



***URSA Major***  
***Minerals Incorporated***

**(A Development Stage Company)**

**ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
JANUARY 31, 2010 and 2009**



McGovern, Hurley, Cunningham, LLP  
Chartered Accountants

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**AUDITORS' REPORT**

To the Shareholders of  
**Ursa Major Minerals Incorporated**  
(A Development Stage Company)

We have audited the balance sheets of Ursa Major Minerals Incorporated (a development stage company) as at January 31, 2010 and 2009 and the statements of operations and comprehensive loss, deficit and accumulated other comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at January 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.

**McGOVERN, HURLEY, CUNNINGHAM, LLP**

A handwritten signature in cursive script that reads 'McGovern, Hurley, Cunningham, LLP'.

**CHARTERED ACCOUNTANTS  
LICENSED PUBLIC ACCOUNTANTS**

**TORONTO**, Canada  
April 12, 2010

	2010 \$	2009 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (Note 2)	31,741	1,382,887
Amounts receivable	12,095	43,955
Prepaid expenses	<u>39,395</u>	<u>50,267</u>
	83,231	1,477,109
<b>RESTRICTED CASH EQUIVALENTS</b> (Note 3)	601,979	601,979
<b>DUE FROM RELATED COMPANY</b> (Note 4)	159,150	143,184
<b>EQUIPMENT</b> (Note 5)	131,820	144,469
<b>INVESTMENTS</b> (Note 6)	-	528,408
<b>EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES</b> (Note 7)	<u>17,617,586</u>	<u>16,951,445</u>
	<u>18,593,766</u>	<u>19,846,594</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	760,549	2,111,447
<b>ASSET RETIREMENT OBLIGATION</b> (Note 8)	376,626	351,987
<b>FUTURE INCOME TAX LIABILITY</b> (Note 14)	<u>969,200</u>	<u>1,189,400</u>
	<u>2,106,375</u>	<u>3,652,834</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b> (Note 9)	19,617,517	18,994,200
<b>SHARE PURCHASE WARRANTS</b> (Note 10)	129,795	12,295
<b>CONTRIBUTED SURPLUS</b> (Note 11)	3,501,791	3,403,791
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS DEFICIT</b>	<u>(6,761,712)</u>	<u>(5,271,895)</u>
	<u>16,487,391</u>	<u>16,193,760</u>
	<u>18,593,766</u>	<u>19,846,594</u>
APPROVED ON BEHALF OF THE BOARD:		
<u>Signed "Richard Sutcliffe"</u>	Director	
<u>Signed "Amar Bhalla"</u>	Director	

Commitments and contingencies (Notes 1, 3, 7, 8 and 15)

See accompanying Notes to the Financial Statements

**STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
FOR THE YEAR ENDED JANUARY 31

	2010 \$	2009 \$
<b>INTEREST INCOME</b>	<u>4,207</u>	<u>40,106</u>
<b>EXPENSES</b>		
Management and directors' compensation	246,423	185,000
Rent	110,605	49,817
Professional fees (Note 13)	105,000	76,291
Salaries and benefits	102,191	79,802
Stock-based compensation (Note 9(c))	98,000	-
Office and general	92,508	85,982
Business development	46,198	85,467
Travel	39,576	63,490
Shareholder information	39,396	24,990
Bank charges and interest	32,508	43,847
Stock exchange and transfer agent fees	27,233	46,340
Consulting fees	3,529	10,953
Foreign exchange	(12,497)	175,344
Amortization	<u>33,697</u>	<u>31,294</u>
	<u>964,367</u>	<u>958,617</u>
Loss before the under noted	(960,160)	(918,511)
Loss on sale of available for sale investments	(885,057)	(933,703)
Write down of exploration properties and deferred exploration expenditures (Note 7)	<u>-</u>	<u>(713,320)</u>
Loss before income taxes	(1,845,217)	(2,565,534)
Future income tax recovery (Note 14)	<u>355,400</u>	<u>543,900</u>
<b>NET LOSS FOR THE YEAR</b>	<u>(1,489,817)</u>	<u>(2,021,634)</u>
Net loss per common share		
- basic	(0.03)	(0.06)
- diluted	(0.03)	(0.06)
Weighted average number of shares outstanding		
-basic	45,932,663	34,210,920
-diluted	45,932,663	34,210,920
<b>COMPREHENSIVE LOSS</b>		
Net loss for the year	(1,489,817)	(2,021,634)
Other Comprehensive Income (loss)	<u>944,631</u>	<u>(300,121)</u>
Comprehensive loss for the year	<u>(545,186)</u>	<u>(2,321,755)</u>

