Consolidated Financial Statements of

Gold Hawk Resources Inc.

December 31, 2010 and 2009

Gold Hawk Resources Inc.
December 31, 2010 and 2009

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Independent Auditor's Report

To the Shareholders of Gold Hawk Resources Inc.

We have audited the accompanying consolidated financial statements of Gold Hawk Resources Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a loss from operations of $4.6 million during the year ended December 31, 2010 (2009 - $9.7 million). This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

(Signed) Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
March 30, 2011

Gold Hawk Resources Inc.

Consolidated statements of income and comprehensive income
years ended December 31, 2010 and 2009

(In thousands of Canadian dollars, except share amounts)

	2010	2009
	$	$
Operating costs		
Accretion of asset retirement obligation	**-**	(2,866)
Care and maintenance expenses	**-**	(1,838)
Depreciation	**(16)**	(1,500)
General and administration expenses (Note 13)	**(3,285)**	(3,198)
Stock-based compensation cost (Note 12 (d))	**(1,278)**	(302)
Loss from operations	**(4,579)**	(9,704)
Other expenses (income)		
Foreign exchange loss	**18**	2,959
Interest and financing charges (Note 14)	**30**	3,819
Gain on sale of held-for-trading securities (Note 5)	**(3,010)**	(531)
Gain on sale of available-for-sale securities (Note 16)	**(4,645)**	-
Gain on dilution of interest in investee (Note 16)	**-**	(26,204)
Loss on sale of equipment	**16**	-
Net income and other comprehensive income	**3,012**	10,253
Net income per share		
Basic	**0.18**	0.87
Diluted	**0.18**	0.87
Weighted average number of shares outstanding		
Basic	**16,901,358**	11,747,213
Diluted	**16,973,421**	11,747,213

Gold Hawk Resources Inc.
Consolidated balance sheets
as at December 31, 2010 and 2009
(In thousands of Canadian dollars, except share amounts)

	2010	2009
	$	$
		(As restated - Note 2 (o))
Assets		
Current assets		
Cash and cash equivalents	**25,269**	13,485
Short-term investments (Note 5)	**-**	1,866
Prepaid expenses and other receivables	**204**	58
	25,473	15,409
Mineral properties, plant and equipment (Note 6)	**32,422**	27
	57,895	15,436
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**1,422**	524
Other current liabilities (Note 7)	**555**	-
Current portion of promissory notes payable (Note 8)	**995**	-
	2,972	524
Promissory notes payable (Note 8)	**2,142**	-
Other long-term liability (Note 9)	**478**	-
Future income tax liability (Note 15)	**9,914**	-
	15,506	524
Shareholders' equity		
Share capital (Note 12 (b))	**77,182**	53,766
Warrants (Note 12 (e))	**733**	2,354
Contributed surplus	**6,374**	3,704
Deficit	**(41,900)**	(44,912)
	42,389	14,912
	57,895	15,436

Continuing operations (Note 1)
Contingencies and commitments (Note 18)

Approved by the Directors

(Signed) Kevin Drover
Kevin Drover, Director

(Signed) Derek Price
Derek Price, Director

Gold Hawk Resources Inc.
Consolidated statements of shareholders' equity
years ended December 31, 2010 and 2009
(In thousands of Canadian dollars, except share amounts)

	Share capital				Accumulated other comprehensive		
	Shares	Amount	Warrants	Contributed surplus	income (loss)	Deficit	**Total**
		$	$	$	$	$	**$**
At December 31, 2008 (As restated - Note 2 (o))	9,044,464	51,907	760	2,642	(1,512)	(55,165)	**(1,368)**
Private placement, net of issuance costs of $1,667	3,180,192	808	1,630	-	-	-	**2,438**
Shares issued as payment of current liabilities	132,911	262	-	-	-	-	**262**
Shares issued to extinguish debt	340,000	425	-	-	-	-	**425**
Shares issued for debt restructuring	319,403	364	-	-	-	-	**364**
Warrants issued as a financing fee	-	-	724	-	-	-	**724**
Expired warrants	-	-	(760)	760	-	-	**-**
Stock-based compensation	-	-	-	302	-	-	**302**
Foreign exchange translation adjustment	-	-	-	-	3,844	-	**3,844**
Recognition of cumulative translation adjustment on dilution of investee	-	-	-	-	(2,332)	-	**(2,332)**
Net income for the year	-	-	-	-	-	10,253	**10,253**
At December 31, 2009 (As restated - Note 2 (o))	13,016,970	53,766	2,354	3,704	-	(44,912)	**14,912**
Share issued on acquisition (Note 4)	11,200,000	14,896	-	-	-	-	**14,896**
Warrants exercised	850,200	1,199	(136)	-	-	-	**1,063**
Options exercised	195,000	354	-	(159)	-	-	**195**
Private placement, net of issuance costs of $533	6,000,000	6,967	-	-	-	-	**6,967**
Expired warrants	-	-	(1,635)	1,635	-	-	**-**
Warrants re-issued (Note 12 (e))	-	-	150	(150)	-	-	**-**
Stock-based compensation	-	-	-	1,344	-	-	**1,344**
Net income for the year	-	-	-	-	-	3,012	**3,012**
At December 31, 2010	31,262,170	77,182	733	6,374	-	(41,900)	**42,389**

See accompanying notes to the consolidated financial statements.

