HORNBY BAY MINERAL EXPLORATION LTD.

(A Development Stage Company)

Consolidated Financial Statements

March 31, 2011 and 2010

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Hornby Bay Mineral Exploration Ltd.

We have audited the accompanying consolidated financial statements of Hornby Bay Mineral Exploration Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at March 31, 2011 and 2010, and the consolidated statements of operations, comprehensive loss and deficit and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditors' 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 generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained 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 Hornby Bay Mineral Exploration Ltd. and its subsidiaries as at March 31, 2011 and 2010, and their financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements indicating the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
June 10, 2011

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HORNBY BAY MINERAL EXPLORATION LTD.

(A Development Stage Company)
Consolidated Balance Sheets
As at March 31,

	2011	2010
	$	$
Assets		
Current		
Cash	**14,265**	5,470
Amounts receivable	**171,162**	5,440
Prepaid expenses	**367,453**	3,667
	552,880	14,577
Liabilities and Shareholders' Deficiency		
Current Liabilities		
Accounts payable and accruals	**94,972**	228,643
Promissory note (Notes 11 and 12)	**-**	30,000
Shareholder’s loan (Note 12)	**916,587**	-
	1,011,559	258,643
Shareholders’ (Deficiency)		
Capital stock (Note 8)	**34,826,499**	33,915,683
Contributed surplus (Note 9)	**4,800,155**	4,474,555
Deficit	**(40,085,333)**	(38,634,304)
	(458,679)	(244,066)
	552,880	14,577

GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENCIES (Notes 7 and 11)

APPROVED ON BEHALF OF THE BOARD:

Signed “Chris Irwin”, Director

Signed “Maurice Colson”, Director

HORNBY BAY MINERAL EXPLORATION LTD.

(A Development Stage Company)
Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the years ended March 31,

	2011 $	2010 $
Revenue		
Option payments	-	18,747
Expenditures		
Exploration Expenses		
Airborne geophysics	26,196	-
Assaying	2,039	-
Camp and support	272,720	15,596
Drilling	353,857	-
Ground geophysics	102,715	-
Helicopter	168,741	-
Lease rental payments	73,972	-
Program planning and reports	108,992	149,147
Licences and permits	980	-
Recording fees and taxes	3,051	2,385
	1,113,263	167,128
General and Administration Expenses		
Depreciation	-	31,925
Insurance	19,500	22,912
Interest and bank charges	6,061	377
Office and general	14,895	51,303
Professional fees	214,287	108,397
Salaries and benefits	4,452	29,405
Shareholders' information	71,662	56,878
Stock-based compensation	325,600	72,598
Interest on flow-through funds	-	1,887
Travel and promotion	10,909	5,510
Loss on disposal of equipment	-	12,056
	667,366	393,248
Loss before income taxes	(1,780,629)	(541,629)
Future income tax recovery (Note 10)	329,600	-
Net loss and comprehensive loss for the year	(1,451,029)	(541,629)
Deficit, beginning of year	(38,634,304)	(38,092,675)
Deficit, end of year	(40,085,333)	(38,634,304)
Loss per share – basic and diluted	(0.03)	(0.01)
Weighted average number of common shares outstanding	53,103,657	48,438,585

HORNBY BAY MINERAL EXPLORATION LTD.

(A Development Stage Company)
Consolidated Statements of Cash Flows
For the years ended March 31,

	2011 **$**	2010 $
Cash flows from		
Operating activities		
Net loss for the year	**(1,451,029)**	(541,629)
Less: Operating items not involving cash		
Depreciation	**-**	31,925
Stock-based compensation	**325,600**	72,598
Future income tax recovery	**(329,600)**	-
Loss on disposal of equipment	**-**	12,056
Change in non-cash working capital		
Refundable deposits	**-**	25,167
Amounts receivable	**(165,722)**	53,845
Prepaid expenses	**(363,786)**	4,333
Accounts payable and accruals	**(133,671)**	159,788
	(2,118,208)	(181,917)
Financing activities		
Issuance of common shares	**1,335,491**	-
Costs of issue	**(95,075)**	-
Shareholder's loan	**916,587**	-
(Payment) issuance of promissory note	**(30,000)**	30,000
	2,127,003	30,000
Increase (decrease) in cash	**8,795**	(151,917)
Cash at beginning of year	**5,470**	157,387
Cash at end of year	**14,265**	5,470
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	**5,553**	1,891
Income taxes paid	**-**	-
Warrants issued for costs of issue (Note 8)	**56,840**	-

