



COMMERCE RESOURCES CORP.

REPORT AND FINANCIAL STATEMENTS

April 30, 2011 and October 31, 2010

## **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>2011</u> <i>(Unaudited)</i>	<u>October 31,</u> <u>2010</u> <i>(Audited)</i>
Current			
Cash and cash equivalents	\$	4,476,809	\$ 7,128,737
Marketable securities – Note 3		580,055	481,037
Short term investment		34,500	34,500
Amounts receivable		4,470	-
Mining tax credits receivable – Note 4		4,290,267	4,290,267
GST/HST recoverable		253,271	411,206
Due from related parties – Note 9		46,087	34,651
Prepaid expenses		<u>394,855</u>	<u>259,595</u>
		10,080,314	12,639,993
Investments in asset-backed commercial paper – Note 5		4,139,881	4,243,319
Reclamation bonds		82,000	82,000
Equipment – Note 6		467,197	522,067
Resource properties – Notes 7, 8 and Schedule I		<u>31,048,058</u>	<u>26,748,208</u>
		<u>\$ 45,817,450</u>	<u>\$ 44,235,587</u>

**LIABILITIES**

Current			
Accounts payable and accrued liabilities	\$	972,896	\$ 621,789
Due to related parties – Note 9		<u>746,745</u>	<u>566,316</u>
		<u>1,719,641</u>	<u>1,188,105</u>

**SHAREHOLDERS' EQUITY**

Share capital – Note 8	59,859,736	56,642,515
Share subscriptions receivable – Note 8	-	-
Contributed surplus – Note 8	6,563,429	5,009,203
Accumulated other comprehensive income	568,660	771,378
Deficit	<u>(22,894,016)</u>	<u>(19,375,614)</u>
	<u>44,097,809</u>	<u>43,047,482</u>
	<u>\$ 45,817,450</u>	<u>\$ 44,235,587</u>

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

APPROVED BY THE DIRECTORS:

<i>“Dave Hodge”</i> Director Dave Hodge	<i>“Sven Olsson”</i> 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, 2011 and 2010

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Administrative costs				
Administration fees and rent – Note 8	\$ 270,000	\$ 270,000	\$ 540,000	\$ 540,000
Advertising and website	82,117	127,283	195,331	208,796
Bank charges and interest	870	16,903	1,307	17,651
Consulting fees – Note 9	95,509	93,166	192,969	183,125
Filing and transfer agent fees	67,753	17,472	86,003	19,105
Insurance	3,536	3,536	7,190	7,190
Investor relations	28,424	39,958	69,432	90,765
Office, telephone and miscellaneous – Note 9	12,131	3,207	15,467	8,122
Professional fees	2,072	6,493	9,347	10,603
Stock based compensation – Note 8	1,586,796	175,344	2,327,091	408,288
Travel and promotion	<u>31,254</u>	<u>70,968</u>	<u>98,823</u>	<u>118,360</u>
Loss before other items and income taxes	2,180,462	824,330	3,542,960	1,612,005
Other items:				
Part XII.6 tax	-	6,982	-	6,982
Loss on disposition of marketable securities	-	-	23,502	-
Interest income	<u>(23,329)</u>	<u>(77,159)</u>	<u>(48,060)</u>	<u>(143,265)</u>
Net loss for the period	2,157,132	754,153	3,518,402	1,475,722
Other comprehensive loss				
Unrealized loss (gain) on marketable securities	488,290	(43,111)	101,316	(38,993)
Write down of asset backed commercial paper	<u>-</u>	<u>-</u>	<u>101,402</u>	<u>-</u>
Comprehensive loss (income) for the period	488,290	(43,111)	202,718	(38,993)
Net loss and comprehensive loss for the period	<u>\$ 2,645,423</u>	<u>\$ 711,042</u>	<u>\$ 3,721,120</u>	<u>\$ 1,436,729</u>
Basic and diluted loss per share	<u>\$ 0.020</u>	<u>\$ 0.006</u>	<u>\$ 0.028</u>	<u>\$ 0.012</u>
Weighted average number of shares outstanding	<u>132,220,138</u>	<u>123,857,316</u>	<u>132,220,138</u>	<u>123,857,316</u>

