FEC RESOURCES INC.

INDEPENDENT AUDITOR'S REPORT AND

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

(Stated in Canadian Dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of FEC Resources Inc.

We have audited the accompanying consolidated financial statements of FEC Resources Inc., which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009 and the consolidated statements of operations and deficit, comprehensive loss and cash flows for each of the years in the three-year period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation 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 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 audits. We conducted our audits in accordance with Canadian auditing standards and standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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 presentation of the financial statements.

We believe that the audit evidence we have obtained 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 FEC Resources Inc. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010 in accordance with Canadian Generally Accepted Accounting Principles.

(signed) “BDO CANADA LLP”

Chartered Accountants
Vancouver, British Columbia

April 28, 2011

FEC RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2010 and 2009
(Stated in Canadian Dollars)

ASSETS	2010	2009
Current		
Cash	$ 2,049,989	$ 39,072
Sales taxes recoverable	1,241	975
Prepaid expenses	18,766	19,658
	2,069,996	59,705
Equipment – Note 4	3,578	5,111
Investments – Note 5	514,754	3,667,286
	$ 2,588,328	$ 3,732,102
LIABILITIES		
Current		
Accounts payable and accrued liabilities – Note 9	$ 96,990	$ 63,198
Due to parent company – Note 6	289,750	294,646
	386,740	357,844
SHAREHOLDERS' EQUITY		
Share capital – Note 7	19,916,915	17,339,665
Warrants – Note 7	-	267,501
Contributed surplus – Note 7	4,062,440	3,794,939
Accumulated other comprehensive loss – Note 8	(2,481,046)	(1,979,909)
Deficit	(19,296,721)	(16,047,938)
	2,201,588	3,374,258
	$ 2,588,328	$ 3,732,102

Nature of Operations – Note 1

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

"Riaz Sumar" Director — *"Renato Migrino"* Director

Riaz Sumar — Renato Migrino

SEE ACCOMPANYING NOTES

FEC RESOURCES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

for the years ended December 31, 2010, 2009 and 2008

(Stated in Canadian Dollars)

	2010	2009	2008
General and administrative expenses			
Amortization	$ 1,533	$ 2,191	$ 2,332
General and administration – Note 9	526,922	455,624	607,531
Interest – Note 9	11,315	7,972	-
	(539,770)	(465,787)	(609,863)
Other items:			
Equity loss in investments – Note 5	(56,031)	(1,045,810)	(1,493,411)
Foreign exchange gain (loss)	(59,797)	2,283	54,490
Gain (loss) on dilution of investment in FEP	12,250	307,389	(239,488)
Interest income	2,179	180	15,449
Write-down of investments – Note 5	(2,607,614)	-	(1,964,440)
Net loss for the year	(3,248,783)	(1,201,745)	(4,237,263)
Deficit, beginning of the year	(16,047,938)	(14,846,193)	(10,608,930)
Deficit, end of the year	$(19,296,721)	$(16,047,938)	$(14,846,193)
Basic and diluted loss per common share	$ (0.01)	$ (0.00)	$ (0.01)
Weighted average number of shares outstanding	437,554,724	434,143,765	434,143,765

FEC RESOURCES INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

for the years ended December 31, 2010, 2009 and 2008

(Stated in Canadian Dollars)

	2010	2009	2008
Net loss for the year	$ (3,248,783)	$ (1,201,745)	$ (4,237,263)
Foreign currency translation adjustments	(517,018)	(1,985,447)	3,073,315
Effect of foreign currency translation on dilution of investment	15,881	(553)	146,776
Comprehensive loss for the year	$ (3,749,920)	$ (3,187,745)	$ (1,017,172)

SEE ACCOMPANYING NOTES

FEC RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2010, 2009 and 2008
(Stated in Canadian Dollars)