See accompanying notes to the consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Hornby Bay Mineral Exploration Ltd. (the "Company") is a development stage company as defined by the Canadian Institute of Chartered Accountants (the "CICA") Accounting Guideline 11 and currently has interests in exploration and development properties in Canada. Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in mineral properties contain mineral reserves which are economically recoverable.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and 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 government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern. As at March 31, 2011, the Company has not yet achieved profitable operations and continues to be dependent upon its ability to obtain sufficient working capital from external financing to meet the Company's liabilities as they become payable and ultimately to generate profitable future operations. The Company has an accumulated deficit of $40,085,333 as of March 31, 2011 and incurred a net loss of $1,451,029 during the year then ended. During the year ended March 31, 2011, the Company was able to raise additional funds through a rights offering. As at March 31, 2011 the Company had a working capital deficiency of $458,679. These financial statements 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 liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

The Company has a need for equity capital and financing in order to explore and develop its properties and for working capital requirements. 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. It is not possible to predict whether financing efforts will be successful.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared by, and are the responsibility of, the Company's management. These consolidated financial statements are prepared in accordance with Canadian GAAP and are expressed in Canadian dollars unless otherwise stated.

Continued…

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian GAAP and their basis of application is consistent with that of the previous year. Outlined below are those policies considered particularly significant:

Principles of Consolidation:

These consolidated financial statements include the accounts of the Company, its 100% owned subsidiaries and its proportionate share of the accounts of joint ventures in which the Company has an interest.

Cash and Cash Equivalents:

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less and cashable guaranteed investment certificates (GICs). The Company invests cash in term deposits maintained in high credit quality institutions. All of the GICs are cashable before maturity without penalty and have been treated as cash equivalents.

Exploration and Development of Mineral Property Interests:

Once a decision has been made to acquire a property interest, all significant payments and obligations to make payments, including interest and accretion expenses related to any obligations to make payments, are capitalized and recorded as mineral property interests on the balance sheet. Prior to an acquisition decision being made, all option payments are expensed as incurred.

Property option proceeds received are included in operations in the period they are received. Exploration costs are expensed as incurred. Development costs are expensed until it has been established that a mineral deposit is commercially viable and a mine development decision has been made by the Company. Thereafter, the Company capitalizes expenditures subsequently incurred to develop the mine, prior to the start of mining operations.

Asset Retirement Obligations:

The Company is required to record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its mineral exploration properties. This amount is initially recorded at its discounted present value with a corresponding amount charged to the related property. The asset retirement obligation liability is increased each reporting period due to the passage of time and the amount of accretion is charged to operations. Management is not aware of any material asset retirement obligations as at March 31, 2011 and 2010.

Use of Estimates:

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the related reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, and affect the valuation of asset retirement obligations, stock option compensation, warrants and income tax accounts. The Company regularly reviews its estimates and assumptions; however, actual results could differ from these estimates and these differences could be material.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss Per Share:

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock 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 March 31, 2011 were 3,224,999 (2010 – 1,765,000) and 710,500 (2010 – nil) respectively.

Stock-based Compensation:

The Company records stock-based compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is estimated using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as stock-based 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.

Flow-Through Financing:

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 issuance of such shares have been credited to capital stock and the related exploration costs have been charged to operations.

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 capital stock.

Income Taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the enacted or substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized 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 future benefit is taken and no net asset is recognized.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 loss 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 (loss) until the asset is removed from the balance sheet or until impairment is assessed as other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are initially measured at fair value and subsequently 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.

A three-tier hierarchy is used as a framework for disclosing fair value of financial instruments based on inputs used to value the Company's financial instruments. The hierarchy of inputs and description of inputs is described as follows:

Level 1	quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	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 3	inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Changes in valuation methods may result in transfers into or out of a financial instrument's assigned level. During the year ended March 31, 2011, there were no significant transfers between level 1, 2 and 3. The required disclosures are included in Note 6.