Gold Hawk Resources Inc.

Consolidated statements of cash flows
years ended December 31, 2010 and 2009

(In thousands of Canadian dollars, except share amounts)

	2010	2009
	$	$
Operating activities		
Net income	**3,012**	10,253
Items not affecting cash		
Gain on sale of available-for-sale securities	**(4,645)**	-
Gain on held-for-trading securities	**(3,010)**	(531)
Stock-based compensation cost	**1,278**	302
Foreign exchange (gain) loss	**(82)**	2,861
Depreciation and depletion	**16**	1,517
Loss on sale of equipment	**16**	-
Gain on dilution (Note 16)	**-**	(26,204)
Financing costs	**-**	3,381
Accretion expense on asset retirement obligation	**-**	2,866
Other asset retirement expenditures	**-**	(139)
Other	**4**	-
	(3,411)	(5,694)
Net changes in non-cash components of working capital (Note 19)	**(164)**	(320)
	(3,575)	(6,014)
Financing activities		
Private placement	**7,500**	2,475
Exercise of options and warrants	**1,258**	-
Repayment of promissory note (Note 8)	**(1,010)**	-
Share issue costs	**(533)**	(38)
Proceeds received on return of capital relating to investee	**-**	15,779
Loan proceeds	**-**	3,803
Reduction in cash due to de-consolidation of investee	**-**	(840)
Capital lease obligation	**-**	(37)
	7,215	21,142
Investing activities		
Proceeds from sale of held-for-trading securities	**7,162**	-
Purchase of held-for-trading securities	**(2,286)**	(1,335)
Proceeds from sale of available-for-sale securities	**4,645**	-
Additions to capitalized exploration and development	**(483)**	(27)
Property acquisition costs, net of cash acquired (Note 4)	**(318)**	-
Additions to plant and equipment	**(146)**	(399)
Proceeds from sale of equipment	**2**	-
Release of restricted cash required on investing activities	**-**	58
	8,576	(1,703)
Effect of exchange rate changes on cash and cash equivalents	**(434)**	(26)
Net change in cash and cash equivalents	**11,782**	13,399
Cash and cash equivalents, beginning of year	**13,487**	86
Cash and cash equivalents, end of year	**25,269**	13,485

Supplemental cash flow information (Note 19)

Non-cash investing and financing activities (Note 20)

1. Continuing operations

Gold Hawk Resources Inc. (the "Company" or "Gold Hawk"), listed on the Toronto Venture Stock Exchange under the symbol "GHK", is a company incorporated under the Canada Business Corporations Act and a reporting issuer under the jurisdiction of British Columbia. The Company is engaged in the acquisition, exploration and development of mineral resource projects.

On September 28, 2010, the Company completed the acquisition of the Oracle Ridge copper property near Tucson, Arizona (Note 4). The Company has started exploration and development activities on this property and is developing a plan to bring the property into production. The Company's goal is to become a mid-tier copper producer.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which assume that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. During the year ended December 31, 2010, the Company incurred losses from operations of $4.6 million (2009 - $9.7 million). At December 31, 2010, the Company had cash and cash equivalents of $25.3 million, working capital of $22.5 million, and long-term debt of $2.6 million. The continuation of the Company as a going concern is dependent on its ability to obtain necessary financing, to complete its property under development, generate positive cash flows, and ultimately the achievement of profitable operations. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

2. Summary of significant accounting policies

(a) Basis of presentation

These consolidated financial statements as at December 31, 2010 have been prepared by management and include the accounts of Gold Hawk and its wholly-owned subsidiaries: 0830438 BC Ltd., Oracle Ridge Mining LLC ("Oracle Ridge") (incorporated in the U.S.), and Minas San Juan Ltd. (incorporated in the Commonwealth of the Bahamas).

(b) Measurement uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include fair value of assets and liabilities acquired in asset acquisitions, mineral resources and mineral reserves, commitments and contingencies, assumptions used for the determination of asset retirement obligations, future income taxes, stock based compensation, depletion and depreciation and the related useful lives of mineral property plant and equipment, and the recoverability of mineral properties, plant and equipment. Actual results could differ from those estimates.

(c) Cash and cash equivalents

The Company considers cash to be cash on deposit and cash equivalents to be highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less.