	2010	2009	2008
Operating Activities			
Net loss for the year	$ (3,248,783)	$ (1,201,745)	$ (4,237,263)
Non-cash items included in loss:			
Amortization	1,533	2,191	2,332
Equity loss in investments	56,031	1,045,810	1,493,411
(Gain) loss on dilution of investment in FEP	(12,250)	(307,389)	239,488
Interest accrued on advance from parent company	10,916	-	-
Unrealized foreign exchange	58,056	-	-
Write-down of investments	2,607,614	-	1,964,440
Net changes in non-cash operating working capital items related to operations:			
Sales taxes recoverable	(266)	72,328	(19,515)
Prepaid expenses	892	12,883	(6,206)
Accounts payable and accrued liabilities	33,792	(64,766)	(917,401)
	(492,465)	(440,688)	(1,480,714)
Investing Activities			
Acquisitions of equipment	-	(1,860)	(3,392)
	-	(1,860)	(3,392)
Financing Activities			
Advances from parent company	-	294,646	-
Issuance of share capital, net of costs	2,577,250	-	-
Repayment of convertible debentures	-	-	(2,499,000)
	2,577,250	294,646	(2,499,000)
Effect of foreign exchange on cash held in foreign currency	(73,868)	-	-
Increase (decrease) in cash during the year	2,010,917	(147,902)	(3,983,106)
Cash, beginning of the year	39,072	186,974	4,170,080
Cash, end of the year	$ 2,049,989	$ 39,072	$ 186,974
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest	$ -	$ -	$ 249,900
Income taxes	$ -	$ -	$ -

SEE ACCOMPANYING NOTES

Note 1 Nature of Operations

FEC Resources Inc. (the "Company") was incorporated under the laws of Alberta, Canada and is engaged primarily in the business of exploration and development of oil and gas and other mineral related opportunities, either directly or indirectly through companies in which the Company invests. The Company is not currently directly involved in any oil and gas or mineral related exploration activities. The exploration and development of oil and gas reserves and the pursuit of other energy and mineral reserves involves significant financial risks. The success of the Company is dependent upon the success of its investments and their ability to discover economically recoverable reserves and to bring such reserves into profitable production, and is subject to a number of risks, including environmental risks, contractual risks, legal risks and political risks, fluctuations in the price of oil and gas and other factors beyond the Company's control.

Note 2 Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and except as described in Note 13, conform in all material respects with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with Canadian GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the potential impairment of asset values, valuation of equity investments, determining the fair value of non-cash share based payments, future income tax asset recoverability and ability to continue as a going concern. While it is the opinion of management that these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below, actual results could differ from the estimates made.

a) Basis of Presentation

These financial statements previously included the accounts of the Company and its wholly owned subsidiaries, FEC Resources (BVI) Limited and Pacific Geothermal Energy, Inc. ("PACGEO"). During the year ended December 31, 2009, these subsidiaries were dissolved with the result that the Company no longer has any subsidiary companies. All inter-company transactions were eliminated upon consolidation.

Note 2 Significant Accounting Policies – (cont'd)

b) Investments

Investments in companies subject to significant influence are accounted for using the equity method. The equity method is a basis of accounting whereby the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the Company's pro-rata share of post-acquisition income or loss. The amount of the adjustment is included in the determination of net income (loss) by the Company and the investment account of the Company is also increased or decreased to reflect the Company's share of capital transactions and changes in accounting policies and corrections of errors. Profit distributions received or receivable from the investments will reduce the carrying value of the investment. Investments accounted for on the equity basis are written down to their fair value when they have a loss in value that is other than a temporary decline. During the year ended December 31, 2010, the Company recognized a write-down of its investments totalling $2,607,614 (2009 - $ nil: 2008- $1,964,440)

c) Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated amortization. The Company depreciates its computer equipment at the rate of 30% per annum utilizing the declining balance method.

d) Impairment of Long-Lived Assets

Long-lived assets are evaluated for impairment when events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of these assets and their eventual disposition is less than their carrying amount. Impairment, if any, is assessed using discounted cash flows.