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 ("OCI") 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 income. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income ("AOCI") which is presented as a category in shareholders' equity.

Foreign currency translation:

The functional currency of the Company is the Canadian dollar. Transactions and account balances originally stated in currencies other than the Canadian dollar have been translated into Canadian dollars using the temporal method of foreign currency translation as follows. Monetary assets and monetary liabilities in foreign currencies have been translated at exchange rates in effect at the balance sheet date. Revenue and expense transactions are translated at average exchange rates during the year which approximate the rates at the time of the transactions. Exchange gains or losses from such translation practices are reflected in the consolidated statements of operations.

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4. FUTURE ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards ("IFRS")

In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The effective date for the Company is for interim and annual financial statements relating to fiscal periods beginning on or after April 1, 2011. This transition will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended March 31, 2011. The Company has identified share-based payments, income taxes, and flow-through shares as areas where the adoption of IFRS may have a material effect on the Company's financial reporting. The Company is still in the process of quantifying the effects of the applications of IFRS on the Company's consolidated financial statements.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, Consolidated Financial Statements. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27 - Consolidated and Separate Financial Statements. The Company does not anticipate that the adoption of these standards will impact its financial results.

5. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The capital of the Company consists of shareholder's loan, capital stock and contributed surplus. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Several properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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 years ended March 31, 2011 or 2010. The Company and its subsidiaries are not subject to externally imposed capital requirements.

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6. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies or procedures from the previous year.

Credit risk
The Company's credit risk is primarily attributable to cash and cash equivalents. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents consist of bank deposits which have been invested with or purchased from reputable financial institutions, from which management believes the risk of loss to be 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 March 31, 2011, the Company had a cash balance of $14,265 (2010 - $5,470) to settle current liabilities of $1,011,559 (2010 - $258,643). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The shareholder’s loan is described in Note 12.

Market risk

(a) Interest rate risk
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. Management considers interest rate risk to be minimal.

(b) Foreign currency risk
The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

(c) Price risk
The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of development of the Company’s mineral properties. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Price risk is remote since the Company is not a revenue producing entity.

Fair value
The Company has designated its cash equivalents as held-for-trading, which are measured at fair value. Cash and amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accruals, promissory note, and shareholder’s loan are classified as other financial liabilities, which are measured at amortized cost.

Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The carrying amounts for cash equivalents, amounts receivable, promissory note and accounts payable and accruals on the balance sheet approximate fair value because of the limited term of the instruments. It is not possible to determine if the shareholder’s loan is at fair value as there is no comparable market value for such a loan.

At March 31, 2011, the Company had no financial instruments that are carried at fair value.

Continued…

7. MINERAL PROPERTIES

(a) COPPERMINE RIVER, NUNAVUT

The Company holds a 100% interest in 40 mineral leases and 16 mineral claims in the Coppermine River area of Nunavut. The 40 leases are subject to a 1% net smelter royalty and/or a 1% gross diamond royalty to a maximum of $10,000,000. Cumulative exploration and development expenditures made by the Company on this project as at March 31, 2011 totaled $23,734,381 (2010 – $22,642,513).

(b) UNAD JV, NUNAVUT

Pursuant to agreements dated September 30, 2006 the Company holds a 50% interest in certain mineral claims in the Coppermine River area of Nunavut. (See Note 13). Cumulative exploration and development expenditures made by the Company on this project as at March 31, 2011 totaled $772,313 (2010 – $772,313).

(c) ONTARIO GOLD PROPERTIES

The Company holds a 100% interest in five gold leases near Timmins, Ontario. Cumulative exploration and development expenditures made by the Company on this project as at March 31, 2011 totaled $128,882 (2010 – $125,570).

(d) B.C. PROPERTIES

The Company holds a 100% interest in four Crown grants in the Camsell and Similkameen area of British Columbia and a 5% net smelter royalty interest on certain parts of the Similkameen Copper Mine. Cumulative exploration and development expenditures made by the Company on this project as at March 31, 2011 totaled $37,859 (2010 – $37,755).