2. Summary of significant accounting policies (continued)

(d) Investments

Short-term investments in marketable securities are designated as held-for-trading and are recorded at fair value. Gains and losses are recognized in the statement of operations.

Long-term investments for which the Company does not exert significant influence are designated as available-for-sale and recorded at fair value when fair value can be reasonably measured.

(e) Property and equipment amortization

Property and equipment are recorded at cost and are depreciated using the straight-line method over the following periods:

Mobile equipment	5 years
Furniture and fixtures	5 years
Computer equipment and software	4 years
Machinery and equipment	5 years
Leasehold improvements	Term of lease

Amortization of mobile equipment as well as machinery and equipment used directly in exploration or development projects are included in exploration and development costs.

(f) Mineral properties

Mineral properties and related exploration and development costs are recorded at cost including interest and financing costs relating to the construction of plant and equipment and operating costs net of revenues prior to the commencement of commercial production of new mines. Interest and financing costs are capitalized only for those projects for which funds have been borrowed. Costs incurred for general exploration that are not related to specific properties are recorded in the consolidated statements of income (loss) and comprehensive income (loss).

These costs are amortized over the estimated useful life of mining properties using a unit-of-production method following commencement of production or written off when they are abandoned or if a project proves to be uneconomical. Proceeds from the sale of a mining asset are applied to reduce the related carrying costs; any excess is reflected as a gain in the consolidated statements of income (loss) and comprehensive income (loss). Losses on partial sales are recognized and reflected in the consolidated statements of income (loss) and comprehensive income (loss).

(g) Impairment of long-lived assets

The Company reviews and evaluates its long-lived assets, including its mineral properties, deferred exploration costs and property and equipment, for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Recoverability of assets to be held and used are measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. Measurement of an impairment loss is based on the excess of the carrying value of the asset over its estimated fair value.

2. Summary of significant accounting policies (continued)

(h) Foreign currency translation

The Company's functional currency is the Canadian dollar. The Company's recently acquired U.S. subsidiary, Oracle Ridge, is an integrated foreign operation. The monetary assets and liabilities are translated at period end exchange rates and non-monetary assets and liabilities at the historical rate. Revenues, expenses and cash flows are translated at average exchange rates. Gains and losses on translation of monetary assets and monetary liabilities are charged to income.

Transactions undertaken in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the time the transactions occurred. Account balances denominated in foreign currencies are translated as follows:

(i) Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet dates and non-monetary items are translated at historical exchange rates.

(ii) Exchange gains and losses are included in income.

(i) Earnings (loss) per share

Basic earnings (loss) per share calculations are based on the weighted average number of common shares outstanding.

Diluted earnings (loss) per share is calculated using the weighted average number of shares outstanding during the year based on the application of the treasury stock method for the calculation of the dilutive effect of stock options and other dilutive securities, such as warrants issued.

(j) Stock-based compensation plan

The Company accounts for stock-based compensation in accordance with the fair value based method. The fair value of stock options is determined on the grant date and recorded as compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus. When stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in share capital.

(k) Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future tax assets if it is more likely than not that some or all of the future tax assets will not be realized.

2. Summary of significant accounting policies (continued)

(l) Financial instruments

Financial assets and financial liabilities are recognized when the Company has become a party to the contractual provisions of the financial instrument. The Company classifies financial instruments as either held-to-maturity, available-for-sale, held-for-trading, loans and receivables, or other financial liabilities. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income (“OCI”). When fair value of available-for-sale financial assets cannot be reasonably measured they are measured at cost. Financial instruments classified as held-for-trading are measured at fair value with realized and unrealized gains and losses recognized in the statement of comprehensive income. Transaction costs are expensed as incurred.

Financial instruments are measured at fair value on initial recognition and measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Instrument	Classification	Measurement basis
Cash and cash equivalents	Held for trading	Fair value
Short-term investments - marketable securities	Held for trading	Fair value
Investment in CMSJ	Available-for-sale	Amortized cost
Accounts receivable	Loan and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Other current liabilities	Other liabilities	Amortized cost
Promissory notes payable	Other liabilities	Amortized cost
Other long-term liability	Other liabilities	Amortized cost

(m) Asset retirement obligations

The Company records the fair value of its asset retirement obligation as a long-term liability as incurred and records an increase in the carrying value of the related asset by a corresponding amount. In subsequent periods, the carrying amount of the liability is accreted by a charge to operations to reflect the passage of time and the liability is adjusted to reflect any changes in the timing of the underlying future cash flows. Changes to the obligation resulting from any revisions to the timing or amount of the original estimate of undiscounted cash flows are recognized as an increase or decrease in the asset retirement obligation, and a corresponding change in the carrying amount of the related long-lived asset. Upward revisions in the amounts of estimated cash flows are discounted using the credit adjusted risk free rate applicable at the time of the revision. Downward revisions in the amount of estimated cash flows are discounted using the historical credit-adjusted risk free rate when the original liability was recognized.