Note 2 Significant Accounting Policies – (cont'd)

e) Foreign Currency Translation

The functional currency of the Company is the Canadian dollar. The Company and its investments accounted for by the equity method operate in Canada, the United Kingdom and the Philippines.

Monetary assets and liabilities of the Company's operations denominated in currencies other than the Canadian dollar are translated into Canadian dollars at the rates of exchange at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenue and expenses are translated at average exchange rates throughout the reporting period, with the exception of depreciation, depletion and amortization which is translated at historical exchange rates. Gains and losses on translation of foreign currencies are included in earnings.

The cumulative translation adjustments included in Accumulated other comprehensive income (''AOCI'') relate to unrealized translation gains and losses on the Company's net investment in equity-accounted investees that are translated using the current rate method. The exchange gains and losses will become realized in earnings upon the disposition, liquidation or dilution of the investment that gave rise to such amounts.

f) Stock-based Compensation

The Company accounts for stock options at fair value pursuant to CICA Handbook Section 3870, which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments. Compensation expense for options granted is determined based on estimated fair values of the options at the time of grant using the Black-Scholes option pricing model.

g) Income Taxes

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

Note 2 Significant Accounting Policies – (cont'd)

h) 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 (loss) per share reflects the potential dilution that could occur if potentially dilutive securities were 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 and the effect of convertible securities by the "if converted" method.

Common equivalent shares (consisting of shares issuable on the exercise of options and warrants) totalling Nil (2009 - 21,053,333; 2008 – 23,053,333) have been excluded from the calculation of diluted loss per share because the effect is anti-dilutive. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

i) Financial Instruments

The Company recognizes financial assets and liabilities on the balance sheet when it becomes a party to the contractual provisions of the instrument. Financial instruments are measured at fair value on initial recognition of the instrument, into one of the following five categories: held-for trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities.

Subsequent measurement of financial instruments is based on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

The Company expenses transaction costs related to the acquisition or issuance of held-for-trading financial instruments in the period in which the costs are incurred. The Company capitalizes transaction costs related to the acquisition or issuance of all other categories of financial instruments.

(Stated in Canadian Dollars)

Note 3 Changes in Accounting Policies

Adoption of New Accounting Standards

In January 2009, the CICA issued Sections 1582 – Business Combinations, 1601 – Consolidated Financial Statements and 1602 – Non-controlling Interests which replaces CICA Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011.

In 2006, AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly accountable companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. Adoption of IFRS as Canadian GAAP will require the Company to make certain accounting policy choices and could materially impact our reported financial position and results of operations.

Note 4 Equipment

	Cost	Accumulated Amortization	Net book value
Computer equipment			
December 31, 2010	$ 14,453	$ 10,875	$ 3,578
December 31, 2009	$ 14,453	$ 9,342	$ 5,111

(Stated in Canadian Dollars)

Note 5 Investments

The Company has the following investments accounted for using the equity method:

	2010	2009
Forum Energy plc ("FEP")	$ 514,754	$ 1,119,732
Lascogon Mining Corporation	-	2,547,554
	$ 514,754	$ 3,667,286

i) Investment in FEP

The investment in FEP is summarized as follows:

	Number of shares held	Amount
Balance, December 31, 2007	8,550,200	4,233,699
Loss on dilution of investment in FEP as a result of additional FEP share issuances	-	(92,710)
Foreign currency translation adjustment	-	3,073,315
Equity loss in investment of FEP	-	(1,361,439)
Write-down of investment in FEP to fair value	-	(1,964,440)
Balance, December 31, 2008	8,550,200	3,888,425
Gain on dilution of investment in FEP as a result of additional FEP share issuances	-	306,836
Foreign currency translation adjustment	-	(1,985,447)
Equity loss in investment of FEP	-	(1,090,082)
Balance, December 31, 2009	8,550,200	$ 1,119,732
Gain on dilution of investment in FEP as a result of additional FEP share issuances	-	28,131
Foreign currency translation adjustment	-	(517,018)
Equity loss in investment of FEP	-	(116,091)
Balance, December 31, 2010	8,550,200	$ 514,754