See accompanying Notes to the Financial Statements

**STATEMENTS OF DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE LOSS**  
FOR THE YEARS ENDED JANUARY 31

	2010	2009
	\$	\$
<b>DEFICIT</b>		
Deficit, beginning of year	(5,271,895)	(3,250,261)
Net loss for the year	<u>(1,489,817)</u>	<u>(2,021,634)</u>
Deficit, end of year	<u>(6,761,712)</u>	<u>(5,271,895)</u>
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>		
Balance, beginning of year	(944,631)	(644,510)
Realized loss included in net loss	885,057	933,703
Unrealized gain (loss) on available-for-sale Investments	<u>59,574</u>	<u>(1,233,824)</u>
Balance, end of year	<u>-</u>	<u>(944,631)</u>

See accompanying Notes to the Financial Statements

URSA MAJOR MINERALS INCORPORATED  
(A Development Stage Company)  
**STATEMENTS OF CASH FLOWS**  
FOR THE YEAR ENDED JANUARY 31

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	2010 \$	2009 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss for the year	(1,489,817)	(2,021,634)
Items not involving cash:		
Amortization	33,697	31,294
Stock-based compensation	98,000	-
Loss on sale of investments	885,057	933,703
Write down of exploration properties and deferred exploration expenditures	-	713,320
Future income tax recovery	(355,400)	(543,900)
	<u>(828,463)</u>	<u>(887,217)</u>
Changes in non-cash working capital balances:		
Decrease in amounts receivable	31,860	299,090
Decrease (increase) in prepaid expenses	10,872	(10,010)
(Decrease) in amounts due from related company	(15,966)	(98,565)
(Decrease) increase in accounts payable and accrued liabilities	171,666	43,272
	<u>198,432</u>	<u>233,787</u>
	<u>(630,031)</u>	<u>(653,430)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in exploration properties and deferred exploration costs	(2,496,000)	(7,575,245)
Pre-production revenues	744,598	8,013,699
Purchase of equipment	(21,048)	(142,899)
Proceeds on sale of investments (Note 6)	587,982	3,112,697
Purchase of investments	-	(121,787)
	<u>(1,184,468)</u>	<u>3,286,465</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of flow-through common shares	400,000	409,824
Issuance of common share purchase warrants	100,000	-
(Decrease) in debenture payable	-	(2,071,786)
Stock options exercised	-	34,500
Common shares repurchased	-	(100,556)
Share issue costs	(36,647)	(36,301)
	<u>463,353</u>	<u>(1,764,319)</u>
(Decrease) increase in cash and cash equivalents	(1,351,146)	868,716
Cash and cash equivalents, beginning of year	<u>1,382,887</u>	<u>514,171</u>
Cash and cash equivalents, end of year	<u>31,741</u>	<u>1,382,887</u>
<b>Supplemental Information:</b>		
Shares issued for investments (Note 9(b)(iv))	-	1,303,429
Shares issued for settlement of debt (Note 9(b)(iii))	412,664	-
Change in accrued property expenditures	(1,522,564)	1,336,662
Share purchase warrants issued for share issue costs (Note 9 (b)(i)(ii)(v))	17,500	12,295
Interest paid	-	30,463

See accompanying Notes to the Financial Statements

## **1. NATURE OF OPERATIONS**

Ursa Major Minerals Incorporated (the "Company") is a development stage enterprise, as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11, in the process of exploring and developing its interests in resource properties. The exploration activities of the Company are directed towards the search, evaluation and development of mineral properties in Canada. The Shakespeare Township property is at a pre-production mining stage with a completed feasibility study level and as such a potential economic ore reserve has been defined. There has been no determination whether the Company's interests in its other exploration properties contain ore reserves which are economically recoverable.

The Company's exploration operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In order for the Company to carry out its exploration and mining activities, the Company is required to hold certain permits. There is no assurance that the Company's existing permits will be renewed or that new permits that have been or will be applied for will be granted.

Major expenditures are required to locate and establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. The recoverability of valuations assigned to mineral properties is dependent upon discovery of economically recoverable reserves, the ability to obtain necessary financing to complete development and future profitable production or proceeds from disposition.

Management reviews the carrying value of the Company's interest in each property and where necessary, exploration properties are written down to their estimated recoverable amount. Although management has made its best estimate of these factors, it is reasonably possible that certain events could adversely affect management's estimates of recoverable amounts and the need for, as well as the amount of, provision for impairment in the carrying value of exploration properties and related assets.

Although the Company has taken steps to verify title to exploration properties in which it has an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to other licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal land claims and non-compliance with regulatory requirements.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements.

Because of limited working capital and continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing or to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation.

The accompanying financial statements do not include any adjustments relating to the carrying values and classification of assets or liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year except for new accounting policies adopted. Outlined below are those policies considered particularly significant.

### **Cash and Cash Equivalents:**

The Company defines cash and cash equivalents as cash and short-term investments with maturity dates of less than ninety days. The Company invests cash in term deposits maintained in high credit quality institutions. As at January 31, 2010, the cash and cash equivalents balance was comprised of \$11,741 and \$20,000 respectively (2009 - cash: \$1,362,887 cash equivalents: \$20,000).

