



COMMERCE RESOURCES CORP.

**COMMERCE RESOURCES CORP.**

REPORT AND FINANCIAL STATEMENTS

January 31, 2010 and October 31, 2009

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**COMMERCE RESOURCES CORP.**  
**BALANCE SHEETS**

<u>ASSETS</u>	<u>January 31,</u> <u>2010</u> <i>(Unaudited)</i>	<u>October 31,</u> <u>2009</u> <i>(Audited)</i>
Current		
Cash and cash equivalents	\$ 14,712,423	\$ 15,909,787
Marketable securities – Note 3	260,074	148,536
Amounts receivable	15,031	21,766
Mining tax credits receivable - Note 4	1,825,576	1,825,576
Goods and services tax recoverable	152,310	201,421
Due from related parties – Note 9	22,290	11,874
Prepaid expenses	<u>241,294</u>	<u>205,686</u>
	17,228,998	18,324,646
Investments in asset-backed commercial paper – Note 5	4,126,267	4,131,354
Reclamation bonds	57,000	57,000
Equipment – Note 6	524,305	547,263
Resource properties – Notes 7, 8 and Schedule I	<u>22,734,180</u>	<u>22,031,815</u>
	<u>\$ 44,670,750</u>	<u>\$ 45,092,078</u>

**LIABILITIES**

Current		
Accounts payable and accrued liabilities	\$ 138,280	\$ 199,633
Due to related parties – Note 9	<u>154,625</u>	<u>178,056</u>
	<u>292,905</u>	<u>377,689</u>

**SHAREHOLDERS' EQUITY**

Share capital – Note 8	56,547,355	56,504,666
Share subscriptions receivable – Note 8	-	(150,000)
Contributed surplus – Note 8	5,006,270	4,809,815
Accumulated other comprehensive income (loss)	549,116	553,234
Deficit	<u>(17,724,896)</u>	<u>(17,003,326)</u>
	<u>44,377,845</u>	<u>44,714,389</u>
	<u>\$ 44,670,750</u>	<u>\$ 45,092,078</u>

Commitments – Notes 7 and 8  
Subsequent Events – Notes 4, 8 and 14

APPROVED BY THE DIRECTORS:

<u>“Dave Hodge”</u> Director Dave Hodge	<u>“Sven Olsson”</u> Director Sven Olsson
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SEE ACCOMPANYING NOTES

**COMMERCE RESOURCES CORP.**  
**STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS**  
For the three months ended January 31, 2010 and 2009  
*(Unaudited)*

	<u>2010</u>	<u>2009</u>
Administrative expenses		
Administration fees and rent – Note 9	\$ 270,000	\$ 270,000
Advertising and website	159,640	18,376
Bank charges and interest	747	357
Consulting fees – Note 9	35,959	35,531
Filing and transfer agent fees	1,633	1,150
Insurance	3,655	-
Investor relations	26,680	9,318
Office, telephone and miscellaneous – Note 9	4,915	(688)
Professional fees	4,110	-
Stock-based compensation – Note 8	232,944	-
Travel and promotion	<u>47,392</u>	<u>61,215</u>
Loss before other items	<u>(787,675)</u>	<u>(395,259)</u>
Other items:		
Interest income	<u>66,105</u>	<u>320,544</u>
	<u>66,105</u>	<u>320,544</u>
Net loss for the year	<u>(721,570)</u>	<u>(74,715)</u>
Other comprehensive income		
Unrealized gain (loss) on marketable securities	<u>(4,118)</u>	<u>-</u>
Comprehensive income for the year	<u>(4,118)</u>	<u>-</u>
Net loss and comprehensive loss for the year	<u>\$ (725,688)</u>	<u>\$ (74,715)</u>
Basic and diluted loss per share	<u>\$ (0.006)</u>	<u>\$ (0.001)</u>
Weighted average number of shares outstanding	<u>119,211,486</u>	<u>111,534,015</u>

SEE ACCOMPANYING NOTES

**COMMERCE RESOURCES CORP.**  
**STATEMENTS OF SHAREHOLDERS' EQUITY**  
**For the three months ended January 31, 2010 and 2009**  
*(Unaudited)*

	<u>Share Capital</u>		<u>Share</u>	<u>Contributed</u>	<u>Accumulated</u>		<u>Total</u>
	<u>Number</u>	<u>Amounts</u>	<u>Subscriptions</u>	<u>Surplus</u>	<u>Other</u>	<u>Deficit</u>	
			<u>Receivable</u>		<u>Income (Loss)</u>		
Balance, October 31, 2008	111,534,015	49,595,611	-	3,729,480	(62,765)	(14,246,678)	39,015,648
Issuance of share capital – Note 8	18,014,250	7,205,700	(150,000)	-	-	-	7,055,700
Exercise of stock options	950,000	518,363	-	(278,863)	-	-	239,500
Share Issue costs – Note 8	18,875	(632,728)	-	-	-	-	(632,728)
Broker warrants – Note 8	-	(182,280)	-	182,280	-	-	-
Stock-based compensation – Note 8	-	-	-	1,176,918	-	-	1,176,918
Net loss	-	-	-	-	-	(2,756,648)	(2,756,648)
Unrealized gain on available-for-sale financial assets	-	-	-	-	615,999	-	615,999
Balance, October 31, 2009	130,517,140	56,504,666	(150,000)	4,809,815	553,234	(17,003,326)	44,714,389
Exercise of stock options	70,000	54,689	-	(36,489)	-	-	18,200
Share Issue costs – Note 8	-	(12,000)	-	-	-	-	(12,000)
Subscription receivable	-	-	150,000	-	-	-	150,000
Stock-based compensation – Note 8	-	-	-	232,944	-	-	232,944
Net loss	-	-	-	-	-	(721,570)	(721,570)
Unrealized gain on available-for-sale financial assets	-	-	-	-	(4,118)	-	(4,118)
Balance, January 31, 2010	<u>130,587,140</u>	<u>\$ 56,547,355</u>	<u>\$ -</u>	<u>\$ 5,006,270</u>	<u>\$ 549,116</u>	<u>\$ (17,724,896)</u>	<u>\$ 44,377,845</u>