(Stated in Canadian Dollars)

Note 5 Investments – (cont'd)

i) Investment in FEP – (cont'd)

As FEP offers its shares to outside investors, the resulting dilution of the investor's shareholdings constitutes an effective disposition necessitating recognition of a dilution gain or loss. As at December 31, 2010, the Company's interest in FEP had been diluted to 25.63% (2009: 25.84%, 2008: 28.42%) as a result of the sale of FEP common shares and equity offerings by FEP in which the Company did not participate.

At December 31, 2010, the Company held 8,550,200 (2009 – 8,550,200) common shares of FEP with a market value of $7,737,400 (2009 – $7,646,038) based on the quoted closing price of FEP common stock on the London Stock Exchange. During the year ended December 31, 2008, the Company recorded a write-down of $1,964,440 as a result of the determination that the decline in market value of the FEP shares was other than temporary.

The financial position and results of operations of FEP as at December 31, 2010 and 2009 are summarized as follows:

	2010	2009
Assets	$50,365,071	$ 52,373,455
Liabilities	$ 6,347,269	$ 5,747,564
Equity	$44,017,802	$ 46,625,891
Net loss for the year ended December 31	$ (451,469)	$ (4,130,743)

The Company is related to FEP by virtue of a common parent and 4 common directors.

ii) Investment in Lascogon Mining Corporation ("Lascogon")

By a memorandum of an agreement dated January 2, 2006 and a settlement and release agreement dated May 11, 2006, the Company agreed to acquire a 40% interest in a mining project (Lascogon Mining Corporation) in the Philippines in partnership with Philex Gold, Inc. ("PGI").

(Stated in Canadian Dollars)

Note 5 Investments – (cont'd)

ii) Investment in Lascogon Mining Corporation ("Lascogon") – (cont'd)

The project is the Mining and Production Sharing Agreement 148 ("MPSA 148") between PGI and the Government of Philippines, which comprises 2,306 hectares. The Company agreed to acquire the interest in the project by way of assignment from Indexa Corp. ("Indexa") to the Company of an Agreement between Indexa and PGI. Indexa is a Philippine Company who had entered into a sole Agreement with PGI for the rights to a joint exploration program. Indexa assigned its rights and obligations in their entirety to the Company, pursuant to which a new Philippine Joint Venture Company was formed, of which the Company would ultimately own 40% and PGI would own 60% equity interests respectively. For this assignment, Indexa was entitled to receive a fee which was to be determined by an independent valuation.

The commitments of the Company in this regard were to provide an initial US$250,000 ($290,900) signature bonus to PGI (paid), pay a fee of US$100,000 ($110,551) (paid) and then for the Company to contribute to the Joint Venture Company a total of US$1,000,000 ($1,105,514) from January 1, 2006 through to October 31, 2006 being estimated as sufficient funding to complete the planned exploration and prospect work program. On October 2, 2006, the Company had met all its funding obligations and fully earned its 40% interest in the Joint Venture Company. Also, as a result of the independent valuation and negotiations, the Company issued 20,000,000 common shares of the Company with a fair value of $891,360 to Indexa and a further 30,000,000 common shares of the Company into escrow, to be awarded to Indexa upon the declaration of commerciality as full and final consideration for the assignment of its rights to the Company. The 30,000,000 shares are considered contingent consideration and will be recorded as additional cost of the investment at fair value once it is likely that they will be issued.