As of December 31, 2010, the Company has no asset retirement obligations associated with the Oracle Ridge copper project.

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

2. Summary of significant accounting policies (continued)

(n) Capitalized financing costs

Financing costs, including interest, are capitalized when they arise from indebtedness directly attributable to finance acquisition, and development and construction activities on properties not yet subject to depletion or depreciation. Once commercial production is achieved, finance costs are charged against earnings.

(o) Change in accounting policy

During the year, the Company changed its accounting policy for recording share issue costs such that costs of issuing shares are now recorded as a deduction from gross proceeds received as a component of share capital, which was deemed to be more relevant than the previous accounting policy. Previously share issue costs were recorded in accordance with EIC-94, *Accounting for Corporation Transaction Costs*, as capital transactions and charged directly to deficit. This change in accounting policy was recorded retroactively, and as such, the following adjustments have been made to the December 31, 2009 financial statements:

Consolidated balance sheet:

	As previously reported	Impact of restatement	As restated
	$	$	$
As at December 31, 2009			
Share capital	60,293	(6,527)	53,766
Deficit	(51,439)	6,527	(44,912)

Consolidated statement of shareholders' equity:

	As previously reported	Impact of restatement	As restated
	$	$	$
As at December 31, 2008			
Share capital	56,767	(4,860)	51,907
Deficit	(60,025)	4,860	(55,165)
As at December 31, 2009			
Share capital	60,293	(6,527)	53,766
Deficit	(51,439)	6,527	(44,912)

There was no impact on net income, other comprehensive income or cash flows as a result of this change.

3. Future accounting changes

(a) Business combinations

In January 2009, the Canadian Institute of Chartered Accountants' ("CICA") issued Section 1582, *Business Combinations*, Section 1601, *Consolidations*, and Section 1602, *Non-controlling Interests*. These new standards are harmonized with International Financial Reporting Standards ("IFRS"). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a change in the basis of measurement of non-controlling interests, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011, although early adoption was permitted as long as all three sections were adopted at once the Company did not elect to early adopt.

(b) Convergence with International Financial Reporting Standards

Canadian public companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for financial years beginning on or after January 1, 2011 ("Changeover Date"). Effective January 1, 2011, the Company will adopt IFRS as the basis for preparing its consolidated financial statements. The Company will issue its financial results for the quarter ended March 31, 2011 prepared on an IFRS basis and provide comparative data on an IFRS basis as required.

4. Asset acquisition

On September 28, 2010, the Company completed the acquisition of the Oracle Ridge copper property through the purchase of all the outstanding common shares of 0830438 BC Ltd. and its wholly-owned subsidiary, Oracle Ridge Mining LLC. The transaction has been accounted for as an acquisition of assets and related liabilities by the Company.

The aggregate purchase consideration consisted of 11,200,000 common shares of the Company, which have been valued at $1.33 per share, the share price of the Company on the closing date of the transaction.

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

4. Asset acquisition (continued)

The purchase consideration has been allocated to the assets acquired and liabilities assumed as follows:

	$
Shares issued upon acquisition	14,896
Transaction costs	333
Purchase consideration	15,229
Cash and cash equivalents	15
Prepaids	8
Mineral properties	31,644
Accounts payable and accrued liabilities	(917)
Other current liabilities (Note 7)	(558)
Promissary notes payable (Note 8)	(4,215)
Future income tax liabliity	(10,262)
Other long term liability (Note 9)	(486)
	15,229

5. Short-term investments

Investments consist of the following:

	2010	2009
	$	$
Shares classified as held-for-trading	**-**	1,549
Warrants classified as held-for-trading	**-**	317
	-	1,866

During the year, the Company sold shares and warrants classified as "held-for-trading" for proceeds of $7.2 million and recognized a total realized gain of $3.0 million.

6. Mineral properties, plant and equipment

					2010	2009
	Acquisition	**Exploration and development**	**Equipment**	**Accumulated depreciation**	**Total**	Total
	$	**$**	**$**	**$**	**$**	$
Oracle Ridge (a)	**31,644**	**640**	**69**	**-**	**32,353**	-
Corporate	**-**	**-**	**70**	**1**	**69**	27
	31,644	**640**	**139**	**1**	**32,422**	27

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

6. Mineral properties, plant and equipment (continued)

(a) The Oracle Ridge property is located 24 km northeast of Tucson, Arizona. In 2010, the Company has secured the surface rights by way of lease and by purchase of an adjacent property necessary to explore, rebuild and operate the past producing Oracle Ridge copper mine.

During the year, the Company began work on a program designed to validate the existing technical database and also began the process of collecting the data required to obtain the permits necessary to re-start mining operations and to complete a feasibility study.