SEE ACCOMPANYING NOTES

**COMMERCE RESOURCES CORP.**  
**STATEMENTS OF CASH FLOWS**  
**For the three months ended January 31**  
***(Unaudited)***

	<u>2010</u>	<u>2009</u>
Operating Activities		
Net loss for the year	\$ (721,570)	\$ (74,715)
Add (deduct) items not affecting cash:		
Stock-based compensation	<u>232,944</u>	<u>-</u>
	(488,626)	(74,715)
Changes in non-cash working capital items related to operations:		
Amounts receivable	6,735	65,404
Goods and services tax recoverable	49,111	290,661
Prepaid expenses	(35,608)	727
Due to related parties	(33,847)	-
Accounts payable and accrued liabilities	<u>29,432</u>	<u>24,014</u>
Cash used in operating activities	<u>(472,803)</u>	<u>306,091</u>
Financing Activities		
Issue of share capital for cash, net of issue costs	6,200	-
Share subscriptions receivable	<u>150,000</u>	<u>-</u>
Cash provided by financing activities	<u>156,200</u>	<u>-</u>
Investing Activities		
Acquisition of equipment	-	(37,661)
Redemption of Asset-backed commercial paper	5,087	-
Proceeds from property option agreements	10,000	-
Purchase of marketable securities	(83,156)	-
Deferred exploration and development costs, net of tax credits received	<u>(812,692)</u>	<u>(2,754,264)</u>
Cash used in investing activities	<u>(880,761)</u>	<u>(2,791,925)</u>
Decrease in cash and cash equivalents during the period	(1,197,364)	(2,485,834)
Cash and cash equivalents, beginning of period	<u>15,909,787</u>	<u>16,001,022</u>
Cash and cash equivalents, end of period	<u>\$ 14,712,423</u>	<u>\$ 13,515,188</u>
Cash and cash equivalents consists of the following:		
Cash	<u>\$ 335,649</u>	<u>\$ 1,119,825</u>
Money market funds	<u>\$ 14,376,774</u>	<u>\$ 12,395,363</u>
Cash paid during the year for:		
Interest expense	<u>\$ Nil</u>	<u>\$ Nil</u>
Income taxes	<u>\$ Nil</u>	<u>\$ Nil</u>

Non-cash Transactions – Note 13

SEE ACCOMPANYING NOTES

**COMMERCE RESOURCES CORP.**  
**SCHEDULE OF RESOURCE PROPERTIES**  
For the three months ended January 31, 2010

Schedule I

	<u>Blue River</u> <u>Claims</u>	<u>Eldor</u> <u>Claims</u>	<u>Other</u> <u>Claims</u>	<u>Totals</u>
Acquisition costs				
Balance, beginning of the year	\$ 201,365	\$ 1,217,889	\$ 28,927	\$ 1,448,181
Staking	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of the period	<u>201,365</u>	<u>1,217,889</u>	<u>28,927</u>	<u>1,448,181</u>
Deferred exploration and development costs – Note 9				
Balance, beginning of the year	<u>16,319,891</u>	<u>4,198,414</u>	<u>65,329</u>	<u>20,583,634</u>
Amortization – field equipment and office	12,935	10,023	-	22,958
Archeological impact analysis	15,788	-	-	15,788
Assays and analytical	96,598	16,410	-	113,008
Consulting	400	2,272	1,016	3,688
Drilling	12,774	-	-	12,774
Engineering	31,861	-	-	31,861
Environmental and permitting	20,044	-	-	20,044
Field equipment rental	12,205	10,511	-	22,716
Community	4,107	-	-	4,107
Field supplies	6,490	11,453	-	17,943
Food and accommodation	7,433	1,493	-	8,926
Geology, mapping and drafting	220,049	59,939	-	279,988
Metallurgy	95,696	-	-	95,696
Other	16,085	12,976	-	29,061
Permitting and regulatory	1,875	14,552	-	16,427
Project insurance	4,242	-	-	4,242
Research	36,049	-	-	36,049
Travel and transport	<u>7,631</u>	<u>1,958</u>	<u>-</u>	<u>9,589</u>
	<u>602,262</u>	<u>141,587</u>	<u>1,016</u>	<u>744,865</u>
Less: Mining tax credits	-	-	-	-
Option payments received	<u>-</u>	<u>-</u>	<u>(42,500)</u>	<u>(42,500)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of period	<u>16,922,152</u>	<u>4,340,001</u>	<u>23,845</u>	<u>21,285,998</u>
Balance, January 31, 2010	<u>\$ 17,123,518</u>	<u>\$ 5,557,890</u>	<u>\$ 52,772</u>	<u>\$ 22,734,180</u>