The investment in Lascogon is summarized as follows:

Balance at December 31, 2007	$	2,635,254
Equity loss in investment in Lascogon		(131,972)
Balance at December 31, 2008		2,503,282
Equity income in investment in Lascogon		44,272
Balance at December 31, 2009	$	2,547,554
Equity income in investment in Lascogon		60,060
Write-down of investment in Lascogon		(2,607,614)
Balance at December 31, 2010	$	-

(Stated in Canadian Dollars)

Note 5 Investments – (cont'd)

ii) Investment in Lascogon Mining Corporation ("Lascogon") – (cont'd)

The financial position and results of operations of Lascogon as at December 31, 2010 and 2009 are summarized as follows:

	2010	2009
Assets	$ 4,389,950	$ 3,901,124
Liabilities	$ 3,903,130	$ 3,887,707
Equity	$ 486,820	$ 13,418
Net income for the year ended December 31	$ 150,149	$ 110,680

During the year ended December 31, 2010, the Company recorded an impairment charge of $2,607,614 representing the amount at which the investment was being carried in the Company's accounts. Such a write-down was determined as a result of Lascogon determining that any further development of MPSA 148 would not provide an acceptable return on the investment. Despite this impairment, the Company has maintained its ownership of its investment in Lascogon and, as at December 31, 2010, in order for the Company to maintain its 40% interest without dilution, the Company would be required to pay cash calls totaling approximately US$984,916.

The Company is related to Lascogon by virtue of a common parent and 2 common directors.

iii) Investment in Metalore Mining Corporation ("Metalore")

During the year ended December 31, 2007, the Company wrote down its investment in Metalore to $Nil by recording a charge against income in the amount of $764,675. As at December 31, 2010, the Company still holds its 35% interest in Metalore Mining Corporation; however, the project has been abandoned.

(Stated in Canadian Dollars)

Note 6 Due to parent company

During the year ended December 31, 2009, the Company was advanced US$273,000 by Philex Mining Corporation, the parent company of the group including the Company. The loan is unsecured, and was due on December 31, 2010 and bears interest at LIBOR plus 3 % per annum which amounted to 3.46% as at December 31, 2010 (2009: 3.45%).

To date no amount of the loan has been repaid and the balance, including accrued interest as of December 31, 2010, is $289,750 (US$291,323). There have been no discussions on the repayment of the outstanding amount and no demand has been made by the parent company for repayment.

Note 7 Share Capital

a) Authorized:

Unlimited number of common shares without par value; and

Unlimited number of Class A and Class B preferred convertible redeemable voting shares without par value.

b) Issued:

Common Shares	Number	Amount
Balance, December 31, 2009, and 2008 and 2007	434,143,765	$ 17,339,665
Shares issued pursuant to private placement	5,000,000	2,577,250
Balance, December 31, 2010	439,143,765	$ 19,916,915

On January 7, 2010 Philex Mining Corporation subscribed for 5,000,000 shares at US$0.50 per share for total proceeds of $2,577,250 (US$2,500,000). The shares were issued on April 26, 2010.

c) Warrants:

	Number	Amount
Balance, December 31, 2009, 2008 and 2007	3,533,333	$ 267,501
Expired and allocated to contributed surplus	(3,533,333)	(267,501)
	-	$ -

The warrants were exercisable until January 31, 2010 and allowed the holder to purchase one common share of the Company for every warrant held at US$0.0723 per share. The warrants expired unexercised on January 31, 2010 and the value of the unexercised warrants was transferred to contributed surplus.

(Stated in Canadian Dollars)

Note 7 Share Capital – (cont'd)

d) Contributed Surplus

Balance, December 31, 2009 , 2008 and 2007	$	3,794,939
Unexercised warrants transferred to contributed surplus		267,501
Balance, December 31, 2010	$	4,062,440

e) Options

The Company has established a stock option plan whereby options may be granted to its directors, officers, consultants, and employees. The exercise price of each option equals the market price of the Company's stock on the date of the grant and an option's maximum term is five years. The options vest immediately.