Exploration and development costs at Oracle Ridge consist of:

	December 31, 2010
	$
Technical and environmental studies	206
Site and safety services	102
Drilling	26
General and administrative (i)	224
Capitalized interest (ii)	82
	640

(i) General and administrative includes approximately $66,000 of capitalized stock-based compensation.

(ii) Represents interest incurred on promissory notes payable (Note 8) since September 28, 2010, the date of acquisition of Oracle Ridge.

7. Other current liabilities

As part of the acquisition of Oracle Ridge (Note 4), the Company assumed current liabilities of US$541,500 for the purchase of land adjacent to the Oracle Ridge property with the intent to use it as a future dry stacked tailings facility, subject to obtaining the necessary permits. The terms of the liability had an interest rate of 7% per annum, payable in two installments, January 30, 2011 and July 30, 2011.

As of December 31, 2010, the total amount outstanding was $554,656 (US$558,005), inclusive of approximately $16,000 of interest.

Subsequent to December 31, 2010, the Company settled the total liability outstanding on the property for US$559,074 (inclusive of interest).

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

8. Promissory notes payable

As part of the acquisition of Oracle Ridge (Note 4), the Company assumed promissory notes payable of US$3.8 million that were secured by the Oracle Ridge copper property. In November, the Company paid $1,009,000 of principal (US$1,000,000) owing under the promissory notes.

As at December 31, 2010, the amount outstanding is as follows:

	2010	2009
	$	$
Promissory notes payable, including accrued interest	**3,137**	-
Less: Current portion	**(995)**	-
Notes payable, non-current	**2,142**	-

The schedule of U.S. dollar principal payment amounts and maturity dates of the notes as at December 31, 2010 are as follows:

Principal (U.S. dollars)	Maturity date
$500,000	May 2, 2011[1]
$500,000	October 31, 2011[1]
$500,000	April 27, 2012[1]
$806,500	October 21, 2012[1]
$500,000	October 21, 2013[2]

[1] The notes bear interest until repaid at 8% per annum and interest is not payable until October 21, 2012.
[2] The note bears interest at 8% per annum and the interest is payable when the note comes due on October 21, 2013.

9. Other long-term liability

As part of the acquisition of Oracle Ridge (Note 4), the Company assumed an obligation to construct a roadway on the property and committed to spend a minimum amount of US$500,000 in the realization of this project. If the Company is unable to complete construction of the road by June 2011, the Company is still liable for the US$500,000 and this amount will be added to the principal of the Company's 2013 promissory note payables (Note 8) and will become due in October 2013. Interest of 8% per annum on the note does not start to accrue until June 2011 and is payable when the note comes due in October 2013.

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

10. Capital risk management

The Company's objectives in managing its liquidity and capital resources are to safeguard the Company's ability to continue as a going concern and to provide financial capacity to meet its strategic objectives. The capital structure of the Company consists of promissory notes payable, other long-term liabilities, and equity attributable to common shareholders, comprised of issued share capital, common share purchase warrants, contributed surplus, and accumulated deficit.

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

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the board of directors. The Company does not pay out dividends.

The Company expects its current capital resources will be sufficient to carry out its exploration and development plans through its current operating period.

The Company's capital at December 31, 2010 and 2009 is as follow:

	2010	2009
	$	$
Promissory notes payable	**3,137**	-
Other long-term liability	**478**	-
Shareholders' equity	**42,389**	14,912
	46,004	14,912

11. Financial risk management and financial instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable, accrued liabilities, other current liabilities, promissory notes payable and other long-term liabilities. The Company has exposures to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board of Directors is responsible for the establishment and oversight of the Company's risk management policies and reviews the policies on an ongoing basis.

(a) Interest rate risk

The Company has interest bearing promissory notes payable with fixed interest rates, principal and interest are payable upon maturity of the note.

The Company is also exposed to interest rate risk with respect to the interest it earns on its cash balances.

The Company does not enter into derivative contracts to manage the risk associated with interest rate movements.

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

11. Financial risk and risk management (continued)

(b) Foreign currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and has acquired a 100% interest in the Oracle Ridge copper property in the U.S. A significant change in the currency exchange rates between the Canadian dollar relative to the U.S. dollar could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in U.S. dollars:

	US$
Cash and cash equivalents	5,926
Accounts receivable	6
Accounts payable and accrued liabilities	(212)
Other current liabilities	(558)
Other long term liability	(481)
Promissory notes payable	(3,154)
	1,527

At December 31, 2010, with other variables unchanged, a 10% change in the U.S. dollar/ Canadian dollar exchange rate would impact pre-tax earnings by $0.2 million.

(c) Credit risk

The Company's credit risk is mainly attributable to its liquid financial assets: cash and cash equivalents, short-term investments and other receivables. The Company deposits cash with high credit quality financial institutions and credit risk is considered to be minimal. The Companies maximum exposure to credit risk is the balance of cash, and other receivables.

