non-Cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statement of cash flows.

During the year ended September 30, 2009, the Company issued 532,000 common shares valued at \$266,250 from share subscriptions received.

Note 16 Restatement

During the preparation of the financial statements for the year ended September 30, 2010, the Company determined that a future income tax recovery had been incorrectly presented in the financial statements for the year ended September 30, 2009.

As at September 30, 2009, the fair value of the Company's marketable securities designated as available-for-sale exceeded the tax basis of these investments by \$209,350. These unrealized gains gave rise to a future income tax liability of \$14,000. The Company had sufficient non-capital losses available to reduce this future income tax liability to zero.

Note 16 Restatement – (cont'd)

In accordance with CICA EIC 172, "Income Statement Presentation of a Tax Loss Carryforward Recognized Following an Unrealized Gain Recorded in Other Comprehensive Income", the reduction of the future income tax liability should have been recorded as a recovery in the statement of operations rather than as a recovery in other comprehensive income. This accounting policy was in effect for the Company's fiscal year ended September 30, 2009 where retroactive adoption was required.

The financial statements for the year ended September 30, 2009 have accordingly been adjusted to increase the future tax recovery in the statement of operations and reduce the unrealized gain on available-for-sale financial assets in comprehensive income by \$14,000. The impact on basic and diluted gain loss share is a decrease in the loss per share from (\$0.73) to (\$0.72). In addition the financial statements for the year ended September 30, 2009 have been accordingly adjusted to decrease both the opening deficit and accumulated comprehensive income by \$12,000 to reflect the impact on the opening figures as a result of the retroactive adoption of EIC 172.

Summary of restatement:

September 30, 2009	As Previously Reported	Adjustment	As Restated
Income tax (expense) recovery	\$ -	\$ 14,000	\$ 14,000
Net loss for the year	\$ (2,700,712)	\$ 14,000	\$ (2,686,712)
Unrealized gain on available-for-sale investment	\$ 110,858	\$ (14,000)	\$ 96,858
Deficit, beginning of the year	\$(11,277,255)	\$ 12,000	\$(11,265,255)
Deficit, end of the year	\$(13,977,967)	\$ 26,000	\$(13,951,967)
Accumulated other comprehensive income, beginning of the year	\$ 98,492	\$ (12,000)	\$ 86,492
Accumulated other comprehensive income, end of the year	\$ 209,350	\$ (26,000)	\$ 183,350