	Number of Options	Weighted Average Exercise Price/Share	
Outstanding and exercisable December 31, 2007	25,549,545	US$	0.09
Expired	(6,029,545)	US$	0.16
Outstanding and exercisable December 31, 2008	19,520,000	US$	0.07
Expired	(2,000,000)	US$	0.09
Outstanding and exercisable December 31, 2009	17,520,000	US$	0.07
Expired	(17,520,000)	US$	0.07
Outstanding and exercisable December 31, 2010	-	US$	-

There were no stock options outstanding on December 31, 2010.

Note 8 Accumulated Other Comprehensive Income (Loss)

Balance, December 31, 2007	$	(3,214,000)
Foreign currency translation adjustments		3,073,315
Effect of foreign currency translation on dilution of investment		146,776
Balance, December 31, 2008		6,091
Foreign currency translation adjustments		(1,985,447)
Effect of foreign currency translation on dilution of investment		(553)
Balance, December 31, 2009		(1,979,909)
Foreign currency translation adjustments		(517,018)
Effect of foreign currency translation on dilution of investment		15,881
Balance, December 31, 2010	$	(2,481,046)

(Stated in Canadian Dollars)

Note 9 Related Party Transactions and Balances

During the year ended December 31, 2010 general and administrative expenses included management fees charged by directors, officers and companies controlled by directors and officers of the Company totaling $249,385 (2009: $281,009; 2008: $343,776;). During the year ended December 31, 2010, the Company incurred an interest charge of $10,916 (2009: $7,972; 2008: $Nil) on a loan from the parent of the Company.

Included in accounts payable and accrued liabilities at December 31, 2010 is $17,458 (2009; $4,568) owed to directors, officers and companies controlled by them for unpaid consulting fees.

In addition, on December 31, 2010, the Company owed Lascogon Mining Corporation $18,793 for audit fees paid on behalf of the Company for preparation of an annual report to be filed in the United States.

Related party transactions are measured at the exchange amount, which amount is agreed to by the parties.

Note 10 Income Taxes

As at December 31, 2010, the significant components of the Company's future tax assets and liabilities are as follows:

	2010	2009
Non capital losses carried forward	$ 1,728,000	$ 1,732,000
Investments	412,000	31,000
Financing costs	-	10,000
Other	3,000	-
Valuation allowance	(2,143,000)	(1,773,000)
	$ -	$ -

No income tax benefits to the future tax assets have been recognized in the accounts as their realization does not meet the requirements of "more likely than not" under the liability method of tax allocation.

(Stated in Canadian Dollars)

Note 10 Income Taxes – (cont'd)

The reconciliation of income taxes at Canadian statutory rates to the reported income tax provision is as follows:

	2010	2009
Statutory tax rate	28.00%	29.00%
Income tax recovery at statutory rates	$ (910,000)	$ (399,000)
Effect of reduction in statutory rates	97,000	55,000
Non – deductible portion of capital loss	335,000	-
Expiry of loss carry forwards	110,000	212,000
Other	(2,000)	106,000
Change in valuation allowance	370,000	26,000
	$ -	$ -

The Company has non-capital losses for Canadian income tax purposes of approximately $6,914,000 which, may be carried forward to offset future taxable income. The benefit, if any, of these non-capital losses have not been reflected in the consolidated financial statements.

As at December 31, 2010, the Canadian non-capital losses carried forward expire as follows:

2014	$ 544,000
2015	1,255,000
2026	1,703,000
2027	1,701,000
2028	602,000
2029	498,000
2030	611,000
	$ 6,914,000

The Company has incurred expenditures in various other jurisdictions, which are subject to tax authority approval. No provision for taxes in these other jurisdictions has been recorded.

Note 11 Financial Instruments

The Company's financial instruments comprise primarily of cash, accounts payable and accrued liabilities, and a short-term loan. The Company has designated cash and cash equivalents as held-for-trading, which is measured at fair value. Accounts payable and accrued liabilities, as well as due to related party are designated as other liabilities, which are measured at amortized cost.

a) Fair value

The carrying values of accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments.