### **Equipment:**

Equipment is recorded at cost. Amortization is provided on a diminishing-balance basis over the estimated useful lives of the equipment at the following annual rates:

Computer equipment	30%
Vehicles	30%
Office furniture	20%
Equipment	20%

An impairment loss is recognized when the undiscounted cash flows expected from use and the eventual disposition of the asset are less than the carrying amount of the asset. An impairment charge is recorded to reduce the carrying value of the asset to its fair value.

### **Investments:**

Securities which are traded on a recognized securities exchange and for which no sales restrictions apply are recorded at fair values based on quoted closing prices at the balance sheet date or the closing price on the last day the security traded, if there were no trades at the balance sheet date. Securities in privately-held companies are recorded at cost unless an upward adjustment is considered appropriate and supported by pervasive and objective evidence such as a significant subsequent equity financing by an unrelated, professional investor at a transaction price higher than the Company's carrying value, or until any impairment is determined to be other than temporary. Downward adjustments to carrying values are made when there is evidence of a decline in value as indicated by the assessment of the financial condition of the investment based on third party financing, operational results, forecasts, and other developments since acquisition. The Company has classified its investments as available-for-sale.

Warrants or options of publicly-traded securities which do not have a quoted price are carried at an estimated fair value calculated using the Black-Scholes option pricing model based on the underlying security.

### **General and Administrative Expenses:**

The Company charges all general and administrative expenses not directly related to exploration activities to operations as incurred.

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Exploration Properties and Deferred Exploration Expenditures:**

Exploration property acquisition, exploration and development expenditures, net of pre-production revenues, are deferred until the properties are placed into production, sold or abandoned. These deferred costs will be amortized over the estimated useful life on a unit of production basis of the properties following the commencement of production or written-off if the properties are allowed to lapse or are abandoned.

Costs include the cash consideration and the fair market value of the shares issued for the acquisition of mineral properties. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment. The carrying value is reduced by option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts and then recorded in operations.

Management reviews capitalized costs on its mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or sale of the property. Proceeds received from the sale of any interest in a property will be credited against the carrying value of the property, with any excess included in operations for the period.

### **Asset Retirement Obligations:**

Asset retirement obligations ("ARO") include the estimated costs related to the reclamation of mineral properties such as the dismantling and removing of tangible equipment such as buildings and returning the land to a more natural condition. The fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets. Revisions to the original cost or the timing of the cash outflow may result in a change to the ARO. Actual costs incurred to settle the ARO reduce the long-term liability.

### **Foreign Currency Translation:**

The Canadian dollar is the functional currency of the Company's operations. Accounts in foreign currencies have been translated into Canadian dollars using the "temporal" method. Under this method, monetary assets and liabilities have been translated at the year-end exchange rate, non-monetary assets, which comprise equipment and interests in exploration properties and deferred exploration expenditures, have been translated at the historical rate of exchange prevailing at the date of acquisition. Charges for amortization and exploration expenditures written off have been translated at the same rate as the related assets. Revenue and expenses have been translated at the average rate of exchange during the year. Realized and unrealized foreign exchange gains and losses are included in operations.

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Flow-Through Shares:**

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to interests in exploration properties and deferred exploration expenditures.

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

### **Use of Estimates:**

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the year. Actual results could differ from these estimates. During the fiscal years presented, management has made a number of significant estimates and valuation assumptions, including the recoverability of exploration properties and deferred exploration expenditures, the future costs associated with environmental remediation and site restoration matters, future tax assets and liabilities, stock-based compensation warrants, and the fair value of financial instruments. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as an assumption about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount. Management believes that the estimates are reasonable.

### **Loss Per Share:**

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. Total shares issuable from options and warrants excluded from the computation of diluted loss per share because they were anti-dilutive for the year ended January 31, 2010 were 5,109,822 (2009 - 1,719,822).

### **Income Taxes:**

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential benefit is taken and no net asset is recognized.

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Stock-based Compensation:**

The Company records compensation cost based on the fair value method of accounting for stock based compensation. The fair value of stock options is determined using the Black-Scholes option-pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to capital stock.

### **Financial Instruments:**

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period, unless the instrument is a cash flow hedge, and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive income.

The Company has designated its investments as available-for-sale and they are measured at fair value, with changes in fair value recognized in accumulated other comprehensive income. Cash and cash equivalents and restricted cash equivalents are classified as held-for-trading. Amounts receivable and the amount due from related company are classified as receivable and are recorded at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are recorded at amortized cost.

### **Comprehensive Income:**

Comprehensive income, composed of net income, and other comprehensive income, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income for the Company includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive income are disclosed in the statement of operations and comprehensive loss. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income ("AOCI") which is presented as a category in shareholders' equity.