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

11. Financial risk and risk management (continued)

(d) Liquidity risk

The Company manages liquidity risk through an annual budget and ongoing monitoring of expenses and capital expenditures to ensure it has sufficient liquidity to meet its business requirements as they come due. As of December 31, 2010, the Company had working capital of $22.8 million.

As at December 31, 2010, the Company's liabilities and commitments have contractual maturities of:

	Payments due by period		
	Total	Less than 1 year	1-3 years
	$	$	$
Accounts payable and accrued liabilities	1,422	1,422	-
Other current liabilities, including interest	556	556	-
Promissory notes payable, including interest	3,381	995	2,386
Other liability	591	-	591
Lease commitments	396	198	198
	6,346	3,171	3,175

Although the Company does not have operating profits, the Company believes it has sufficient cash on hand to meet operating requirements for at least the next twelve months. However, the Company will require significant funding in the future to complete development of Oracle Ridge.

(e) Fair value disclosures

The carrying value of cash and cash equivalents, short-term investments, and other receivables, approximate their fair values due to the relatively short period to maturity of the instruments. The carrying value of these held-for-trading financial instruments are determined using Level 1 valuation measurements.

12. Share capital

(a) *Authorized*

The Company's authorized share capital consists of an unlimited number of common shares with no par value.

(b) *Issued*

On September 28, 2010, the Company issued 11,200,000 shares in consideration for the acquisition of the Oracle Ridge copper property through the share purchase of 0830438 BC LTD ("Oracle Ridge") which have been valued at $1.33 per share, the share price of the Company on the closing date of the transaction (Note 4).

On October 20, 2010, the Company announced that warrant holders of 878,200 common share purchase warrants with an exercise price of $1.25 were subject to a 30-day forced exercise provision as the Company's closing share price met or exceeded $1.50 for the past 10 consecutive trading days. A total of 850,200 warrants were exercised as of the November 19 deadline, accordingly, the Company issued 850,200 shares at $1.25 per share for total proceeds of $1,062,750.

On November 8, 2010, the Company closed a non-brokered private placement for 6,000,000 common shares at a subscription price of $1.25 per common share for aggregate gross proceeds of $7.5 million. The Company paid a finder's fee to an arm's length party in the aggregate amount of $450,000 and incurred $83,000 in other issuance costs. The private placement was fully subscribed to by Coalcorp Mining Inc. ("Coalcorp") and, as a result, Coalcorp now owns approximately 19.7% of the Company's issued and outstanding shares.

During the year, 195,000 stock options were exercised for cash proceeds of $195,000.

(c) *Stock option plan*

Pursuant to the terms of the Company's stock option plan the board of directors may, from time to time, grant options to directors, officers, employees or consultants. Options may be exercisable over periods of up to five years as determined by the Board of Directors of the Company and the exercise price is the last closing price of the shares preceding the awarding date. Stock options granted to employees, officers and consultants vest one-third immediately, one-third after 12 months from the date of grant and one-third after 24 months from the date of grant, while stock options granted to directors vest immediately.

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

12. Share capital (continued)

(c) Stock option plan (continued)

A summary of the Company's stock options outstanding as at December 31, 2010 and the changes for the year then ended are as follows:

	Directors and officers	Employees and consultants	Total number of options	Weighted average exercise price per share
				$
Balance, December 31, 2008	281,200	44,400	325,600	8.00
Granted	208,000	49,600	257,600	2.50
Forfeited	-	(16,600)	(16,600)	6.31
Expired	(27,000)	(23,200)	(50,200)	7.81
Balance, December 31, 2009	462,200	54,200	516,400	5.47
Granted	1,505,000	425,000	1,930,000	1.43
Exercised	(195,000)	-	(195,000)	1.00
Forfeited	-	(6,067)	(6,067)	2.50
Expired	(193,200)	(20,133)	(213,333)	5.54
Balance, December 31, 2010	1,579,000	453,000	2,032,000	2.06

The following table summarizes information about options outstanding, granted to officers, directors, employees and consultants of the Company as at December 31, 2010:

Number of stock options outstanding	Number of stock options exercisable	Option exercise price	Expiry date
		$	
13,000	13,000	12.00	April 2011
40,000	40,000	8.75	July 2011
8,000	8,000	17.25	June 2012
20,000	20,000	16.00	July 2012
20,000	20,000	12.25	February 2013
78,000	78,000	1.63	August 2013
118,000	105,333	2.50	April 2014
500,000	360,000	1.00	February 2015
100,000	100,000	1.22	August 2015
860,000	540,000	1.60	October 2015
125,000	41,667	1.82	November 2015
150,000	50,000	2.23	December 2015
2,032,000	1,376,000		
2.06	2.28	Weighted average exercise price	