The methods and assumptions used to develop fair value measurements for those financial instruments carried at fair value in the balance sheet have been prioritized into three levels of a fair value hierarchy. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities, level two includes inputs that are observable other than quoted prices include in Level one and level three includes inputs that are not based on observable market data. The Company's cash and cash equivalents is a level one fair value measurement.

b) Foreign currency exchange risk

The Company is exposed to foreign currency fluctuations for transactions denominated in U.S. dollars; however this risk is partially mitigated as the majority of the Company's cash is kept in U.S. dollars. As at December 31, 2010, the Company held $2,043,652 (US$2,054,748) (2009 - $36,524 (US$34,752)) of cash denominated in U.S. dollars subject to exchange rate fluctuations between the Canadian dollars and the U.S. dollars.

c) Concentration of credit risk

The Company maintains cash deposits in one chartered Canadian bank which, from time to time, exceed the amount of depositors insurance available in each respective account. Management assesses the financial condition of this bank and believes that the possibility of any credit loss is minimal.

Note 11 Financial Instruments – (cont'd)

d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity by maintaining cash balances available to meet its anticipated operational needs. Liquidity requirements are managed based on expected cash flow to ensure that there is adequate capital to meet short-term and long-term obligations. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its growth plans. At December 31, 2010 the Company's accounts payable and accrued liabilities were $96,990, all of which fall due for payment within twelve months of the balance sheet date. In addition, the Company's short term loans were $289,750, which are due on demand. The Company has minimal long-term commitments

e) Interest Rate Risk

Interest rate risk is the risk that the fair values and future cash flows of the Company will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents. The Company did not have any borrowings outstanding as at December 31, 2010 except the loan from its parent company. The loan from the parent company has terms that include interest at LIBOR plus 3% thus exposing the Company to a potential cash flow interest rate risk due to this borrowing having a variable interest rate.

Note 12 Capital Management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide an adequate return to shareholders, to meet external capital requirements on credit facilities and to support any growth plans.

The capital of the Company consists of the items included in shareholders' equity and cash net of debt obligations. The Company monitors capital based on the debt to debt-plus-equity ratio. Debt is total debt shown on the balance sheet, less cash. Debt-plus-equity is calculated as debt shown on the balance sheet, plus total shareholders' equity which includes share capital, warrants, contributed surplus and deficit. Currently the Company has no debt except for a short-term loan due to its parent company. The Company's Board of Directors approves management's annual capital expenditures plans and reviews and approves any material debt borrowing plans proposed by the Company's management.

(Stated in Canadian Dollars)

Note 13 Differences between Canadian and United States Generally Accepted Accounting Principles

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") which differ in certain material respects from accounting principles generally accepted in the United States ("US GAAP"). Material differences between Canadian and US GAAP and their effect on the Company's financial statements are summarized below:

Balance Sheets

	2010	2009
Total assets under Canadian GAAP	$ 2,588,328	$ 3,732,102
Investment in Lascogon	-	(1,228,800)
Total assets under US GAAP	$ 2,588,328	$ 2,503,302
Total liabilities under Canadian GAAP & US GAAP	386,740	$ 357,844
Total shareholders' equity under Canadian GAAP	2,201,588	3,374,258
Cumulative differences in the classification and presentation of previously issued convertible debentures	1,593,730	1,593,730
Investment in Lascogon previously charged to expense under US GAAP	1,233,987	-
Deficit	(2,827,717)	(2,822,530)
Total shareholders' equity under US GAAP	2,201,588	2,145,458
Total liabilities and shareholders' equity under US GAAP	$ 2,588,328	$ 2,503,302

(Stated in Canadian Dollars)

Note 13 Differences between Canadian and United States Generally Accepted Accounting Principles – (cont'd)

