



COMMERCE RESOURCES CORP.

COMMERCE RESOURCES CORP.

REPORT AND FINANCIAL STATEMENTS

April 30, 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>April 30,</u> <u>2010</u> <i>(Unaudited)</i>	<u>October 31,</u> <u>2009</u> <i>(Audited)</i>
Current		
Cash and cash equivalents	\$ 14,713,966	\$ 15,909,787
Marketable securities – Note 3	303,185	148,536
Amounts receivable	7,077	21,766
Mining tax credits receivable - Note 4	-	1,825,576
Goods and services tax recoverable	231,091	201,421
Due from related parties – Note 9	33,016	11,874
Prepaid expenses	<u>320,171</u>	<u>205,686</u>
	15,626,506	18,324,646
Investments in asset-backed commercial paper – Note 5	4,124,622	4,131,354
Reclamation bonds	57,000	57,000
Equipment – Note 6	529,401	547,263
Resource properties – Notes 7, 8 and Schedule I	<u>23,878,694</u>	<u>22,031,815</u>
	<u>\$ 44,216,223</u>	<u>\$ 45,092,078</u>

LIABILITIES

Current		
Accounts payable and accrued liabilities	\$ 59,006	\$ 199,633
Due to related parties – Note 9	<u>312,044</u>	<u>178,056</u>
	<u>371,050</u>	<u>377,689</u>

SHAREHOLDERS' EQUITY

Share capital – Note 8	56,550,380	56,504,666
Share subscriptions receivable – Note 8	-	(150,000)
Contributed surplus – Note 8	5,181,614	4,809,815
Accumulated other comprehensive income (loss)	592,227	553,234
Deficit	<u>(18,479,048)</u>	<u>(17,003,326)</u>
	<u>43,845,173</u>	<u>44,714,389</u>
	<u>\$ 44,216,223</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 six months ended April 30, 2010 and 2009
(Unaudited)

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Administrative costs				
Administration fees and rent – Note 8	\$ 270,000	\$ 270,000	\$ 540,000	\$ 540,000
Advertising and website	127,283	88,402	208,796	106,778
Bank charges and interest	16,903	671	17,651	1,028
Consulting fees – Note 9	93,166	96,829	183,125	132,360
Filing and transfer agent fees	17,472	12,873	19,105	14,023
Insurance	3,536	-	7,190	-
Investor relations	39,958	60,374	90,765	69,692
Office, telephone and miscellaneous – Note 9	3,207	8,810	8,122	8,122
Professional fees	6,493	575	10,603	575
Stock based compensation – Note 8	175,344	541,665	408,288	541,665
Travel and promotion	<u>70,968</u>	<u>134,745</u>	<u>118,360</u>	<u>195,961</u>
Loss before other items and income taxes	824,330	1,214,944	1,612,005	1,610,204
Other items:				
Part XII.6 tax	6,982	-	6,982	-
Interest income	<u>(77,159)</u>	<u>(35,543)</u>	<u>(143,265)</u>	<u>(356,088)</u>
Loss before income taxes	754,153	1,179,401	1,475,722	1,254,116
Recovery of future income taxes – Note 9	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net loss for the period	754,153	1,179,401	1,475,722	1,254,116
Other comprehensive loss				
Unrealized loss (gain) on marketable securities	<u>(43,111)</u>	<u>(3,775)</u>	<u>(38,993)</u>	<u>(3,775)</u>
Net loss and comprehensive loss for the period	<u>\$ 711,042</u>	<u>\$ 1,175,626</u>	<u>\$ 1,436,729</u>	<u>\$ 1,250,341</u>
Basic and diluted loss per share	<u>\$ 0.006</u>	<u>\$ 0.011</u>	<u>\$ 0.012</u>	<u>\$ 0.011</u>
Weighted average number of shares outstanding	<u>123,857,316</u>	<u>111,534,015</u>	<u>123,857,316</u>	<u>111,534,015</u>

SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
STATEMENTS OF SHAREHOLDERS' EQUITY
For the six months ended April 30, 2010 and the year ended October 31, 2009
(Unaudited)