SEE ACCOMPANYING NOTES

**COMMERCE RESOURCES CORP.**  
**STATEMENTS OF SHAREHOLDERS' EQUITY**  
For the six months ended April 30, 2011 and the year ended October 31, 2010

	<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, 2009	130,517,140	56,504,666	(150,000)	4,809,815	553,234	(17,003,326)	44,714,389
Exercise of stock options	145,000	126,574	-	(88,874)	-	-	37,700
Exercise of warrants	37,500	20,250	-	-	-	-	20,250
Share Issue costs – Note 8	-	(8,975)	-	-	-	-	(8,975)
Subscription received	-	-	150,000	-	-	-	150,000
Stock-based compensation – Note 8	-	-	-	288,262	-	-	288,262
Net loss	-	-	-	-	-	(2,372,288)	(2,372,288)
Unrealized gain on available-for-sale financial assets	-	-	-	-	218,144	-	218,144
Balance, October 31, 2010	130,699,640	\$ 56,642,515	\$ -	\$ 5,009,203	\$ 771,378	\$ (19,375,614)	\$ 43,047,482
Exercise of stock options	2,079,017	1,177,717	-	(664,273)	-	-	513,444
Exercise of warrants	3,178,125	1,716,188	-	-	-	-	1,716,188
Exercise of broker warrants	392,314	265,518	-	(108,592)	-	-	156,926
Exercise of broker unit warrants	107,086	57,798	-	-	-	-	57,798
Stock-based compensation – Note 8	-	-	-	2,327,091	-	-	2,327,091
Net loss	-	-	-	-	-	(3,518,402)	(3,518,402)
Unrealized gain on available-for-sale financial assets	-	-	-	-	(202,718)	-	(202,718)
Balance, April 30, 2011	<u>136,456,182</u>	<u>\$ 59,859,736</u>	<u>\$ -</u>	<u>\$ 6,563,429</u>	<u>\$ 568,660</u>	<u>\$ (22,894,016)</u>	<u>\$ 44,097,809</u>

SEE ACCOMPANYING NOTES

**COMMERCE RESOURCES CORP.**  
**STATEMENTS OF CASH FLOWS**  
For the six months ended April 30, 2011 and 2010

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Operating Activities</b>				
Net loss for the period	\$ (2,157,132)	\$ (754,152)	\$ (3,518,402)	\$ (1,475,722)
Add (deduct) items not affecting cash:				
Stock-based compensation	1,586,796	175,344	2,327,091	408,288
Loss on sale of marketable securities	-	-	23,501	-
 Changes in non-cash working capital items related to operations:				
Amounts receivable	11,008	7,954	(4,470)	14,689
Goods and services tax receivable	(31,507)	(78,781)	157,935	(29,670)
Prepaid expenses	(89,644)	(78,877)	(135,260)	(114,485)
Accounts payable and accrued liabilities	861,541	133,138	1,401,080	162,570
Due to related parties	(602,263)	(150,492)	(1,220,950)	(184,339)
 Cash used in operating activities	<u>(421,201)</u>	<u>(745,866)</u>	<u>(969,475)</u>	<u>(1,218,669)</u>
 <b>Financing Activities</b>				
Issue of share capital for cash, net	909,615	3,025	2,444,356	9,225
Share subscriptions receivable	-	-	-	150,000
Mining tax credit	-	1,868,326	-	1,868,326
 Cash provided by financing activities	<u>909,615</u>	<u>1,871,351</u>	<u>2,444,356</u>	<u>2,027,551</u>
 <b>Investing Activities</b>				
Acquisition of resource properties	-	-	-	-
Redemption of Asset-backed commercial paper	1,637	1,645	2,036	6,732
Proceeds from property option agreement	-	-	10,000	10,000
Sale/(purchase) of marketable securities	-	-	31,165	(83,156)
Acquisition of equipment	-	(5,096)	-	(29,703)
Deferred exploration and development costs, net of mining credits	(1,784,062)	(1,105,942)	(4,170,010)	(1,890,576)
 Cash used in investing activities	<u>(1,782,425)</u>	<u>(1,063,192)</u>	<u>(4,126,809)</u>	<u>(1,986,703)</u>
 Increase (decrease) in cash and cash equivalents during the period	(1,294,011)	19,543	(2,651,928)	(1,177,821)
 Cash and cash equivalents, beginning of period	<u>5,770,820</u>	<u>14,712,423</u>	<u>7,128,737</u>	<u>15,909,787</u>
 Cash and cash equivalents, end of period	<u>\$4,476,809</u>	<u>\$14,731,966</u>	<u>\$4,476,809</u>	<u>\$14,731,966</u>