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

12. Share capital (continued)

(d) Stock-based compensation

During the year ended December 31, 2010, the Company granted 1,930,000 (2009 - 257,600) stock options to directors, officers and employees. An amount of $1,344,409 (2009 - $301,576) was recorded in contributed surplus in recognition of stock-based compensation, based on the vesting schedule for the options granted.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

	2010	2009
Number of options granted	**1,930,000**	257,600
Weighted average		
Risk-free interest rate (%)	**1.54**	1.20
Expected life (years)	**2.8**	2.8
Expected volatility (%)	**134**	236
Expected dividend (%)	**Nil**	Nil
Weighted average fair value (per option)	**$1.00**	$0.92

Stock option pricing models require the input of subjective assumptions including the expected price volatility. Changes in the assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable measure of fair value of the Company's options.

Subsequent to year-end, the Company granted 750,000 stock options to directors and consultants, exercisable for a period of five years at a price of $1.90 per share.

(e) Share purchase warrants

A summary of the Company's share purchase warrants outstanding as at December 31, 2010 and the changes for the year then ended are as follows:

	Number of warrants	Average price of warrants
		$
Balance, December 31, 2008	295,282	6.04
Issued to private placement placees	3,002,000	1.42
Issued to lenders	800,000	1.25
Expired	(295,282)	5.92
Balance, December 31, 2009	3,802,000	1.39
Expired	(2,028,000)	1.25
Exercised	(850,200)	1.25
Balance, December 31, 2010	923,800	2.40

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

12. Share capital (continued)

(e) Share purchase warrants (continued)

On May 19, the Company announced an amendment to the 1,002,000 share purchase warrants issued further to the private placement that closed on June 3, 2009. The amendment, extended the exercise term from June 3, 2010 to June 3, 2011, and changed the exercise price from $1.75 to $1.25. The estimated incremental fair value of these amended warrants was determined using the Black-Scholes model with the following assumptions: a risk free interest of 1.76%, an expected volatility of 85.48%, an expected dividend yield of $Nil and an expected life of 0.5 years. This incremental fair value in the amount of $150,000 was recorded as a capital charge in the statement of shareholders' equity. Warrant pricing models require the input of subjective assumptions including the expected price volatility. Changes in the assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's warrants.

On October 20, 2010, the Company announced that warrant holders of 878,200 common share purchase warrants with an exercise price of $1.25 were subject to a 30-day forced exercise provision as the Company's closing share price met or exceeded $1.50 for the past 10 consecutive trading days. A total of 850,200 warrants were exercised as of the November 19 deadline, accordingly, the Company issued 850,200 shares at $1.25 per share for total proceeds of $1,062,750.

Details of outstanding warrants as at December 31, 2010 are as follows:

Number of warrants	Exercise prices	Expiry date
	$	
800,000	2.50	May 8, 2011
123,800	1.75	June 3, 2011
923,800	2.40	

13. General and administration expenses

	2010	2009
	$	$
Salaries and benefits	**1,880**	1,730
Professional and consulting fees	**790**	796
Travel	**292**	131
Office expenses	**197**	259
Filing costs and shareholders' information	**79**	116
Insurance	**47**	43
Other	**-**	123
	3,285	3,198

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

14. Interest and financing charges

	2010	2009
	$	$
Interest and bank charges (recovery)	(60)	53
Fees and interest on outstanding debt	-	3,643
Fees for standby credit facility (Note 18 (a))	90	123
Total interest and financing charges	30	3,819

Interest on promissory notes payable has been capitalized to the Oracle Ridge property (Note 6).

15. Income taxes

The provision for income taxes differs from the amounts computed by applying the Canadian statutory income tax rates due to the following:

	Years ended December 31,	
	2010	2009
	$	$
Consolidated net income before extraordinary loss	3,012	10,254
Canadian statutory tax rate	28.5%	30.0%
Income tax expense at statutory rate	858	3,076
Lower effective tax rate on loss in foreign jurisdiction	(1,255)	-
Non-deductible stock option compensation	364	90
Permanent difference relating to gain on dilution	-	(7,861)
Other permanent differences and non-deductible expenses	912	855
Net (decrease) increase in valuation allowance	(879)	3,840
Balance at end of year	-	-

The differences that give rise to the Company's future tax assets and liabilities are summarized as follows:

	2010	2009
	$	$
Mining assets and deferred exploration expenses	(9,914)	470
Non-capital loss carryforwards	2,984	3,032
Other	389	750
	(6,541)	4,252
Valuation allowance	(3,373)	(4,252)
Future income tax liabilities	(9,914)	-

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

15. Income taxes (continued)

The Company has non-capital loss carry forwards in Canada amounting to approximately $11,937,000 (2009 - $9,338,000), which are available to offset future taxable income in Canada, which, if unutilized, will expire as follows:

	$
2014	252
2015	252
2027	2,859
2028	3,247
2029	3,093
2030	2,228
2031	6
	11,937

16. Disposition of controlling interest in mining operations

On November 12, 2009, the Company completed an arrangement whereby Compañia Minera San Juan (Peru) S.A. (“CMSJ”), previously a 100% owned subsidiary of the Company, issued 43,210,500 shares to a third party. As a result of the share issue, the Company’s interest declined to 15% and control over operations ceased. The Company recorded a gain on dilution in 2009 of $26,204,158 calculated as follows:

	$
Net deficiency in book value of the Company's investment in CMSJ on date of dilution (including cumulative translation adjustment)	10,426
Cash received by way of return of capital	15,778
Gain on dilution of investee	26,204

Following the transaction, the Company neither controlled nor exercised significant influence over CMSJ. The subsidiary was in a net deficiency position on the date of the transaction and as a result, upon cessation of consolidation, the investment was carried at a value of $Nil. The investment, which was classified as available-for-sale, did not have a quoted market price in an active market and therefore was accounted for using the cost basis of accounting.

On July 7, 2010, the Company sold its remaining 15% interest in CMSJ for $4,645,000 and recorded a gain on the disposition of $4,645,000, net of taxes.

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

16. Disposition of controlling interest in mining operations (continued)

Details of the results of operations of CMSJ included in the consolidated statements of income (loss) and comprehensive income (loss) for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
	$	$
Sales revenue	-	-
Operating costs	-	(2,866)
Loss before the undernoted	-	(2,866)
Care and maintenance	-	1,838
Depreciation	-	1,500
General and administration	-	867
Allowance for value added tax	-	-
Interest and financing charges	-	2,394
Net loss for the year	-	(9,465)

17. Related party transactions

During the year, the Company paid $345,762 in advisory fees to directors of the Company, $61,037 of these advisory fees were capitalized to the Oracle Ridge project.

These transactions were incurred in the normal course of business and are measured at the exchange amount which was the consideration established and agreed to by the related parties.

18. Contingencies and commitments

(a) During the year, the Company had a US$12.5 million standby credit facility with an interest rate of 12.5% and paid US$90,000 in fees during the year to maintain this credit facility. The Company did not draw down on the credit facility and the credit facility was terminated on December 9, 2010.

(b) The Company is committed under the terms of an operating lease for office premises for total aggregate payments of approximately $0.4 million expiring in 2013.

(c) As part of the share purchase agreement for Oracle Ridge (Note 4), there is a clause whereby if the seller of Oracle Ridge is required to pay U.S. federal capital gains tax at a rate higher than 15%, the Company is required pay additional consideration for the property in an amount to offset the cost of the additional tax up to the equivalent of a U.S. federal capital gains tax rate of 25%, or US$470,800. U.S. federal capital gains tax rates have been frozen at 15% through to December 31, 2012, therefore no additional taxes will be owed by the seller on the 2012 promissory notes payable (Note 7). It is uncertain as to whether federal income taxes will be raised in 2013 and therefore any additional consideration in relation to the 2013 notes is not determinable at this time.

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

19. Supplemental cash flow information

The changes in non-cash working capital items are comprised of:

	2010	2009
	$	$
Accounts receivable and prepaids	**(16)**	660
Inventory	**-**	114
Accounts payable and accrued liabilities	**(148)**	(1,094)
Net change in non-cash working capital	**(164)**	(320)

As at December 31, 2010, cash and cash equivalents consist of cash of $22,382,675 and cash equivalents of $2,886,399. Cash equivalents consists of US money market funds.

Additional supplemental cash flow information is as follows:

	2010	2009
	$	$
Interest paid	**-**	1,925
Income taxes paid	**-**	-

20. Non-cash investing and financing activities

Non-cash investing and financing activities consist of the following:

	2010	2009
	$	$
Broker warrants recorded as share issue expenses	-	1,630
Lender warrants recorded as financing costs	-	724
Shares issued as payment of current liabilities	-	262
Shares issued to extinguish debt	-	425
Shares issued for debt restructuring	-	364
Repayment of prior debt under debt restructuring	-	10,572
Shares issued upon acquisition (Note 4)	**14,986**	-
Mineral property acquired (Note 4)	**31,644**	-
Liabilities acquired (Note 4)	**6,176**	-

21. Segmented information

The Company currently operates in one business segment, being the acquisition and development of resource properties. The Company's sole development property, Oracle Ridge, is located in the U.S. and the Company's head office is located in Canada.

22. Subsequent events

On February 2, 2011, the Company announced that it had entered into a letter of intent with Pala Investments Holdings Limited ("Pala") to carry out a non-brokered private placement of up to 12,500,000 common shares at a subscription price of $2.00 per share for aggregate proceeds of $25.0 million. Following a review of the final terms, the Company and Pala mutually agreed not to proceed with the transaction.