### **New Accounting Policies:**

#### *Goodwill and Intangible Assets*

The CICA issued Handbook Section 3064 "Goodwill and Intangible Assets", which replaces the previous Goodwill and Intangible Asset standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The Company adopted this standard effective February 1, 2009 with no impact on the Company's financial statements.

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **New Accounting Policies (continued):**

#### *Fair Value Hierarchy and Liquidity Risk Disclosure*

In June 2009, the Canadian Accounting Standards Board issued an amendment to CICA Section 3862, "Financial Instruments Disclosures" in an effort to make Section 3862 consistent with IFRS Section 7 - Disclosures ("IFRS 7"). The purpose was to establish a framework for measuring fair value in Canadian GAAP and expand disclosures about fair value measurements. To make the disclosures an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The Company has included additional disclosure in Note 16 to these financial statements.

### **Future Accounting Changes:**

#### *Business Combinations*

CICA Handbook Section 1582 "Business Combinations", replaces Section 1581 - "Business Combinations" and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 - Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company will adopt this standard on February 1, 2011.

#### *Consolidations and Non-Controlling Interests*

CICA Handbook Sections 1601 "Consolidations" and Section 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 - "Consolidated and Separate Financial Statements", for non-controlling interests. The Company will adopt this standard on February 1, 2011.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Future Accounting Changes (continued):**

*International Financial Reporting Standards ("IFRS")*

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

**3. RESTRICTED CASH EQUIVALENTS**

The Company has guaranteed by pledge of a guaranteed investment certificate an irrevocable standby letter of credit for \$601,979 (2009 -\$601,979) to the Ministry of Northern Development and Mines ("MNDN") as a financial assurance guarantee in connection with the Stage One Mining Closure Plan on the Shakespeare Project. (See Note 8)

**4. DUE FROM RELATED COMPANY**

The amount due from related company is unsecured, non-interest bearing with no fixed terms of repayment. A director of the Company is also a director of the related company.

**5. EQUIPMENT**

<u>2010</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	\$	\$	\$
Computer Equipment	11,131	7,015	4,116
Vehicles	47,929	33,521	14,408
Office Furniture	2,247	787	1,460
Equipment	179,897	68,061	111,836
	<u>241,204</u>	<u>109,384</u>	<u>131,820</u>
<u>2009</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	\$	\$	\$
Computer Equipment	11,132	5,252	5,880
Vehicles	47,929	27,346	20,583
Office Furniture	1,723	422	1,301
Equipment	159,372	42,667	116,705
	<u>220,156</u>	<u>75,687</u>	<u>144,469</u>

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**6. INVESTMENTS**

As at January 31, 2009, the Company owned 118,355 common shares of Richmond Mines Inc. ("Richmont"), a TSX listed company, with a market value of \$366,900. During the year the Company sold its shares of Richmont for gross proceeds of \$392,428. During the year ended January 31, 2009, the Company sold 554,686 of its Richmont Shares for gross proceeds of \$1,235,303.

As at January 31, 2009 the Company owned 4,614,500 common shares of Nyah Resources Corp. (Nyah), a TSX-V listed company, with a market value of \$161,508. The president of the Company was a former director of Nyah. During the year ended January 31, 2010 the Company sold its shares of Nyah for gross proceeds of \$195,554.

**7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

<b>2010</b>	<u>Opening</u> \$	<u>Expenditures</u> \$	(Receipts) (Write downs) \$	<u>Closing</u> \$
<b>Ontario Canada</b>				
Shakespeare Township	13,545,103	963,405	(744,598)	13,763,910
Stumpy Bay Option	730,866	-	-	730,866
Porter-Baldwin	1,218,402	23,145	-	1,241,547
Porter Option	227,730	24,000	-	251,730
Shining Tree	1,157,338	1,700	-	1,159,038
Nickel Offsets Option	52,656	363,233	-	415,889
Seagull and Disraeli	19,350	35,256	-	54,606
	<u>16,951,445</u>	<u>1,410,739</u>	<u>(744,598)</u>	<u>17,617,586</u>

<b>2009</b>	<u>Opening</u> \$	<u>Expenditures</u> \$	(Receipts) (Write downs) \$	<u>Closing</u> \$
<b>Ontario Canada</b>				
Shakespeare Township	12,946,348	8,612,454	(8,013,699)	13,545,103
Stump Bay Option	698,263	32,603	-	730,866
Porter-Baldwin	1,146,617	71,785	-	1,218,402
Porter Option	203,392	24,338	-	227,730
Shining Tree	1,148,160	9,178	-	1,157,338
Nickel Offsets Option	-	52,656	-	52,656
Seagull and Disraeli	-	19,350	-	19,350
Worthington Bell Option	477,793	210,857	(688,650)	-
	<u>16,620,573</u>	<u>9,033,221</u>	<u>(8,702,349)</u>	<u>16,951,445</u>
<b>Wyoming USA</b>				
Carbon and Albany Counties	24,504	166	(24,670)	-
	<u>16,645,077</u>	<u>9,033,387</u>	<u>(8,727,019)</u>	<u>16,951,445</u>