Statements of Loss

	2010	2009	2008
Net loss under Canadian GAAP	$ (3,248,783)	$ (1,201,745)	$ (4,237,263)
Lascogon investment previously charged to expense under US GAAP	1,233,987	-	-
Equity loss and write-off of resource property costs in Lascogon Mining Corporation	(5,187)	(98,615)	(736,995)
Net loss under US GAAP	(2,019,983)	(1,300,360)	(4,974,258)
Foreign currency translation adjustments	(517,018)	(1,985,447)	3,073,315
Effect of foreign currency translation on dilution of investment	15,881	(553)	146,776
Comprehensive loss under US GAAP	$ (2,521,120)	$ (3,286,360)	$ (1,754,167)
Basic and diluted loss per share under US GAAP	$ (0.01)	$ (0.00)	$ (0.01)
Weighted average shares outstanding	437,554,724	434,143,765	434,143,765

Resource Property Costs

Under Canadian GAAP, the costs of acquiring mineral properties and related exploration and development expenditures are deferred. Under US GAAP, resource property costs related to exploration can only be deferred subsequent to the establishment of reserves. The financial statements of Lascogon Mining Corporation ("Lascogon") reflect deferred exploration costs at December 31, 2010 of $3,681,202 (2009: $3,642,627). For purposes of US GAAP, the Company's equity share of the income or loss in its investment in Lascogon is adjusted for its share of the expensing of exploration costs prior to the establishment of reserves under US GAAP. For the year ended December 31, 2010, this amounted to $5,187 (2009 - $98,615; 2008 - $736,995).

Note 13 Differences between Canadian and United States Generally Accepted Accounting Principles – (cont'd)

Resource Property Costs – (cont'd)

For purposes of Canadian GAAP, during the year ended December 31, 2010, the Company recorded an impairment charge of $2,607,614 representing an amount which it is being carried on the Company's books as a result of determining that any further development of MPSA 148 would not provide an acceptable return on the investment. For purposes of US GAAP, the resulting impairment charge for the year ended December 31, 2010 totalled $1,373,627 after taking into effect the balances previously expensed in respect of mineral exploration costs.

Recent Accounting Pronouncements

Accounting Pronouncements Adopted

In April 2009, the FASB issued guidance within ASC Topic 805, "Business Combinations." ASC Topic 805 amends the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This guidance is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this guidance did not have a material impact on our consolidated financial statements.

During February 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-09, "Subsequent Events (Topic 855)". The amended guidance in ASU 2010-09 states that an entity that is an SEC filer is required to evaluate subsequent events through the date that the financial statements are issued, but is not required to disclose the date through which subsequent events have been evaluated. The adoption of the provisions of this amendment did not have a material impact on our consolidated financial statements.

New Accounting Pronouncements Not Yet Adopted

In October 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-13, *Multiple-Deliverable Revenue Arrangements*. The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable based on the relative selling price. The selling price for each deliverable is based on vendor-specific objective evidence ("VSOE") if available, third-party evidence if VSOE is not available, or estimated selling price if neither VSOE or third-party evidence is available. ASU 2009-13 is effective for revenue arrangements entered into in fiscal years beginning on or after June 15, 2010. The Company does not expect that the provisions of the new guidance will have a material effect on its consolidated financial statements.

Note 13 Differences between Canadian and United States Generally Accepted Accounting Principles – (cont'd)

Recent Accounting Pronouncements – (cont'd)

New Accounting Pronouncements Not Yet Adopted – (cont'd)

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*, which requires additional disclosures about the amounts of and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements. This standard also clarifies existing disclosure requirements related to the level of disaggregation of fair value measurements for each class of assets and liabilities and disclosures about inputs and valuation techniques used to measure fair value for both recurring and non-recurring Level 2 and Level 3 measurements. Since this new accounting standard only required additional disclosure, the adoption of the standard in the first quarter of 2010 did not impact the Company's consolidated financial statements. Additionally, effective for interim and annual periods beginning after December 15, 2010, this standard will require additional disclosure and require an entity to present disaggregated information about activity in Level 3 fair value measurements on a gross basis, rather than one net amount.