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SEE ACCOMPANYING NOTES

**COMMERCE RESOURCES CORP.**  
**SCHEDULE OF RESOURCE PROPERTIES**  
For the year ended October 31, 2009

	<u>Blue River</u> <u>Claims</u>	<u>Eldor</u> <u>Claims</u>	<u>Other</u> <u>Claims</u>	<u>Totals</u>
Acquisition costs				
Balance, beginning of the year	\$ 201,365	\$ 1,208,547	\$ 28,927	\$ 1,438,839
Staking	<u>-</u>	<u>9,342</u>	<u>-</u>	<u>9,342</u>
Balance, end of the year	<u>201,365</u>	<u>1,217,889</u>	<u>28,927</u>	<u>1,448,181</u>
Deferred exploration and development costs – Note 9				
Balance, beginning of the year	<u>14,140,053</u>	<u>5,191,401</u>	<u>110,123</u>	<u>19,441,577</u>
Amortization – field equipment and office	44,214	26,365	-	70,579
Assays and analytical	388,665	81,710	-	470,375
Consulting	46,086	24,056	1,386	71,528
Drilling	1,423,520	2,730	-	1,426,250
Engineering	173,545	-	408	173,953
Environmental and permitting	188,455	14,496	-	202,951
Field equipment rental	152,053	49,142	72	201,267
Community	8,245	-	-	8,245
Field supplies	92,736	136,667	-	229,403
Food and accommodation	99,058	32,218	-	131,276
Geology, mapping and drafting	1,394,082	363,130	840	1,758,052
Geophysics	-	5,000	-	5,000
Helicopter	44,910	-	-	44,910
Metallurgy	292,032	-	-	292,032
Other	68,007	28,912	-	96,919
Overhead	1,212	5,042	-	6,254
Project insurance	3,593	1,274	-	4,867
Recording fees	320,367	-	-	320,367
Research	56,396	-	-	56,396
Road and site preparation	22,907	-	-	22,907
Sampling and prospecting	137	-	-	137
Travel and transport	<u>90,794</u>	<u>294,677</u>	<u>-</u>	<u>385,471</u>
	<u>4,911,014</u>	<u>1,065,419</u>	<u>2,706</u>	<u>5,979,139</u>
Less: Mining tax credits	(2,731,176)	(2,058,406)	-	(4,789,582)
Option payments received	<u>-</u>	<u>-</u>	<u>(47,500)</u>	<u>(47,500)</u>
Balance, end of year	<u>(2,731,176)</u>	<u>(2,058,406)</u>	<u>(47,500)</u>	<u>(4,837,082)</u>
	<u>16,319,891</u>	<u>4,198,414</u>	<u>65,329</u>	<u>20,583,634</u>
Balance, October 31, 2009	<u>\$ 16,521,256</u>	<u>\$ 5,416,303</u>	<u>\$ 94,256</u>	<u>\$ 22,031,815</u>

SEE ACCOMPANYING NOTES



**COMMERCE RESOURCES CORP.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
January 31, 2010 and October 31, 2009

Note 1 Nature of Operations

Commerce Resources Corp. (the “Company”) is a public company listed on Tier One of the TSX Venture Exchange in Canada and on the Frankfurt Stock Exchange in Germany. The Company was incorporated on May 19, 1999, under the Company Act of British Columbia and is in the business of acquiring, exploring, developing and evaluating mineral resource properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. The Company is in the exploration stage and has interests in properties located in British Columbia (“B.C.”) and Quebec, Canada.

The recoverability of amounts shown for resource properties is dependent upon the discovery of economically recoverable reserves, continuation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain financing to complete their development, and future profitable production or disposition thereof. Although the Company has been successful in the past in obtaining financing there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on acceptable terms.

Note 2 Summary of Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles (“GAAP”) in Canada. 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 could vary from these estimates.

The financial statements have in management’s opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Cash and Equivalents

Cash and cash equivalents include all highly liquid investments that are redeemable within 90 days or less when purchased.

b) Resource Properties

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.

Note 2 Summary of Significant Accounting Policies – (cont'd)

b) Resource Properties – (cont'd)

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.

c) Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is calculated over the estimated useful lives using the declining balance method at the following rates:

Field equipment	3 year straight-line
Field office	5% declining balance

Additions during the year other than field equipment and office are amortized at one-half the annual rates.

d) Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities are exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method. Fully dilutive amounts are not presented when the effect of the computations is anti-dilutive due to the losses incurred. Common equivalent shares, consisting of shares issuable on exercise of stock options and warrants, totalling 44,875,662 (2009: 44,460,662) were not included in the computation of diluted loss per share because the effect would have been anti-dilutive.

e) Use of estimates

The preparation of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from these estimates. The assets, liabilities and expenses which required management to make significant estimates and assumptions in determining carrying values included resource properties, long-term investment and future income taxes.

Note 2 Summary of Significant Accounting Policies – (cont'd)

f) Measurement Uncertainty

The fair value of asset-backed commercial paper is based on numerous assumptions, including interest and market risk rates, and factors that are beyond the Company's control such as the ultimate settlement amounts, timing of settlement and changes in the credit ratings. The fair value of the asset-backed commercial paper is subject to uncertainty and it is reasonably possible that the recognized amount could change by a material amount in the near term.

g) Financial Instruments

The Company has classified its financial instruments as follows:

- Cash and cash equivalents are classified as held-for-trading and are measured at fair value.
- Marketable securities and asset-backed commercial paper ("ABCP") are classified as available for sale. They are recorded at fair value at initial recognition and measured at fair value at each period and subsequent revaluation resulting in gains or losses is recorded in the statements of comprehensive income (loss).
- Amounts receivable and amounts due from related parties are classified as loans and receivables. They are recorded at cost, which on initial recognition represents their fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.
- Accounts payable and accrued liabilities and amounts due from related parties are classified as other liabilities. They are initially measured at fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.

Handbook Section 3862, Financial Instruments – Disclosures, was amended in June 2009. It establishes revised standards for the disclosure of financial instruments. The new 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.

Note 2 Summary of Significant Accounting Policies – (cont'd)

g) Financial Instruments – (cont'd)

Changes in valuation methods may result in transfers into or out of an investment's assigned level. During the three months ended January 31, 2010, there were no significant transfers between level 1 and 2.

The required disclosures are included in notes 5 and 10.

h) Income Taxes

Income taxes are accounted for using the asset and liability method. Future income tax assets and liabilities relate to the expected future tax consequences of temporary differences between the carrying value of balance sheet items and their corresponding tax values. Future income tax assets and liabilities are calculated using tax rates anticipated to apply in periods that the temporary differences are expected to reverse and are adjusted for the effects of changes in tax law and rates on the date of enactment or substantive enactment. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the net future income tax assets will be realized.

i) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets is recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, amortization and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and amortization of the related asset. As at January 31, 2010, the Company has no asset retirement obligations.

j) Mining Tax Credits

Mining tax credits are recorded in the accounts when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits. These refundable mining tax credits are earned in respect to exploration costs incurred in B.C. and Quebec, Canada and are recorded as a reduction of the related deferred exploration expenditures.

k) Stock-based Compensation

The Company uses Black-Scholes option valuation model to estimate the fair value of share purchase options at the date of grant. The fair value of stock options granted to non-employees is re-measured on each balance sheet date. Compensation expense for employees is generally amortized using the straight line method over the period from the grant date to the date the options vest. Compensation expense for non-employees is recognized immediately for past services and pro-rata for future services over the service provision period.