	<u>Share Capital</u>		<u>Share</u>	<u>Contributed</u>	<u>Accumulated</u> <u>Other</u> <u>Comprehensive</u>	<u>Deficit</u>	<u>Total</u>
	<u>Number</u>	<u>Amounts</u>	<u>Subscriptions</u> <u>Receivable</u>	<u>Surplus</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	-	(8,975)	-	-	-	-	(8,975)
Subscription receivable	-	-	150,000	-	-	-	150,000
Stock-based compensation – Note 8	-	-	-	408,288	-	-	408,288
Net loss	-	-	-	-	-	(1,475,723)	(1,475,722)
Unrealized gain on available-for-sale financial assets	-	-	-	-	38,993	-	38,993
Balance, April 30, 2010	<u>130,587,140</u>	<u>\$ 56,550,380</u>	<u>\$ -</u>	<u>\$ 5,181,614</u>	<u>\$ 592,227</u>	<u>\$ (18,479,048)</u>	<u>\$ 43,845,173</u>

SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
STATEMENTS OF CASH FLOWS
For the six months ended April 30, 2010 and 2009
(Unaudited)

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Operating Activities				
Net loss for the period				\$
	\$ (754,152)	\$ (1,175,626)	\$ (1,475,722)	(1,250,341)
Add (deduct) items not affecting cash:				
Stock-based compensation	175,344	541,665	408,288	541,665
Depreciation	-	-	-	-
Changes in non-cash working capital items related to operations:				
Amounts receivable	7,954	(121)	14,689	65,283
Goods and services tax receivable	(78,781)	(68,968)	(29,670)	221,693
Prepaid expenses	(78,877)	(141,915)	(114,485)	(141,188)
Accounts payable and accrued liabilities	133,138	(370,590)	162,570	(346,576)
Due to related parties	(150,492)	339,831	(184,339)	339,831
Cash used in operating activities	(745,866)	(875,724)	(1,218,669)	(569,633)
Financing Activities				
Issue of share capital for cash, net	3,025	-	9,225	-
Share subscriptions receivable	-	-	150,000	-
Mining tax credit	1,868,326	-	1,868,326	-
Cash provided by financing activities	1,871,351	-	2,027,551	-
Investing Activities				
Acquisition of resource properties	-	-	-	-
Redemption of Asset-backed commercial paper	1,645	-	6,732	-
Proceeds from property option agreement	-	-	10,000	-
Purchase of marketable securities	-	(41,275)	(83,156)	(41,275)
Acquisition of equipment	(5,096)	(437,517)	(29,703)	(475,178)
Deferred exploration and development costs, net of mining credits	(1,105,942)	(833,775)	(1,890,576)	(3,588,039)
Cash used in investing activities	(1,063,192)	(1,312,567)	(1,986,703)	(4,104,492)
Increase (decrease) in cash and cash equivalents during the period	19,543	(2,188,292)	(1,177,821)	(4,674,125)
Cash and cash equivalents, beginning of period	<u>14,712,423</u>	<u>13,515,188</u>	<u>15,909,787</u>	<u>16,001,022</u>
Cash and cash equivalents, end of period	<u>\$14,731,966</u>	<u>\$11,326,897</u>	<u>\$14,731,966</u>	<u>\$11,326,897</u>

Non-cash Transactions – Note 13

SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
SCHEDULE OF RESOURCE PROPERTIES
For the six months ended April 30, 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>165</u>	<u>-</u>	<u>-</u>	<u>165</u>
Balance, end of the period	<u>201,530</u>	<u>1,217,889</u>	<u>28,927</u>	<u>1,448,346</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	25,869	21,696	-	47,565
Archeological impact analysis	15,788	-	-	15,788
Assays and analytical	173,703	17,249	-	190,952
Consulting	2,080	7,228	1,016	10,324
Drilling	12,774	-	-	12,774
Engineering	136,489	-	-	136,489
Environmental and permitting	26,499	14,552	-	41,051
Field equipment rental	31,941	30,000	-	61,941
Community	8,363	-	-	8,363
Field supplies	12,428	59,314	-	71,742
Food and accommodation	14,499	17,971	-	32,470
Geology, mapping and drafting	536,523	202,958	-	739,481
Geophysics	-	2,500	-	2,500
Metallurgy	202,174	-	-	202,174
Other	24,632	14,541	-	39,173
Physical work	-	55,900	-	55,900
Project insurance	8,071	510	-	8,581
Project management	7,064	-	-	7,064
Research	141,732	-	-	141,732
Sampling and prospecting	-	7,862	-	7,862
Travel and transport	<u>9,464</u>	<u>88,574</u>	<u>-</u>	<u>98,038</u>
	<u>1,390,093</u>	<u>540,855</u>	<u>1,016</u>	<u>1,931,964</u>
Less: Mining tax credits	(42,750)	-	-	(42,750)
Option payments received	<u>-</u>	<u>-</u>	<u>(42,500)</u>	<u>(42,500)</u>
Balance, end of period	<u>17,667,234</u>	<u>4,739,269</u>	<u>23,845</u>	<u>22,430,348</u>
Balance, January 31, 2010	<u>\$ 17,868,764</u>	<u>\$ 5,957,158</u>	<u>\$ 52,772</u>	<u>\$ 23,878,694</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
April 30, 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 45,425,662 (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 six months ended April 30, 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 April 30, 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>Gain</u>	Fair Value April 30, 2010
Available-for-sale	\$ 302,851	\$ 334	\$ 303,185