Non-cash Transactions – Note 13

SEE ACCOMPANYING NOTES

**COMMERCE RESOURCES CORP.**  
**SCHEDULE OF RESOURCE PROPERTIES**  
For the six months ended April 30, 2011

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	\$ 201,602	\$ 1,217,889	\$ 29,227	\$ 1,448,718
Staking	<u>          -</u>	<u>      7,180</u>	<u>          -</u>	<u>      7,180</u>
Balance, end of the period	<u>201,602</u>	<u>1,225,069</u>	<u>29,227</u>	<u>1,455,898</u>
Deferred exploration and development costs – Note 9				
Balance, beginning of the year	<u>19,023,966</u>	<u>6,247,528</u>	<u>27,996</u>	<u>25,299,490</u>
Amortization – field equipment and office	34,824	20,046	-	54,870
Archaeological impact analysis	5,039	-	-	5,039
Assays and analytical	229,202	522,600	-	751,802
Consulting	5,517	28,345	9,489	43,351
Drilling	-	641,908	-	641,908
Engineering	240,038	37,128	4,738	281,904
Environmental	33,575	-	-	33,575
Field equipment rental	82,405	165,687	190	248,282
Community	28,328	-	-	28,328
Field supplies	(1,227)	203,775	53	202,601
Food and accommodation	19,847	83,096	-	102,943
Fuel	-	75,532	-	75,532
Geology, mapping and drafting	368,036	760,166	-	1,128,202
Geophysics	6,000	-	-	6,000
Metallurgy	84,566	-	-	84,566
Other	9,888	13,715	-	23,603
Permitting & regulatory	2,203	-	-	2,203
Physical work	-	38,525	-	38,525
Project insurance	7,901	-	-	7,901
Project management	88,200	-	-	88,200
Research	6,230	-	-	6,230
Travel and transport	<u>9,496</u>	<u>692,592</u>	<u>17</u>	<u>702,105</u>
	<u>1,260,068</u>	<u>3,283,115</u>	<u>14,387</u>	<u>4,557,570</u>
Less: Mining tax credits	-	-	-	-
Option payments received	<u>          -</u>	<u>          -</u>	<u>(265,000)</u>	<u>(265,000)</u>
Balance, end of period	<u>20,284,034</u>	<u>9,530,643</u>	<u>(222,517)</u>	<u>29,592,160</u>
Balance, April 30, 2011	<u>\$ 20,485,636</u>	<u>\$ 10,755,712</u>	<u>\$ (193,290)</u>	<u>\$ 31,048,058</u>

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SEE ACCOMPANYING NOTES

**COMMERCE RESOURCES CORP.**  
**SCHEDULE OF RESOURCE PROPERTIES**  
For the year ended October 31, 2010

	<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>237</u>	<u>-</u>	<u>300</u>	<u>537</u>
Balance, end of the period	<u>201,602</u>	<u>1,217,889</u>	<u>29,227</u>	<u>1,448,718</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	54,655	42,794	-	97,449
Archaeological impact analysis	15,788	-	-	15,788
Assays and analytical	409,545	201,826	-	611,371
Consulting	7,960	26,548	1,746	36,254
Drilling	1,316,732	326,314	-	1,643,046
Engineering	480,116	-	1,493	481,609
Environmental	121,746	39,355	-	161,101
Field equipment rental	212,257	168,984	40	381,281
Community	64,266	-	-	64,266
Field supplies	92,703	239,112	-	331,815
Food and accommodation	126,516	73,315	-	199,831
Geology, mapping and drafting	1,343,570	1,157,067	-	2,500,637
Geophysics	45,319	2,500	-	47,819
Metallurgy	359,318	-	-	359,318
Other	99,623	18,927	-	118,550
Permitting & regulatory	6,306	-	-	6,306
Physical work	-	147,004	-	147,004
Project insurance	15,592	3,768	-	19,360
Project management	203,645	-	-	203,645
Research	205,899	-	-	205,899
Road and site preparation	269,983	-	-	269,983
Sampling and prospecting	-	-	195	195
Travel and transport	<u>42,366</u>	<u>1,545,467</u>	<u>1,693</u>	<u>1,589,526</u>
	<u>5,493,905</u>	<u>3,992,981</u>	<u>5,167</u>	<u>9,492,053</u>
Less: Mining tax credits	(2,789,830)	(1,943,867)	-	(4,733,697)
Option payments received	<u>-</u>	<u>-</u>	<u>(42,500)</u>	<u>(42,500)</u>
Balance, end of year	<u>19,023,966</u>	<u>6,247,528</u>	<u>27,996</u>	<u>25,299,490</u>
Balance, October 31, 2010	<u>\$ 19,225,568</u>	<u>\$ 7,465,417</u>	<u>\$ 57,223</u>	<u>\$ 26,748,208</u>