Note 2 Summary of Significant Accounting Policies – (cont'd)

l) Flow-through Shares

Effective March 19, 2004, CICA issued additional guidance on the accounting treatment of Canadian flow-through shares through its Emerging Issues Committee Abstract (“EIC”) No. 146. All flow-through shares issued by the Company on or after March 19, 2004 are accounted for in accordance with this Abstract. The Abstract recommends that upon renunciation to the shareholders, the Company will reduce share capital and recognize a temporary future income tax liability for the amount of tax reduction renounced to the shareholders. In instances where the Company has sufficient available tax loss carry forwards or other deductible temporary differences available to offset the renounced tax deduction is more likely-than-not able to utilize these tax losses before expiring, the realization of the deductible temporary differences will be credited to income in the period of renunciation.

m) Adoption of New Accounting Standards

Assessing Going Concern

As of November 1, 2008, the Company has adopted the CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity’s ability to continue as a going concern. The adoption of this Section did not result in any changes on the disclosure within the financial statements.

Goodwill and Intangible Assets

As of November 1, 2008, the Company has adopted the CICA Handbook Section 3064, “Goodwill and Intangible Assets”, which replaces the Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard did not have an impact on the Company’s financial statements.

n) Future Canadian Accounting Standards

International Financial Reporting Standards (“IFRS”)

In February 2008, the CICA Accounting Standards Board (“AcSB”) confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The eventual changeover to IFRS represents changes due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

The Company is assessing the potential impacts of this changeover and is developing its IFRS changeover plan, which will include project structure and governance, resourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions.

Note 2 Summary of Significant Accounting Policies – (cont'd)

n) Future Canadian Accounting Standards – (cont'd)

Business combinations, Non-controlling interest and Consolidated Financial Statements

In January 2009, the CICA issued the new handbook Section 1582, “Business Combinations” effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with US GAAP and IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company’s financial statements to evaluate the nature and financial effects of its business combinations. Although the Company is considering the impact of adopting this pronouncement on the financial statements, it will be limited to any future acquisitions beginning in fiscal 2011.

Note 3 Marketable Securities

	<u>Cost</u>	Unrealized <u>Loss</u>	Fair Value January 31, <u>2010</u>
Available-for-sale	\$ <u>302,851</u>	\$ <u>42,777</u>	\$ <u>260,074</u>
	<u>Cost</u>	Unrealized <u>Loss</u>	Fair Value October 31, <u>2009</u>
Available-for-sale	\$ <u>187,195</u>	\$ <u>38,659</u>	\$ <u>148,536</u>

Note 4 Mining Tax Receivable

In November 2009, the Company received notification from Canada Revenue Agency approving refundable British Columbia mining tax credits for the years ended October 31, 2006, 2007 and 2008 of \$1,825,576. The Company has recorded the amount as assessed and expects to receive the refund in the second quarter of the fiscal year.

Note 5 Investments in Asset-Backed Commercial Paper

As at January 31, 2010, the Company held asset-backed commercial paper (“ABCP”) issued by a number of trusts with an original cost of \$8,135,655 (2009: \$8,135,655). At the dates the Company acquired these investments they were rated R1 (High) by Dominion Bond Rating Services (“DBRS”). These investments matured in during the year ended October 31, 2007 but, as a result of liquidity issues in the ABCP market, did not settle on maturity. As a result, the Company has classified its ABCP as long-term investments.

On March 17, 2008, the Pan-Canadian Investors Committee (the “Committee”) for ABCP filed proceedings for a plan of compromise and arrangement (the “Plan”) under the Companies’ Creditors Arrangement Act (Canada) (“CCAA”) with the Ontario Superior Court (the “Court”). At the meeting of ABCP noteholders on April 25, 2008, noteholders approved the Plan by the required majorities. On June 5, 2008, the Court issued a sanction order and reasons for the decision approving the Plan as amended. On August 18, 2008, that decision was upheld by the Ontario Court of Appeal and, on September 19, 2008, the Supreme Court of Canada denied leave to appeal. On December 24, 2008, the Committee announced that an agreement had been reached with all key stakeholders, including the governments of Canada, Quebec, Ontario and Alberta, to provide additional margin facilities to support the Plan and finalized certain enhancements to the Plan.

On January 12, 2009, the Ontario Superior Court issued the final implementation order in the ABCP restructuring process. The restructuring closed on January 21, 2009. The exchange of restructured ABCP notes was completed on January 21, 2009. A first instalment of interest (to August 31, 2008) was also paid on the same day. The balance of the interest is to be paid in subsequent instalments, and the amounts and timing are still to be determined. Restructuring fees already incurred and a reserve for additional restructuring fees were deducted from this first interest payment. The Company received upon completion of the restructuring in January 2009 the following:

- ? \$7,350,000 of senior Master Asset Vehicle MAV II Class A-1 and A-2 Notes and subordinated Class B and Class C Notes
  - o \$4,830,000 of Class A-1 Notes
  - o \$1,950,000 of Class A-2 Notes
  - o \$350,000 of Class B Notes
  - o \$220,000 of Class C Notes

Class A-1, Class A-2 and Class B Notes will bear interest at the Bankers’ Acceptance (“BA”) rate less 0.50% and Class C Notes will bear interest at the BA rate plus 20%. These notes have legal maturity dates in 2056 but the expected repayment date of the Class A-1 and A-2 notes is January 22, 2017. The senior notes (Class A-1 and Class A-2) have been rated “A” by DBRS while the subordinated notes (Class B and C) are unrated.