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**7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**  
(Continued)

**Shakespeare Township**

The Company has a 100% interest in the Shakespeare Property after issuing 350,000 common shares and completing \$1,200,000 in exploration expenditures under an option agreement with Xstrata Nickel, a business unit of Xstrata Canada Corporation, ("Xstrata"). The Shakespeare Property contains a nickel, copper, platinum group metal potential economic ore reserve located in Shakespeare Township, 60 kilometres west of Sudbury, Ontario. The property consists of 28 leased and patented claims plus additional staked claims. Xstrata has retained certain mineral processing rights.

**Stumpy Bay Option**

The Company has earned a 100% interest in mineral claims known as the Stumpy Bay Property located in Shakespeare and Baldwin Townships Ontario. The optionor has retained a 2% Net Returns Royalty. Advance royalty payments of \$30,000 per year commenced March 21, 2006. The Company has the right to purchase one-half of the royalty for \$750,000.

Xstrata has elected to include this property as part of the Shakespeare agreement and accordingly holds a 25% interest in the Company's interest in the Stumpy Bay Property.

**Porter-Baldwin**

The Company has staked mining claims in the Agnew Lake area that are contiguous with the Shakespeare property noted above and are 100% owned by the Company.

**Porter Option**

The Company has earned a 100% interest in mineral claims known as the Porter Option located in Shakespeare Dunlop and Porter Townships, Ontario. The optionor has retained a 2% Net Returns Royalty. Advance royalty payments of \$24,000 per year commenced January 15, 2007. The Company has the right to purchase one-half of the royalty for \$1,000,000.

**Shining Tree**

The Company has earned a 100% interest in mineral claims known as the Shining Tree claims located in Fawcett Township Ontario. The optionor has retained a 1% Net Returns Royalty. The Company has the right to purchase one-half of the royalty for \$500,000.

**Nickel Offsets Option**

The Company entered into an option agreement to earn up to a 70% interest in certain claims known as the Nickel Offsets Mine property located in Foy township north west of Sudbury, Ontario. Consideration for the option consists of cash payments of \$75,000 (\$50,000 paid), the issuance of 100,000 common shares in the Company on or before May 31, 2010 and an exploration expenditure commitment of \$1,250,000 to be completed by March 28, 2012.

**Seagull and Disraeli**

The Company has staked mining claims in the Thunder Bay Mining division approximately 50 km north of the city of Thunder Bay Ontario. The properties known as the Seagull and Disraeli properties are 100% owned by the Company.

**Worthington Bell Option**

The Company entered into an option agreement dated November 27, 2006 to acquire two parcels of land located in Lorney Township west of Sudbury, Ontario. The Company did not exercise this option and all amounts related to this property were written off during the year ended January 31, 2009.

Continued...

**7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**  
(Continued)

**Carbon and Albany Counties**

The Company had a 100% interest in 30 claims in the Carbon and Albany Counties. This exploration property is a platinum group metal prospect. During the year ended January 31, 2009, these claims were vended to a corporation in exchange for a 2.0% Net Smelter Royalty. A director and major shareholder of the corporation is also a director of the Company.

**8. ASSET RETIREMENT OBLIGATION**

The Company has provided a letter of credit in the amount of \$601,979 (2009 - \$601,979) to the MNDN under the terms of the Stage One Mining Closure Plan on the Shakespeare Project. (See Note 3)

As at January 31, 2010, the net present value of the total asset retirement obligation related to the Shakespeare Stage One Mining Closure Plan is estimated to be \$376,626 (2009 - \$351,987) based on a total future liability of \$601,979 (2009 - \$601,979) and an estimated adjusted risk free rate of 7%. The settlement of the obligation is estimated to take place in 2017.

The following is an analysis of the asset retirement obligation:

	<u>2010</u>	<u>2009</u>
	\$	\$
Opening balance	351,987	328,960
Accretion incurred in the current year	<u>24,639</u>	<u>23,027</u>
Closing balance	<u><u>376,626</u></u>	<u><u>351,987</u></u>

The accretion expense has been charged to the property in which it relates to.