SEE ACCOMPANYING NOTES



**COMMERCE RESOURCES CORP.**  
NOTES TO THE FINANCIAL STATEMENTS  
April 30, 2011 and October 31, 2010

Note 1 Nature of Operations

Commerce Resources Corp. (the “Company”) is a public company listed on Tier 1 of the TSX Venture Exchange in Canada, the OTCQX in the United States of America, 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 Cash 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 44,452,777 (2010: 45,303,162) 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. Areas requiring significant management estimates include assumptions and estimates include but not limited to:

- i) the recoverability of mining tax receivable;
- ii) the economic recoverability of exploration costs incurred and the probability of future economic benefits from development costs incurred;

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

e) Use of Estimates – (cont'd)

- iii) the proven and probable mineral reserves and resources associated with mining properties, the expected economic lives of mining properties, the future operating results and net cash flows from mining properties and the recoverability of mining properties;
- iv) the useful lives and related depreciation of plant and equipment;
- v) the inputs used in accounting for stock based compensation expense;
- vi) the provision for income and mining taxes including expected periods of reversals of timing differences and composition of future income and mining tax assets and liabilities; and
- vii) the determination of fair value of asset-backed commercial paper 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 and short term investment 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 establishes revised standards for the disclosure of financial instruments. This 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;

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

g) Financial Instruments – (cont'd)

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.

Changes in valuation methods may result in transfers into or out of an investment's assigned level. During the six months ended April 30, 2011, 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, 2011, 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.

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

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.

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) 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)

m) 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>	<u>Unrealized Gain/(Loss)</u>	<u>Fair Value April 30, 2011</u>
Continental Gold Limited	\$ 18,799	\$ 42,143	\$ 60,942
Canadian International Minerals (“CIN”)	325,000	(17,500)	307,500
Zimtu Capital Corp. (“Zimtu”)	<u>159,385</u>	<u>52,228</u>	<u>211,613</u>
Total	<u>\$ 503,184</u>	<u>\$ 76,871</u>	<u>\$ 580,055</u>

  

	<u>Cost</u>	<u>Unrealized Gain/(Loss)</u>	<u>Fair Value October 31, 2010</u>
Continental Gold Limited	\$ 18,799	\$ 29,089	\$ 47,888
Victory Resources Corp.	54,666	(18,666)	36,000
Canadian International Minerals (“CIN”)	70,000	140,000	210,000
Zimtu Capital Corp. (“Zimtu”)	<u>159,385</u>	<u>27,764</u>	<u>187,149</u>
Total	<u>\$ 302,850</u>	<u>\$ 178,187</u>	<u>\$ 481,037</u>

During the six months ended April 30, 2011, the Company received 500,000 common shares of CIN valued at \$255,000 as described in Note 7. This results in the Company holding a total of 1,500,000 common shares of CIN. Also during the six months ended April 30, 2011, the Company sold 150,000 shares of Victory Resources Corp. for a loss of \$23,501.

Note 3     Marketable Securities – (cont'd)

During the year ended October 31, 2010, the Company purchased 61,400 common shares of Zimtu valued at \$83,156, bringing its holding of Zimtu shares to 122,320 common shares. The Company recorded an unrealized holding gain on these shares at October 31, 2010 of \$27,764 to other comprehensive income.