Note 5 Investments in Asset-Backed Commercial Paper – (cont'd)

? \$780,000 of MAV II Ineligible Asset (“IA”) Notes

The IA Tracking Notes will bear interest at a rate based on the net rate of return generated by the underlying tracking assets. The maturities of the notes are based on the maturities of the underlying assets. These notes will not be rated.

The valuation technique used by the Company to estimate the fair value of its investment in ABCP at October 31, 2009, incorporates probability weighted discounted cash flows considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. The assumptions used in determining the estimated fair value reflect the details included in the Information Statement issued by the pan-Canadian restructuring committee and the risks associated with the long-term floating rate notes. The interest rates and maturities of the various long-term floating rate notes, discount rates and credit losses modeled are:

	<u>2009</u>	<u>2008</u>
Probability weighted average interest	5.45%	10.81%
Weighted average discount rate	5.40%	11.46%
Maturity of long-term floating rate notes	7 years to 29 years	8 years to 30 years
Credit losses	Rated notes: Nil to 30% Unrated notes: 20% to 100%	Rated notes: Nil to 30% Unrated notes: 20% to 100%

If these assumptions were to change, the fair value of ABCP could change significantly. The Company recorded a fair value adjustment of \$1,639,911 during the year ended October 31, 2007 to other comprehensive income as it perceived that the decline in fair value was not long-term and concluded that ABCP was not impaired. In accordance with CICA Handbook Section 3855, “Financial Instruments – Recognition and Measurement” the Company concluded that the decline in fair value to October 31, 2008 is other than temporary and reclassified an impairment charge of \$1,639,911 previously recorded in other comprehensive loss during the year ended October 31, 2007 to net loss during the year ended October 31, 2008.

During the three months ended January 31, 2010, the Company received a payment of \$5,087 (2009: \$54,236). As at the three months ended January 31, 2010, the fair value of the ABCP as determined above was \$4,126,267 (2009: \$4,131,354) and the Company recorded an unrealized gain of \$Nil (2009: \$591,892) from this instrument.

Reconciliation of level 3 fair value measurements of ABCP is as follows:

Opening balance, October 31, 2008	\$ 3,593,698
Unrealized gains in other comprehensive income	591,892
Settlements	<u>(54,236)</u>
Closing balance, October 31, 2009	\$ 4,131,354
Settlements	<u>(5,087)</u>
Closing balance, January 31, 2010	<u>\$ 4,126,267</u>



Note 6 Equipment

	<u>Cost</u>	<u>Accumulated Amortization</u>	Net Book Value January 31, 2010
Field equipment	\$ 226,552	\$ 105,970	\$ 120,582
Field office	293,388	9,947	283,441
Land	<u>120,282</u>	<u>-</u>	<u>120,282</u>
Balance, end of the period	<u>\$ 640,222</u>	<u>\$ 115,917</u>	<u>\$ 524,305</u>

  

	<u>Cost</u>	<u>Accumulated Amortization</u>	Net Book Value October 31, 2009
Field equipment	\$ 226,552	\$ 87,091	\$ 139,461
Field office	293,388	5,868	287,520
Land	<u>120,282</u>	<u>-</u>	<u>120,282</u>
Balance, end of the year	<u>\$ 640,222</u>	<u>\$ 92,959</u>	<u>\$ 547,263</u>

Note 7 Resource Properties

Blue River Claims – (formerly known as the Upper Fir, Verity and Fir Claims)

The Company has a 100% interest in its Upper Fir, Verity, and Fir claims, located in the Blue River region of the Kamloops Mining District of B.C., Canada, all of which were acquired by staking. During the year ended October 31, 2007, the Company acquired a 100% interest in three additional Fir claims by staking. During the year ended October 31, 2008, the Company acquired a further 13 claims by staking. During the year ended October 31, 2009, the Company acquired a further 5 claims by staking.

Eldor Claims

The Company acquired, by staking and a purchase agreement, a 100% interest in the Eldor Carbonatite Complex, located in the Labrador Trough area of Quebec, Canada. During the year ended October 31, 2007, the Company purchased 8 mineral claims from Virginia Mines Inc. (“Virginia Mines”), which cover a portion of the Eldor Carbonatite. These claims are adjacent to the approximately 88 claims staked by the Company.

Under the terms of the purchase agreement with Virginia Mines, the Company issued 710,000 common shares and 290,000 share purchase warrants. The share purchase warrants were exercisable at \$1.12 per share until June 19, 2009. The Company also issued 25,000 common shares as a finder’s fee. The total of 735,000 common shares issued for this transaction was valued at \$1,014,300 which was determined by the closing price of the Company’s shares on the date of the execution of the option agreement. A charge of \$176,602 had been recorded in resource properties acquisition costs in respect to the share purchase warrants. The fair value of these warrants was determined using the Black-Scholes option pricing model with the following assumptions:

Note 7 Resource Properties – (cont'd)

	<u>2007</u>
Weighted average fair value of warrants issued	\$0.61
Expected dividend yield	0.0%
Expected volatility	62.1%
Risk-free interest rate	4.50%
Expected term in years	2 years

Virginia Mines retains a 1% net smelter royalty on the 8 claims purchased from them. As well, 5 of the 8 claims are subject to an underlying 5% net profit royalty, which can be purchased for \$500,000.

Other Claims

Other claims consist of mineral claims located in B.C., Canada known as the Cable Creek, Mud Lake, and Carbo claims. On January 15, 2009, the Company entered into a Mineral Acquisition Agreement with Canadian International Metals Inc. (“CIN”) whereby CIN can acquire a 75% interest in the Carbo Property. In consideration for the interest, CIN must pay the Company \$30,000 (\$10,000 received at October 31, 2009, \$10,000 at January 31, 2010), issue 1,500,000 (500,000 received at October 31, 2009, 500,000 shares received at January 31, 2010) common shares to the Company and incur total exploration expenditures of \$198,000 on the Carbo Property over a three year period.