**9. CAPITAL STOCK**

**(a) Authorized:**

Unlimited number of common shares

**(b) Common shares issued:**

		<u>Shares</u>	<u>Amount</u>
		#	\$
Balance, January 31, 2008		32,205,277	18,201,574
Common shares issued	(iv)	6,206,804	1,303,429
Flow-through shares issued	(v)	5,854,628	409,824
Stock options exercised		69,000	60,720
Shares repurchased and cancelled	(vi)	(44,144)	(25,162)
Share issue costs		-	(48,595)
Tax effects of issuing flow-through common shares		-	(792,000)
Less: Shares held for cancellation	(vi)	<u>(202,789)</u>	<u>(115,590)</u>
Balance, January 31, 2009		44,088,779	18,994,200
Flow-through shares issued	(i)(ii)	5,000,000	400,000
Common shares issued for debt	(iii)	4,126,640	412,664
Share issue costs		-	(54,147)
Tax effects of issuing flow-through common shares		-	(135,200)
Balance, January 31, 2010		<u><u>53,215,416</u></u>	<u><u>19,617,517</u></u>

Continued...

**9. CAPITAL STOCK** (Continued)

**(b) Common shares issued** (continued):

- (i) In September 2009, the Company closed a private placement of 3,000,000 units at a price of \$0.10 per unit. Each unit is comprised of one flow-through common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share on or before September 28, 2010 at a price of \$0.20 per share. The warrants were valued at \$60,000 (Note 10). An additional 210,000 warrants exercisable into common shares at a price of \$0.10 until September 28, 2010 were issued as compensation related to this private placement. These warrants were valued at \$10,500 (Note 10).
- (ii) In October 2009 the Company closed a private placement of 2,000,000 units at a price of \$0.10 per unit. Each unit is comprised of one flow-through common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share on or before October 30, 2010 at a price of \$0.20 per share. The warrants were valued at \$40,000 (Note 10). An additional 140,000 warrants exercisable into common shares at a price of \$0.10 until October 30, 2010 were issued as compensation related to this private placement. These warrants were valued at \$7,000 (Note 10).
- (iii) In December 2009 the Company issued 4,126,640 common shares in satisfaction of two accounts payable totalling \$412,664.
- (iv) During the year ended January 31, 2009, the Company completed agreements with five individuals to issue 6,206,804 common shares of the Company in exchange for 6,206,804 common shares of Patricia Mining Corp. The shares issued were valued at \$1,303,429, based on the quoted market value at the date of issue. These shares were sold for proceeds of \$1,835,568 during the year ended January 31, 2009. The president of the Company was a director of Patricia and the companies had a common officer at the time of the transaction.
- (v) In December 2008, the Company closed a private placement of \$409,824 through the sale of 5,854,628 flow-through common shares at \$0.07 per share. An additional 409,822 warrants exercisable into common shares at a price of \$0.07 were issued as compensation related to this private placement. These warrants were valued at \$12,295 (Note 10).
- (vi) During the year ended January 31, 2009, the Company repurchased 246,933 common shares. Total consideration paid for these shares was \$100,556. This resulted in a decrease to common shares of \$140,752 and an increase in contributed surplus of \$40,196. At January 31, 2010, 202,789 shares were being held for cancellation.

Continued...

**9. CAPITAL STOCK (Continued)**

**(c) Stock Based Compensation**

The Company has granted options for the purchase of common shares to its directors, officers, employees and certain consultants. The purpose of the plan is to attract, retain and motivate these parties by providing them with the opportunity, through share options, to acquire a proprietary interest in the Company and to benefit from its growth. These options are valid for a maximum of 5 years from the date of issue. Vesting terms and conditions are determined by the Board of Directors at the time of the grant. The maximum number of options to be issued under the plan shall not exceed 10% of the total number of common shares issued and outstanding.

A summary of changes in stock-based compensation during the years ended January 31, 2010 and 2009 is as follows:

	<u>Stock Options</u> #	<u>Weighted Average Exercise Price</u> \$
Balance, January 31, 2008	1,699,000	0.87
Exercised	(69,000)	0.50
Expired	<u>(320,000)</u>	0.85
Balance, January 31, 2009	1,310,000	0.88
Granted	1,400,000	0.12
Expired	<u>(860,000)</u>	0.94
Balance, January 31, 2010	<u>1,850,000</u>	0.29

As at January 31, 2010, the Company had incentive stock options issued to employees, directors, officers and consultants of the Company as follows:

<u>Stock Options</u> #	<u>Exercise Price</u> \$	<u>Expiry Date</u>
145,000	0.65	November 7, 2010
180,000	0.85	March 30, 2011
125,000	0.91	April 9, 2012
<u>1,400,000</u>	0.12	September 28, 2014
<u>1,850,000</u>		

The estimated grant date fair value of the options granted during the year ended January 31, 2010 was \$98,000; this was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 98%, risk-free interest rate of 4.0%, an expected life of 5 years and vest immediately. Employees, directors and officers received 1,250,000 of the 1,400,000 options granted during fiscal 2010 valued at \$87,500. The Black-Scholes option pricing model was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. Because the Company's stock-based compensation options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the estimate, in management's opinion, amounts estimated using the Black-Scholes option pricing model may differ materially from the actual fair value of the Company's stock based compensation options. There were no options granted during the year ended January 31, 2009.