Note 4     Mining Tax Receivable

During the year ended October 31, 2010, Canada Revenue Agency approved refundable British Columbia mining tax credits for the years ended October 31, 2006, 2007 and 2008 totaling \$1,825,576. The Company received the refund plus interest on April 12, 2010. The Company has accrued BC mining tax credits totaling \$2,747,080 for the 2009 and 2010 fiscal years and the Quebec mining tax credit of \$1,543,187 as at October 31, 2010. Subsequent to the quarter ended April 30, 2011, the Company received a refund of \$1,121,583 for the mining tax credits related to the year ended October 31, 2009.

Note 5     Investments in Asset-Backed Commercial Paper

As at April 30, 2011, the Company held asset-backed commercial paper (“ABCP”) issued by a number of trusts with an original cost of \$7,970,829 (2010: \$8,074,267). At the dates the Company acquired these investments they were rated R1 (High) by Dominion Bond Rating Services (“DBRS”). These investments matured during the year ended October 31, 2007, but, as a result of liquidity issues in the ABCP market, did not settle on maturity. 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:

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

- \$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 as follows:
  - \$4,830,000 of Class A-1 Notes
  - \$1,950,000 of Class A-2 Notes
  - \$350,000 of Class B Notes
  - \$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.

- \$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 January 31, 2011, 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>April 30, 2011</u>	<u>October 31, 2010</u>
Probability weighted average interest	10.95%	10.95%
Weighted average discount rate	8.92%	8.92%
Maturity of long-term floating rate notes	6 years to 28 years	6 years to 28 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.



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

During the six months ended April 30, 2011, the Company received a payment of \$2,036 (2010: \$7,153). As at April 30, 2011, the fair value of the ABCP as determined above was \$4,139,881 (2010: \$4,243,319) and the Company recorded an unrealized gain of \$nil (2010: \$119,117) from this instrument. During the six months ended April 30, 2011, \$101,402 (2010 - \$nil) of the Class 9 notes were written off.

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

Opening balance, October 31, 2009	\$ 4,131,354
Unrealized gains in other comprehensive income	119,117
Settlements	<u>(7,152)</u>
Closing balance, October 31, 2010	\$ 4,243,319
Write off of Class 9 notes	(101,402)
Settlements	<u>(2,036)</u>
Closing balance, April 30, 2011	<u>\$ 4,139,881</u>

Note 6 Equipment

	<u>Cost</u>	<u>Accumulated Amortization</u>	Net Book Value April 30, 2011
Field equipment	\$ 298,806	\$ 222,390	\$ 76,416
Field office	293,388	22,889	270,499
Land	<u>120,282</u>	<u>-</u>	<u>120,282</u>
Balance, end of the period	<u>\$ 712,476</u>	<u>\$ 245,279</u>	<u>\$ 467,197</u>
			Net Book Value October 31, 2010
	<u>Cost</u>	<u>Accumulated Amortization</u>	
Field equipment	\$ 298,806	\$ 173,040	\$ 125,766
Field office	293,388	17,369	276,019
Land	<u>120,282</u>	<u>-</u>	<u>120,282</u>
Balance, end of the period	<u>\$ 712,476</u>	<u>\$ 190,409</u>	<u>\$ 522,067</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:

	<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, and \$10,000 received January 19, 2011), issue 1,500,000 common shares (500,000 received at October 31, 2009, 500,000 received at January 31, 2010, and 500,000 received at January 12, 2011) to the Company and incur total exploration expenditures of \$198,000 (incurred) 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, 2009	130,517,140	\$ 56,504,666
Exercise of options - at \$0.26	145,000	37,700
Warrants exercised - at \$0.54	37,500	20,250
Fair value of options exercised	-	88,874
Share issue costs related to prior year issued shares	-	<u>(8,975)</u>
Balance, October 31, 2010	130,699,640	\$ 56,642,515
Exercise of options	2,079,017	513,444
Fair value of options exercised	-	664,273
Warrants exercised	3,178,125	1,716,188
Exercise of broker warrants	392,314	156,926
Fair value of broker warrants exercised	-	108,592
Broker unit warrants exercised	<u>107,086</u>	<u>57,798</u>
Balance, April 30, 2011	<u>136,456,182</u>	<u>\$ 59,859,736</u>

Issued and outstanding:

Historically, the Company repurchased 200,000 common shares of its own at nominal value, which has been deemed as common shares returned to treasury. As a result, total issued and outstanding shares of the Company is 133,939,989 as at April 30, 2011.