	<u>Cost</u>	Unrealized <u>Loss</u>	Fair Value October 31, 2009
Available-for-sale	\$ 187,195	\$ 38,659	\$ 148,536

Note 4 Mining Tax Receivable

Canada Revenue Agency approved refundable British Columbia mining tax credits for the years ended October 31, 2006, 2007 and 2008 total \$1,825,576. The Company received the refund, with interest, on April 12, 2010.

Note 5 Investments in Asset-Backed Commercial Paper

As at April 30, 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 six months ended April 30, 2010, the Company received a payment of \$6,732 (2009: \$54,236). As at April 30, 2010, the fair value of the ABCP as determined above was \$4,124,622 (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>(6,732)</u>
Closing balance, April 30, 2010	<u>\$ 4,124,622</u>

Note 6 Equipment

	<u>Cost</u>	<u>Accumulated Amortization</u>	Net Book Value April 30, 2010
Field equipment	\$ 256,255	\$ 126,500	\$ 129,755
Field office	293,388	14,024	279,364
Land	<u>120,282</u>	<u>-</u>	<u>120,282</u>
Balance, end of the period	<u>\$ 669,925</u>	<u>\$ 140,524</u>	<u>\$ 529,401</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.

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		130,517,140	\$ 56,504,666
Exercise of options	- at \$0.26	70,000	18,200
Fair value of options exercised		<u> </u>	<u>36,489</u>
Share issue costs		<u> </u>	<u>(8,975)</u>
Balance, April 30, 2010		<u>130,587,140</u>	<u>\$ 56,550,380</u>

Note 8 Share Capital – (cont'd)

During the six months ended April 30, 2010:

During the six months ended April 30, 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 was 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 April 30, 2010, is presented below:

	<u>April 30, 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	1,085,000	\$0.45	3,000,000	\$0.36
Exercised	(70,000)	\$0.26	(950,000)	\$0.25
Expired/forfeited	<u>(50,000)</u>	<u>\$0.26</u>	<u>(1,095,000)</u>	<u>\$0.66</u>
Outstanding, end of period	<u>8,505,000</u>	<u>\$0.35</u>	<u>7,540,000</u>	<u>\$0.33</u>
Exercisable, end of period	<u>7,905,000</u>	<u>\$0.35</u>	<u>7,540,000</u>	<u>\$0.33</u>

*after the options were re-priced

On February 23, 2010, 50,000 options at \$0.26 were cancelled.

At April 30, 2010, the Company had 8,505,000 (2009: 7,540,000) share purchase options outstanding entitling the holders thereof the right to purchase one common share as follows:

<u>April 30, 2010</u>	<u>October 31, 2009</u>	<u>Original Exercise Price</u>	<u>Revised Exercise Price</u>	<u>Expiry Date</u>
250,000	250,000	\$0.15	-	February 6, 2011
20,000	20,000	\$0.18	-	February 20, 2011
100,000	100,000	\$0.21	-	February 20, 2011
500,000	500,000	\$0.30	\$0.26	March 15, 2011
500,000	500,000	\$0.35	-	September 27, 2011
1,400,000	1,400,000	\$0.67	\$0.26	March 16, 2012
470,000	500,000	\$1.15	\$0.26	April 16, 2012
50,000	50,000	\$1.15	-	April 16, 2012
60,000	70,000	\$1.25	\$0.26	April 17, 2012
200,000	200,000	\$1.12	-	June 6, 2012
50,000	50,000	\$1.12	\$0.26	June 6, 2012
1,000,000	1,000,000	\$1.00	\$0.26	September 20, 2012
100,000	100,000	\$1.15	\$0.26	October 3, 2012
1,820,000	1,900,000	\$0.26	-	April 13, 2014
200,000	200,000	\$0.68	-	September 29, 2014
350,000	350,000	\$0.55	-	October 15, 2014
350,000	350,000	\$0.60	-	October 15, 2014
200,000	-	\$0.56	-	November 6, 2014
285,000	-	\$0.66	-	November 20, 2014
<u>600,000</u>	<u>-</u>	<u>\$0.35</u>	<u>-</u>	<u>April 20, 2015</u>
<u>8,505,000</u>	<u>7,540,000</u>			