Note 8 Share Capital

Authorized:

Unlimited common shares without par value

Issued:

		<u>Number</u>	<u>Amount</u>
Balance, October 31, 2008		<u>111,534,015</u>	<u>49,595,611</u>
Issuance of share capital	- at \$0.40	18,014,250	7,213,250
Share issue costs		18,875	(822,558)
Exercise of options	- at \$0.21	150,000	31,500
Exercise of options	- at \$0.26	800,000	208,000
Fair value of options exercised		<u>                    </u>	<u>278,863</u>
Balance, October 31, 2009		<u>130,517,140</u>	<u>\$ 56,504,666</u>
Exercise of options	- at \$0.26	70,000	18,200
Fair value of options exercised		<u>                    </u>	36,489
Share issue costs		<u>                    </u>	<u>(12,000)</u>
Balance, January 31, 2010		<u>130,587,140</u>	<u>\$ 56,547,355</u>

Note 8 Share Capital – (cont'd)

During the three months ended January 31, 2010:

During the three months ended January 31, 2010, 70,000 stock options were exercised at \$0.26 per share for total proceeds of \$18,200.

During the year ended October 31, 2009:

On September 15, 2009, the Company completed a private placement of 16,676,750 units at a price of \$0.40 per unit for gross proceeds of \$6,670,700. Each unit consisted of one common share and one half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional common share of the Company for two years, at a price of \$0.50 per share until September 15, 2010 and at a price of \$0.54 per share from September 16, 2010 until September 15, 2011. The Company paid \$369,288 and issued 18,875 common shares, valued at \$7,550, as finder's fees. Share subscriptions receivable of \$150,000 were received subsequent to October 31, 2009.

On September 21, 2009, the Company completed a private placement of 1,337,500 units, at a price of \$0.40 per unit, for proceeds of \$535,000. Each unit consists of one common share and one half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional common share of the Company for two years, at a price of \$0.50 per share in the first year and at a price of \$0.54 per share in the second year. The Company paid \$38,000 as a finder's fee.

In connection with the private placements noted above, the Company also paid \$225,440 and issued a total of 621,720 brokers' warrants as share issuance costs. The fair value of the brokers' warrants of \$182,280 was estimated using the Black-Sholes pricing option model with the following weighted average assumptions:

	<u>2009</u>
Expected dividend yield	Nil
Expected volatility	106%
Risk free rate	1.24%
Expected terms in years	2

Stock Options

The Company has a stock option plan for officers, directors, employees and consultants. Options are granted with an exercise price determined by the Board of Directors, which may not be less than 25% of the Company's stock price on the date of the grant. All stock options vest immediately, except for those granted to employees and/or consultants engaged in investor relations activities, of which no more than one-quarter of the options granted may vest in any three month period.

Note 8 Share Capital – (cont'd)

Stock Options – (cont'd)

A summary of the stock options as of January 31, 2010 is presented below:

	<u>January 31, 2010</u>		<u>October 31, 2009</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Balance, beginning of year	7,540,000	\$0.33	6,585,000	\$0.36*
Granted	485,000	\$0.62	3,000,000	\$0.36
Exercised	(70,000)	\$0.26	(950,000)	\$0.25
Expired/forfeited	<u>-</u>	<u>\$0.00</u>	<u>(1,095,000)</u>	<u>\$0.66</u>
Outstanding, end of period	<u>7,955,000</u>	<u>\$0.35</u>	<u>7,540,000</u>	<u>\$0.33</u>
Exercisable, end of period	<u>6,770,000</u>	<u>\$0.31</u>	<u>7,540,000</u>	<u>\$0.33</u>

\*after the options were re-priced

Subsequent to January 31, 2010, 50,000 options at \$0.26 were cancelled.

At January 31, 2010, the Company had 7,955,000 (2009: 7,540,000) share purchase options outstanding entitling the holders thereof the right to purchase one common share as follows:

<u>January 31,</u>	<u>Number</u>	<u>Original</u>	<u>Revised</u>	<u>Expiry Date</u>
<u>2010</u>	<u>January 31,</u> <u>2010</u>	<u>Exercise</u> <u>Price</u>	<u>Exercise</u> <u>Price</u>	
	250,000	\$0.15	-	February 6, 2011
	20,000	\$0.18	-	February 20, 2011
	100,000	\$0.21	-	February 20, 2011
	500,000	\$0.30	\$0.26	March 15, 2011
	500,000	\$0.35	-	September 27, 2011
	1,400,000	\$0.67	\$0.26	March 16, 2012
	470,000	\$1.15	\$0.26	April 16, 2012
	50,000	\$1.15	-	April 16, 2012
	60,000	\$1.25	\$0.26	April 17, 2012
	200,000	\$1.12	-	June 6, 2012
	50,000	\$1.12	\$0.26	June 6, 2012
	1,000,000	\$1.00	\$0.26	September 20, 2012
	100,000	\$1.15	\$0.26	October 3, 2012
	1,870,000	\$0.26	-	April 13, 2014
	200,000	\$0.68	-	September 29, 2014
	350,000	\$0.55	-	October 15, 2014
	350,000	\$0.60	-	October 15, 2014
	200,000	\$0.56	-	November 6, 2014
	<u>285,000</u>	<u>\$0.66</u>	<u>-</u>	<u>November 20, 2014</u>
	<u>7,955,000</u>			<u>7,540,000</u>

Note 8 Share Capital – (cont'd)

Stock Options – (cont'd)

At January 31, 2009, the share purchase options outstanding had a weighted average remaining contractual life of 2.7 years (2009: 3.3 years).