During the six months ended April 30, 2011:

During the three months ended January 31, 2011, 250,000 stock options were exercised at \$0.15 per share for total proceeds of \$37,500, 20,000 stock options were exercised at \$0.18 per share for total proceeds of \$3,600, 100,000 stock options were exercised at \$0.21 per share for total proceeds of \$21,000, 25,000 stock options were exercised at \$0.25 per share for total proceeds of \$6,250, 1,659,017 stock options were exercised at \$0.26 per share for total proceeds of \$431,344, 25,000 stock options were exercised at \$0.55 per share for total proceeds of \$13,750, 3,178,125 share purchase warrants were exercised at \$0.54 per share for total proceeds of \$1,716,188, 392,314 broker warrants were exercised at \$0.40 per share for total proceeds of \$156,926, and 107,086 broker unit warrants were exercised at \$0.54 per share for total proceeds of \$57,826.

During the year ended October 31, 2010:

During the year ended October 31, 2010, 145,000 stock options were exercised at \$0.26 per share for total proceeds of \$37,700 and 37,500 share purchase warrants were exercised at \$0.54 per share for total proceeds of \$20,250.

Note 8 Share Capital – (cont'd)

Contributed Surplus

	<u>Amount</u>
Balance, October 31, 2009	\$ 4,809,815
Fair value of stock options granted	288,262
Transfer to share capital on exercise of options	<u>(88,874)</u>
Balance, October 31, 2010	\$ 5,009,203
Fair value of stock options granted	2,327,091
Transfer to share capital on exercise of options	(664,273)
Transfer to share capital on exercise of broker warrants	<u>(108,592)</u>
Balance, April 30, 2011	<u>\$ 5,405,338</u>

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.

A summary of the stock options, as of April 30, 2011, is presented below:

	<u>April 30, 2011</u>		<u>October 31, 2010</u>	
	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Options</u>	<u>Weighted Average Exercise Price</u>
Balance, beginning of year	8,420,000	\$0.35	7,540,000	\$0.33
Granted	4,710,000	\$0.70	1,110,000	\$0.45
Exercised	(2,079,017)	\$0.27	(145,000)	\$0.26
Expired/forfeited/cancelled	<u>-</u>	<u>-</u>	<u>(85,000)</u>	<u>\$0.26</u>
Outstanding, end of period	<u>11,050,983</u>	<u>\$0.52</u>	<u>8,420,000</u>	<u>\$0.35</u>
Exercisable, end of period	<u>8,345,983</u>	<u>\$0.42</u>	<u>8,395,000</u>	<u>\$0.35</u>

On February 23, 2010 and October 18, 2010, 50,000 and 35,000 options both at \$0.26 were cancelled respectively.

Note 8 Share Capital – (cont'd)

Stock Options – (cont'd)

At April 30, 2011, the Company had 11,050,983 (2010: 8,420,000) stock options outstanding entitling the holders thereof the right to purchase one common share as follows:

<u>April 30,</u> <u>2011</u>	<u>Number</u> <u>October 31, 2010</u>	<u>Original</u> <u>Exercise</u> <u>Price</u>	<u>Revised</u> <u>Exercise</u> <u>Price</u>	<u>Expiry Date</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	500,000	\$0.35	-	September 27, 2011
1,000,000	1,400,000	\$0.67	\$0.26	March 16, 2012
80,000	425,000	\$1.15	\$0.26	April 16, 2012
50,000	50,000	\$1.15	-	April 16, 2012
25,000	60,000	\$1.25	\$0.26	April 17, 2012
200,000	200,000	\$1.12	-	June 6, 2012
-	30,000	\$1.12	\$0.26	June 6, 2012
1,000,000	1,000,000	\$1.00	\$0.26	September 20, 2012
70,983	100,000	\$1.15	\$0.26	October 3, 2012
1,445,000	1,775,000	\$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	200,000	\$0.45	-	November 6, 2014
285,000	285,000	\$0.66	-	November 20, 2014
600,000	600,000	\$0.35	-	April 20, 2015
-	25,000	\$0.25	-	August 17, 2015
1,980,000	-	\$0.55	-	November 17, 2015
<u>2,705,000</u>	<u>-</u>	<u>\$0.81</u>	<u>-</u>	<u>February 21, 2016</u>
<u>11,050,983</u>	<u>8,420,000</u>			

At April 30, 2011, the stock options outstanding had a weighted average remaining contractual life of 3.30 years (2010: 2.42 years).