The weighted average grant date fair value is \$0.07 per option and the weighted average remaining contractual life is 3.9 years (2009 – 1.5 years).

Continued...

**10. SHARE PURCHASE WARRANTS**

As at January 31, 2010 the following share purchase warrants are outstanding:

<u>Warrants</u>	<u>Exercise Price</u>	<u>Estimated Fair Value</u>	<u>Expiry Date</u>
<u>#</u>	<u>\$</u>	<u>at Date of Grant</u>	
		<u>\$</u>	
409,822	0.07	12,295	June 30, 2010
210,000	0.10	10,500 (i)	September 28, 2010
1,500,000	0.20	60,000 (i)	September 28, 2010
140,000	0.10	7,000 (i)	October 30, 2010
<u>1,000,000</u>	<u>0.20</u>	<u>40,000</u> (i)	<u>October 30, 2010</u>
<u>3,259,822</u>		<u>129,795</u>	

- (i) The estimated grant date fair value of the warrants of \$0.04 (2009 - \$0.03) issued during the year ended January 31, 2010 of \$117,500 (2009 - \$12,295) was estimated using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0% (2009 - 0%), expected volatility of 166% (2009 - \$100%), risk free interest rate of 3.0% (2009 - 2.5%) and an expected life of 1.0 years (2009 - 1.5 years).

A summary of changes in share purchase warrants during the years ended January 31, 2010 and 2009 is as follows:

	<u>Warrants</u>	<u>Value</u>	<u>Weighted Average Exercise Price</u>
	<u>#</u>	<u>\$</u>	<u>\$</u>
Balance, January 31, 2008	1,893,792	408,621	1.30
Issued	409,822	12,295	0.07
Expired	<u>(1,893,792)</u>	<u>(408,621)</u>	1.30
Balance, January 31, 2009	409,822	12,295	0.07
Issued	<u>2,850,000</u>	<u>117,500</u>	0.19
Balance, January 31, 2010	<u>3,259,822</u>	<u>129,795</u>	0.17

**11. CONTRIBUTED SURPLUS**

A summary of changes in contributed surplus during the years ended January 31, 2010 and 2009 is as follows:

	<u>Amount</u>
	<u>\$</u>
Balance, January 31, 2008	2,981,195
Shares repurchased and cancelled (Note 9(b)(vi))	40,196
Share purchase warrants expired	408,620
Stock options exercised	<u>(26,220)</u>
Balance, January 31, 2009	3,403,791
Stock-based compensation	<u>98,000</u>
Balance, January 31, 2010	<u>3,501,791</u>

Continued...

**12. MANAGING CAPITAL**

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order that it can provide future returns for shareholders and benefits for other stakeholders. Management intends to accomplish this objective with the least dilution to shareholders. Management believes that the use of debt to equity ratio or similar capital management tools would be inappropriate for the Company's current objectives, but rather relies on the expertise of the Company's management to sustain future development of the business.

The capital structure of the Company consists of equity comprised of capital stock, warrants and contributed surplus.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended January 31, 2010 or 2009. The Company is not exposed to external capital requirements.

**13. RELATED PARTY TRANSACTIONS**

During the year ended January 31, 2010 a corporation associated with a former director of the Company was paid fees of \$6,476 (2009 - \$17,672).

During the year a corporation controlled by a former officer of the Company was paid professional fees of \$30,330 (2009 - \$10,756).

The above related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

See Notes 4, 6, 7 and 9.

**14. INCOME TAXES**

(a) Provision for income taxes:

Major items causing the Company's income tax rate to differ from the Canadian statutory rates of approximately 33% (2009 - 33.5%) as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
(Loss) before income taxes	<u>(1,845,217)</u>	<u>(2,565,534)</u>
Expected income tax (recovery) expense	(608,900)	(859,500)
Adjustments to benefit resulting from:		
Stock-based compensation	32,300	-
Share issue costs	(12,100)	(12,200)
Asset retirement obligation	8,100	70,500
Loss on sale of investments	292,100	312,800
Change in tax rates	(68,400)	(57,500)
Other	<u>1,500</u>	<u>2,000</u>
Future income tax recovery	<u>(355,400)</u>	<u>(543,900)</u>

Continued...