During the three months ended January 31, 2010 the Company granted a total of 485,000 (2009: 3,000,000) stock options to its officers, directors and employees of the Company. The Company recorded stock-based compensation of \$232,944 (2009: \$941,340) on the statements of operations and the amount was determined using Black-Scholes option pricing model with the following assumptions:

	<u>2010</u>	<u>2009</u>
Expected dividend yield	Nil	Nil
Expected volatility	103.31% - 103.84%	110% - 113%
Risk free rate	2.27% - 2.42%	1.86% - 2.88%
Expected terms in years	5	5

During the year ended October 31, 2009, the Company received shareholder and TSX Venture Exchange approval for the re-pricing of the exercise price on a total of 4,220,000 incentive stock options from various prices to \$0.26 per share. Other terms remained unchanged. The re-pricing resulted in an additional \$235,578 of stock-based compensation on the statements of operations. The fair value of the re-priced options was determined using Black-Scholes option pricing model with the following assumptions:

	<u>2009</u>
Expected dividend yield	Nil
Expected volatility	100% to 101%
Risk free rate	1.14% to 1.93%
Expected terms in years	1.85 to 3.41

Share Purchase Warrants

	<u>January 31, 2010</u>			<u>October 31, 2009</u>		
	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Life (Years)</u>	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Life (Years)</u>
Balance, beginning of year	36,298,942	\$1.67	1.76	28,635,442	\$1.45	0.7
Issued	-	-	-	9,007,125	\$0.52	1.9
Exercised	-	-	-	-	-	-
Expired	-	-	-	(1,343,625)	\$0.42	0.19
Balance, end of period	<u>36,298,942</u>	<u>\$1.67</u>	<u>1.51</u>	<u>36,298,942</u>	<u>\$1.67</u>	<u>1.76</u>

Note 8 Share Capital – (cont'd)

Share Purchase Warrants – (cont'd)

The following share purchase warrants are outstanding entitling the holder thereof the right to purchase one common share for each warrant held:

<u>Number</u>		<u>Exercise</u>	<u>Expiry Date</u>
<u>January 31,</u>	<u>October 31,</u>	<u>Price</u>	
<u>2010</u>	<u>2009</u>		
3,761,003	3,761,003	\$1.50	June 26, 2011*
14,674,600	14,674,600	\$1.50	July 24, 2011*
8,856,214	8,856,214	\$1.50	August 1, 2011*
<u>9,007,125</u>	<u>9,007,125</u>	\$0.50/0.54	September 15, 2011
<u>36,298,942</u>	<u>36,298,942</u>		

\*On June 16, 2009, the Company received TSX Venture Exchange approval for the extension of a total of 27,291,817 share purchase warrants. The expiry date of the share purchase warrants has been extended for an additional two years and is as disclosed above.

Brokers Warrants

The following brokers units and warrants are also outstanding entitling the holder thereof the right to purchase one common share for each warrant held:

<u>Number</u>		<u>Description</u>	<u>Exercise</u>	<u>Expiry Date</u>
<u>January 31,</u>	<u>October 31,</u>		<u>Price</u>	
<u>2010</u>	<u>2009</u>			
561,720	561,720	Warrants	\$0.54	September 15, 2011
<u>60,000</u>	<u>60,000</u>	Warrants	\$0.40	October 2, 2011
<u>621,720</u>	<u>621,720</u>			

\*Exercisable only if Broker Units are exercised into units.

Note 8 Share Capital – (cont'd)

Contributed Surplus

	<u>Amount</u>
Balance, October 31, 2007 and 2008	\$ 3,729,480
Fair value of stock options granted	941,340
Incremental value of re-priced options	235,578
Fair value of broker's warrants	182,280
Transfer to share capital on exercise of options	<u>(278,863)</u>
Balance, October 31, 2009	\$ 4,809,815
Fair value of stock options granted	232,944
Transfer to share capital on exercise of options	<u>(36,489)</u>
Balance, January 31, 2010	<u><u>\$ 5,006,270</u></u>

Note 9 Related Party Transactions

Except as disclosed elsewhere in these financial statements, the Company had the following transactions with directors of the Company and companies with a common director:

	<u>Three months ended January 31, 2010</u>	<u>Year ended October 31, 2009</u>
Administration fees and rent	\$ 270,000	\$ 1,080,000
Consulting fees	8,500	125,322
Deferred exploration and development costs	334,219	2,012,446
Field equipment	-	60,000
Advertising and promotion	1,580	-
Office expenses and travel	858	51,767
Share issuance costs	<u>-</u>	<u>80,000</u>
	<u><u>\$ 615,157</u></u>	<u><u>\$ 3,409,535</u></u>

These charges were measured at the exchange amount, which is the amount agreed upon by the transacting parties. Administrative fees and rent include management fees, rental expenses and accounting services received during the year.

At January 31, 2010, \$154,625 (2009: \$178,056) was due to a company with a common director of the Company for fees and expenses related to geological consulting and \$22,290 (2009: \$11,874) was due from companies with a common director. The payables and receivables are non-interest bearing and due on demand.

At January 31, 2010, \$146,784 included in marketable securities (2009: \$71,276) is with other public companies having directors in common.

Note 10 Financial Instruments

Fair values

Financial instruments classified as level 1 – quoted prices in active markets include cash and cash equivalents and marketable securities. Financial estimates classified as level 3 – significant unobservable inputs include asset-backed commercial paper.

Financial Risk Management

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies as set out herein.

a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash and cash equivalents, amounts receivable, due from related parties and investments in asset-backed commercial paper are subject to credit risk for a maximum of the amounts shown on the balance sheet. The Company monitors its credit risk management practices continuously to evaluate their effectiveness.

At January 31, 2010, cash and cash equivalents of \$14,712,000 (2009 - \$15,900,000) consisted of cash balances of \$335,000 (2009 - \$1,500,000) on deposit with Canadian chartered banks and \$14,377,000 (2009 - \$14,400,000) in money market funds.

The Company mitigates credit risk on these financial instruments by adhering to its investment policy that outlines credit risk parameters and concentration limits.

b) Liquidity Risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.