During the six months ended April 30, 2011, the Company granted a total of 4,710,000 (2010: 1,110,000) stock options to its officers, directors and employees of the Company. At the date of grant, the exercise prices are below or equal to the market price. The Company recorded stock-based compensation expense of \$2,327,091 (2010: \$288,262) and the amount was determined using Black-Scholes option pricing model with the following assumptions:

	<u>April 30, 2011</u>	<u>October 31, 2010</u>
Expected dividend yield	Nil	Nil
Expected volatility	93.72% - 96.3%	92% - 97%
Risk free rate	2.32 - 2.63%	1.48% - 2.56%
Expected terms in years	5	3

Note 8 Share Capital – (cont'd)

Share Purchase Warrants

A summary of the share purchase warrants as of April 30, 2011 and October 31, 2010 is presented below:

	<u>April 30, 2011</u>			<u>October 31, 2010</u>		
	Number of	Weighted	Weighted	Number of	Weighted	Weighted
	<u>Warrants</u>	Average	Average	<u>Warrants</u>	Average	Average
		Exercise	Life		Exercise	Life
		Price	(Years)		Price	(Years)
Balance, beginning of year	36,261,442	\$1.26	0.76	36,298,942	\$1.26	1.76
Exercised	(3,178,125)	\$0.54	-	(37,500)	\$0.54	-
Expired	-	-	-	-	-	-
Balance, end of period	<u>33,083,317</u>	<u>\$1.33</u>	<u>0.25</u>	<u>36,261,442</u>	<u>\$1.26</u>	<u>0.76</u>

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

<u>Number</u>		<u>Exercise</u>	<u>Expiry Date</u>
<u>April 30, 2011</u>	<u>October 31, 2010</u>	<u>Price</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*
5,141,500	8,300,875	\$0.54	September 15, 2011
<u>650,000</u>	<u>668,750</u>	\$0.54	October 2, 2011
<u>33,083,317</u>	<u>36,261,442</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.

Note 8 Share Capital – (cont'd)

Brokers Warrants

A summary of the broker warrants as of April 30, 2011 and October 31, 2010 is presented below:

	<u>April 30, 2011</u>			<u>October 31, 2010</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	621,720	\$0.40	0.88	621,720	\$0.40	1.88
Exercised	(392,314)	\$0.40		-	-	
Broker Unit warrant issued	196,157	\$0.54		-	-	
Broker Unit warrant exercised	(107,086)	\$0.54		-	-	
Balance, end of period	<u>318,477</u>	<u>\$0.44</u>	<u>0.39</u>	<u>621,720</u>	<u>\$0.40</u>	<u>0.88</u>

The following Brokers Warrants are outstanding. Each Broker Warrant entitles the holder thereof the right to purchase Broker Unit at a price of \$0.40 per Broker Unit. Each Broker Unit consists of one common share and one half of one share purchase warrant. Two one half of one share purchase warrants will entitle the holder to purchase one common share of the Company at an exercise price of \$0.54 with the same expiry date as per below.

<u>Number</u>		<u>Description</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
<u>April 30, 2011</u>	<u>October 31, 2010</u>			
169,406	561,720	Broker Warrant	\$0.40	September 15, 2011
60,000	60,000	Broker Warrant	\$0.40	October 2, 2011
<u>89,071</u>	<u>-</u>	Broker Unit Warrant	\$0.54	September 15, 2011
<u>318,477</u>	<u>621,720</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, 2011</u>	<u>Six months ended April 30, 2010</u>
Administration fees and rent	\$ 540,000	\$ 540,000
Consulting fees	76,554	24,421
Deferred exploration and development costs	1,650,521	978,884
Advertising and promotion	-	2,517
Office expenses and travel	<u>5,960</u>	<u>4,654</u>
	<u>\$ 2,273,035</u>	<u>\$ 1,550,476</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, 2011, \$746,745 (2010: \$535,426) was due to a company with a common director of the Company for fees and expenses related to geological consulting, \$nil (2010: \$8,390) was due to a director for consulting fees, \$28,154 (2010: \$22,500) was due from a company with a common director, and \$17,933 (2010: \$34,651) was due from companies with a common director. The payables and receivables are non-interest bearing and due on demand.