**14. INCOME TAXES** (continued)

(b) The future income tax assets and liabilities consist of the following temporary differences:

	<u>2010</u>	<u>2009</u>
	\$	\$
Equipment	26,400	18,300
Capital losses	227,300	154,100
Non-capital losses	27,300	43,400
Resource properties	(1,097,600)	(1,373,300)
Share issue costs	74,700	122,200
Investments	-	155,900
Valuation allowance	<u>(227,300)</u>	<u>(310,000)</u>
Total future income tax liability	<u><u>(969,200)</u></u>	<u><u>(1,189,400)</u></u>

(c) As at January 31, 2010, the Company had approximately \$12,064,000 of Canadian exploration and development expenditures and \$1,072,000 of foreign exploration expenditures, which, under certain circumstances may be utilized to reduce taxable income of future years. The Company also has approximately \$92,000 of non-capital losses in Canada, which can be used to reduce taxable income in future years. If not utilized, the non-capital losses will expire in 2029.

**15. COMMITMENTS**

The Company is committed to minimum rentals under a long-term lease for premises which expires February 29, 2013. Minimum rental commitments remaining under this lease approximate \$383,000 including \$123,000 due within one year. Minimum rental commitments for successive years approximate:

<u>Year</u>	<u>Amount</u>
	\$
2011	123,000
2012	124,000
2013	126,000
2014	<u>10,000</u>
	<u><u>383,000</u></u>

The Company is committed to spending approximately \$500,000 on exploration costs by December 31, 2010 as part of the flow-through funding agreements that were completed during 2010. (See Note 9(b)(i)(ii)). Subscribers of current and previous flow-through share offerings have been indemnified against any tax related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments.

**Environmental Contingencies**

The Company's mining and exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

Continued...

## **16. FINANCIAL RISK FACTORS**

There have been no changes to the risk, objectives, policies and procedures from the previous period.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

### **Credit risk**

The Company's credit risk is primarily attributable to cash equivalents, amounts receivable and restricted cash equivalents. Restricted cash equivalents consist of guaranteed investment certificate ("GIC") which have been invested with a reputable financial institution. The Company does not hold any non-bank asset backed commercial paper. Management believes the risk of loss is remote. Financial instruments included in amounts receivable consist of goods and services tax due from the Federal Government of Canada, and receivables from related and unrelated companies. The Company has a significant concentration of credit risk arising from test mining as all metal sales proceeds are receivable from one entity. Management believes that the credit risk concentration with respect to these financial instruments is remote.

### **Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at January 31, 2010, the Company did not have sufficient cash and cash equivalents to settle current liabilities of \$760,549. Management believes that additional financings (See Note 17) and proceeds from future metal sales to be received but not yet receivable from ore already processed will be available to discharge current liabilities.

### **Interest rate risk**

The Company has cash and cash equivalent balances subject to fluctuations in the prime rate. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Currently, the Company does not hedge against interest rate risk.

### **Foreign currency risk**

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Test mining proceeds are received in US dollars and immediately converted to Canadian dollars to reduce exchange risk. Management believes the foreign exchange risk derived from currency conversions at this time are small and therefore, does not hedge its foreign exchange risk.

### **Price risk**

The Company is exposed to price risk with respect to commodity prices, specifically nickel and copper. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company's future mining operations will be significantly affected by changes in the market price of nickel and copper. Nickel and copper prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand of these metals, the level of interest rates and the rate of inflation can all cause significant fluctuations in these metal prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

## **16. FINANCIAL RISK FACTORS (Continued)**

### **Financial instruments**

The Company has designated its cash and cash equivalents and restricted cash equivalents as held for trading, measured at fair value. Amounts receivable and due from related company are classified as loans and receivables, which are measured at amortized cost. Investments are designated as available for sale, measured at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

The carrying values of cash and cash equivalents, amounts receivable, restricted cash equivalents and accounts payable and accrued liabilities reflected in the balance sheet approximate fair value because of the limited term of these instruments.

At January 31, 2010, the Company's financial instruments that are carried at fair value, consisting of cash and cash equivalents and restricted cash equivalents have been classified as Level 1 within the fair value hierarchy.

The fair value of amounts due from the related company cannot be determined as no comparable market information exists.

### **Sensitivity analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve-month period:

The Company does not hold significant balances in foreign currencies to give rise to foreign exchange risk.

## **17. SUBSEQUENT EVENT**

Subsequent to January 31, 2010 the Company completed two private placements. The Company issued in total 4,363,668 flow-through common shares and 7,300,000 units for total gross proceeds of \$1,219,640. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share for a period of 24 months at a price of \$0.15 per share. An additional 619,200 warrants exercisable into common shares at a price of \$0.10 for a period of 24 months and 266,367 warrants exercisable into common shares at \$0.12 for a period of 24 months were issued as compensation related to these private placements.

Subsequent to the year end the Company arranged a credit facility with Auramet Trading LLC ("Auramet") to assist in financing the Company's metal inventory and receivables associated with ore produced from the Shakespeare mine. The total amount of the facility is US\$2,500,000. The facility has an initial term of one year and is renewable annually. The credit facility will be secured by in process metal and receivables. As part of the set up fee Auramet received 500,000 warrants which are exercisable at \$0.12 on or before July 2, 2011.