Note 8 Share Capital – (cont'd)

Stock Options – (cont'd)

At April 30, 2010, the share purchase options outstanding had a weighted average remaining contractual life of 2.3 years (2009: 3.3 years).

During the six months ended April 30, 2010, the Company granted a total of 1,085,000 (2009: 3,000,000) stock options to its officers, directors and employees of the Company. The Company recorded stock-based compensation of \$408,288 (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% - 112.88%	110% - 113%
Risk free rate	2.27% - 3.19%	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

A summary of the share purchase warrants as of April 30, 2010 is presented below:

	<u>April 30, 2010</u>			<u>October 31, 2009</u>		
	Number of <u>Warrants</u>	Weighted Average Exercise <u>Price</u>	Weighted Average Life <u>(Years)</u>	Number of <u>Warrants</u>	Weighted Average Exercise <u>Price</u>	Weighted Average Life <u>(Years)</u>
Balance, beginning of year	36,298,942	\$1.26	1.27	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>\$1.26</u>	<u>1.27</u>	<u>36,298,942</u>	<u>\$1.26</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>April 30,</u> <u>2010</u>	<u>Number</u> <u>October 31,</u> <u>2009</u>	<u>Exercise</u> <u>Price</u>	<u>Expiry Date</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>April 30,</u> <u>2010</u>	<u>Number</u> <u>October 31,</u> <u>2009</u>	<u>Description</u>	<u>Exercise</u> <u>Price</u>	<u>Expiry Date</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	408,288
Transfer to share capital on exercise of options	<u>(36,489)</u>
Balance, April 30, 2010	<u><u>\$ 5,181,614</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>Six months ended April 30, 2010</u>	<u>Year ended October 31, 2009</u>
Administration fees and rent	\$ 540,000	\$ 1,080,000
Consulting fees	24,421	125,322
Deferred exploration and development costs	978,884	2,012,446
Field equipment	-	60,000
Advertising and promotion	2,517	-
Office expenses and travel	4,654	51,767
Share issuance costs	<u>-</u>	<u>80,000</u>
	<u><u>\$ 1,550,476</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 April 30, 2010, \$312,044 (2009: \$178,056) was due to a company with a common director of the Company for fees and expenses related to geological consulting and \$33,016 (2009: \$11,874) was due from companies with a common director. The payables and receivables are non-interest bearing and due on demand.

At April 30, 2010, \$159,016 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 April 30, 2010, cash and cash equivalents of \$14,732,000 (2009 - \$15,900,000) consisted of cash balances of \$1,381,000 (2009 - \$1,500,000) on deposit with Canadian chartered banks and \$13,351,000 (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 six months ended April 30, 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 six months ended April 30, 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>Six months ended April 30, 2010</u>	<u>Year ended October 31, 2009</u>
Statutory tax rate	<u>30.08%</u>	<u>30.08%</u>
Loss before income taxes	<u>\$ (1,436,729)</u>	<u>\$ (2,756,648)</u>
Expected income tax recovery on net loss, before income tax	432,000	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	(123,000)	(357,000)
Non-taxable portion of capital gains	-	2,000
Marketable securities and asset-backed commercial paper	-	(77,000)
Increase in valuation allowance	<u>(467,000)</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 \$9,341,000 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>1,436,000</u>
	<u>\$ 9,341,000</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	\$ 2,335,000	\$ 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>
	3,193,000	2,634,000
Less: valuation allowance	<u>(3,193,000)</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 six months ended April 30, 2010:

- a) Deferred exploration expenditures of \$297,185 were included in accounts payable at April 30, 2010.
- b) Option payments received on a resource property include shares of another public company valued at \$32,500.
- c) Amortization of \$47,565 relating to equipment was included in resources properties account.
- d) Deferred exploration and development costs in the investing activities included a mining tax credit of \$42,750

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 Events

None

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.