Note 10 Financial instruments – (cont'd)

Financial Risk Management – (cont'd)

b) Liquidity Risk – (cont'd)

The Company currently has adequate liquidity to fund its financial liabilities which are comprised of accounts payable and accrued liabilities.

c) Market Risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company's marketable securities and investment in asset-backed commercial paper are subject to market risk.

i) Currency Risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company is considered to be in the development stage and has not yet developed commercial mineral interests, the underlying commodity price for minerals is impacted by changes in the exchange rate between the Canadian and United States dollar. As all of the Company's transactions are denominated in Canadian dollars, the Company is not significantly exposed to foreign currency exchange risk at this time.

ii) Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. As the Company has not yet developed commercial mineral interests, it is not exposed to commodity price risk at this time.

iii) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents and investments in asset-backed commercial paper. The sensitivity of a 100 basis point decrease in interest rates would result in an approximate decrease of \$40,000 (2009: \$159,000) in net annual earnings. The sensitivity analysis on ABCP providing the effect on net income if interest rates were to increase by 100 basis points for the three months ended January 31, 2010 is included in Note 5.

Note 11 Capital Disclosures

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the exploration of its mineral properties. Therefore, the Company monitors the level of risk incurred in its mineral property expenditures relative to its capital structure which is comprised of working capital and shareholders' equity.

The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to facilitate the management of capital and the exploration of its mineral properties, the Company prepares annual expenditure budgets which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors. To maintain or adjust the capital structure, the Company may issue new equity if available on favourable terms, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of mineral properties.

The Company's investment policy is to hold excess cash in interest-bearing bank accounts.

The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the year ended January 31, 2010.

Note 12 Corporation Income Taxes

A reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	<u>Three months</u> <u>ended January</u> <u>31, 2010</u>	<u>Year ended</u> <u>October 31,</u> <u>2009</u>
Statutory tax rate	<u>30.08%</u>	<u>30.08%</u>
Loss before income taxes	\$ (721,000)	\$ (2,756,648)
Expected income tax recovery on net loss, before income tax	217,000	829,000
Differences due to recognition of items for tax purposes:		
Effect of reduction in statutory rate	-	(170,000)
Expiry of loss carryforward	-	(96,000)
Share Issuance Costs	158,000	158,000
Stock-based compensation and other	(70,000)	(357,000)
Non-taxable portion of capital gains	-	2,000
Marketable securities and asset-backed commercial paper	-	(77,000)
Increase in valuation allowance	<u>(305,000)</u>	<u>(289,000)</u>
Income tax recovery	<u>\$ -</u>	<u>\$ -</u>

Note 12 Corporation Income Taxes – (cont'd)

Subject to certain restrictions, the Company has accumulated \$21,885,691 (2009: \$21,141,842) of Canadian development and exploration expenditures available to reduce taxable income of future years. In addition, the Company has non-capital losses totalling \$8,626,000 that are available to reduce taxable income of future years. The non-capital losses expire as follows:

2010	255,000
2014	296,000
2015	336,000
2026	703,000
2027	1,884,000
2028	2,234,000
2029	2,197,000
2030	<u>721,000</u>
	<u>\$ 8,626,000</u>

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

	<u>2010</u>	<u>2009</u>
Non-capital losses carry forward	\$ 2,156,500	\$ 1,976,000
Canadian development and exploration expenditures	(222,000)	(222,000)
Share issue costs	359,000	359,000
Asset-backed commercial paper	494,000	494,000
Other	<u>27,000</u>	<u>27,000</u>
	2,814,500	2,634,000
Less: valuation allowance	<u>(2,814,500)</u>	<u>(2,634,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

The Company has recorded a valuation allowance against its net future income tax assets based on the extent to which it is more-likely-than-not that sufficient taxable income will not be realized during the carry-forward period to utilize all the net future tax assets.

Note 13 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. The following transactions have been excluded from the statement of cash flows:

Note 13 Non-cash Transactions – (cont'd)

During the three months ended January 31, 2010:

- a) Deferred exploration expenditures of \$212,412 were included in accounts payable at January 31, 2010.
- b) Option payments received on a resource property include shares of another public company valued at \$32,500.
- c) Amortization of \$22,957 relating to equipment was included in resources properties account.

During the year ended October 31, 2009:

- a) Deferred exploration and development costs in the investing activities included a mining tax credit receivable of \$1,825,576.
- b) Deferred exploration expenditures of \$303,197 were included in accounts payable at October 31, 2009.
- c) Option payments received on a resource property include shares of another public company valued at \$37,500.
- d) Amortization of \$70,579 relating to equipment was included in resources properties account.
- e) 18,500 common shares valued at \$7,550 and 621,720 brokers' warrants valued at \$182,280 were included in share issuance costs.

Note 14 Subsequent Event

Subsequent to the quarter ending January 31, 2010, 50,000 stock options valued at \$0.26 were cancelled.

On February 26, 2010, the Company announced that the resource estimate for its Upper Fir Deposit, Blue River Project was delayed in order to include resource estimates for the Fir and Verity Deposits.

On March 31, 2010, the Company announced the "Independent Technical Report, Blue River Property, Blue River, British Columbia, Canada" and dated March 30, 2010 prepared by Michelle Stone, Ph.D., P. Geo., and Julie Selway, Ph.D., P.Geo., independent Qualified Persons as defined by National Instrument 43-101 ("NI 43-101"), of Caracle Creek International Consulting Inc. ("CCIC") was filed. The Fir and Verity resource estimates were reviewed and audited by CCIC and it was determined that insufficient exploration was completed on each of the Fir and Verity Deposits to define a current NI 43-101 compliant resource. As such, both the Fir and Verity mineral estimates were been downgraded to estimates of potential tonnage and grade and re-classified as exploration targets.

Note 15    Comparative Figures

Certain of the prior year's figures for October 31, 2009 have been reclassified to conform with the presentation adopted in the current year.