At April 30, 2011, \$211,613 included in marketable securities (2010: \$187,150) is with a public company 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, short term investment 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.



Note 10 Financial instruments – (cont'd)

Financial Risk Management – (cont'd)

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, 2011, cash and cash equivalents of \$4,476,809 (2010 - \$7,100,000) consisted of cash balances of \$110,309 (2010 - \$1,400,000) on deposit with Canadian chartered banks and \$4,366,500 (2010 - \$5,700,000) 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.

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.

Note 10 Financial instruments – (cont'd)

Financial Risk Management – (cont'd)

c) Market Risk – (cont'd)

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 1% decrease in interest rates would result in an approximate decrease of \$120,000 (2010: \$152,000) in net annual earnings. The sensitivity analysis on ABCP providing the effect on other comprehensive income if interest rates were to increase by 1% for the six months ended April 30, 2010 is \$63,000.

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.

Note 11 Capital Disclosures – (cont'd)

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, 2011, and the year ended October 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>Six months ended April 30, 2011</u>	<u>Six months ended April 30, 2010</u>
Statutory tax rate	<u>28.75%</u>	<u>30.08%</u>
Loss before income taxes	<u>\$ (3,518,402)</u>	<u>\$ (1,436,729)</u>
Expected income tax recovery on net loss, before income tax	1,011,541	432,000
Differences due to recognition of items for tax purposes:		
Share Issuance Costs	-	158,000
Stock-based compensation and other	(669,039)	(123,000)
Increase in valuation allowance	<u>(1,680,580)</u>	<u>(467,000)</u>
Income tax recovery	<u>\$ -</u>	<u>\$ -</u>

Subject to certain restrictions, the Company has accumulated \$30,350,588 (2010: \$25,793,018) of Canadian development and exploration expenditures available to reduce taxable income of future years. In addition, the Company has non-capital losses totalling \$11,314,000 (2010: \$10,419,000) that are available to reduce taxable income of future years. The non-capital losses expire as follows:

Note 12 Corporation Income Taxes – (cont'd)

2015	336,000
2026	703,000
2027	1,884,000
2028	2,234,000
2029	2,199,000
2030	2,767,000
2014	<u>1,191,000</u>
	<u>\$ 11,314,000</u>

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

	<u>April 30,</u> <u>2011</u>	<u>October 31,</u> <u>2010</u>
Non-capital losses carry forward	\$ 3,252,775	\$ 2,761,000
Canadian development and exploration expenditures	(126,500)	(253,000)
Share issue costs	111,000	222,000
Marketable securities and asset-backed commercial paper	242,000	484,000
Other	<u>-</u>	<u>-</u>
	3,479,275	3,214,000
Less: valuation allowance	<u>(3,479,275)</u>	<u>(3,214,000)</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:

During the six months ended April 30, 2011:

- a) Deferred exploration expenditures of \$1,389,943 were included in accounts payable and \$746,745 were included in due to related parties at April 30, 2011.
- b) Option payments received on a resource property include shares of another public company valued at \$255,000.
- c) Amortization of \$54,870 relating to equipment and the field office was included in resources properties account.

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

d) See also Note 8.

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

Note 14 Subsequent Events

- a) Subsequent to the six months ended April 30, 2011, 105,000 options were exercised for proceeds of \$27,300 and 700,000 warrants were exercised for proceeds of \$378,000.
- b) Subsequent to the quarter ended April 30, 2011, 3,761,003 share purchase warrants priced at \$1.50 expired.
- c) Subsequent to the six months ended April, 30, 2011, the Company closed a non-brokered private placement of 10,388,834 common shares of the Company at a price of \$0.73 per share for gross proceeds of \$7.58 million. In connection with the completion of the Private Placement, the Company has paid a finder's fee in the amount of C\$585,375 and 2,004,709 warrants. Each warrant is exercisable into one common share of the company at a price of \$0.90 per share for a period of two years from the date of closing of the Private Placement