8. CAPITAL STOCK

(i) Common Shares and Warrants

Authorized
Unlimited number of common shares
Unlimited number of preference shares

Issued
56,785,405 common shares

	March 31, 2011		March 31, 2010	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance at beginning of year	**48,438,585**	**$33,915,683**	48,438,585	$33,915,683
Issued by rights offering	**8,346,820**	**1,335,491**	-	-
Flow-through share tax effect	**-**	**(329,600)**	-	-
Share issue costs	**-**	**(151,915)**	-	-
Balance at end of year	**56,785,405**	**34,769,659**	48,438,585	$33,915,683

Continued…

8. CAPITAL STOCK (Continued)

Issued

Warrants

	March 31, 2011		March 31, 2010	
	Number of Warrants	**Amount**	Number of Warrants	Amount
Balance at beginning of year	**-**	**-**	4,251,490	$695,979
Expired	**-**	**-**	(4,251,490)	(695,979)
Issued by rights offering	**710,500**	**56,840**	-	-
Balance at end of year	**710,500**	**56,840**	-	-
Total capital stock at end of year		**$34,826,499**		$33,915,683

On April 6, 2010, the Company consolidated its shares on a 1 for 3 basis. All references to common shares, per share amounts, warrants, and options for all periods presented have been retroactively restated to reflect this consolidation unless otherwise stated.

On September 9, 2010, the Company issued 8,346,820 flow-through common shares at $0.16 per share pursuant to a rights offering to raise gross proceeds of $1,335,491. In connection with this rights offering the Company paid solicitation fees of $82,728. In addition the Company issued 710,500 broker warrants pursuant to standby commitments. Each broker warrant entitles the holder to acquire one common share of the Company at a price of $0.16 for two years. The fair value of the warrants was estimated to be $56,840, using the Black-Scholes option pricing model assuming a risk-free interest rate of 2% on the date of issue, an expected life of 2 years, an expected volatility of 150% and expected dividends of $Nil.

(ii) **Warrants**

Warrants Outstanding

Number of Warrants	Exercise Price	Expiry Date	Grant Date Fair value
#	$		$
710,500	0.16	September 9, 2012	56,840

Warrant Transactions

	2011		2010	
	Number	Weighted average exercise price per share	Number	Weighted average exercise price per share
	#	$	#	$
Balance, beginning of the year	-	-	4,251,490	0.90
Granted	710,500	0.16	-	-
Expired	-	-	(4,251,490)	0.90
Balance, end of the year	710,500	0.16	-	-

Continued…

8. CAPITAL STOCK (Continued)

(iii) **Options**

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Share options are granted for a term not to exceed five years at exercise prices not less than the closing sale price of the shares on the TSX Venture Exchange on the trading day immediately preceding the date the options are granted, and are not transferrable. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum number of shares of the Company that are issuable pursuant to the Plan is limited to 10% of the issued and outstanding common shares.

Options to purchase common shares of the Company have been granted in accordance with the Plan as follows:

	2011		2010	
	Number	Weighted average exercise price per share	Number	Weighted average exercise price per share
	#	$	#	$
Balance, beginning of the year	1,765,000	0.81	1,945,556	1.35
Granted	3,250,000	0.20	733,333	0.30
Expired	(1,790,001)	0.74	(913,889)	1.55
Balance, end of the year	3,224,999	0.25	1,765,000	0.81
Options exercisable, end of the year	3,124,999		1,765,000	

The weighted average grant date fair value of options granted during the year ended March 31, 2011 was estimated to be $0.10 (2010 - $0.09). All options granted during the years ended March 31, 2011 and 2010 vested immediately, with the exception of the options granted September 16, 2010, which vest as to one quarter every three months beginning on December 16, 2010.

The fair values of options granted have been estimated on the date of grant using the Black-Scholes option-pricing model. Assumptions used in the pricing model are as follows:

	2011	2010
Average risk-free interest rate	1.94%	2.59%
Expected life	2-5 years	5 years
Expected volatility	109% -147%	103%
Expected dividends	Nil	Nil

During the year ended March 31, 2011, following a 1-for-3 consolidation of the Company's common shares, the number of options outstanding was reduced by a factor of 3, and the exercise price of the options was multiplied by a factor of 3. All references to common shares, per share amounts, warrants, and options for all periods presented have been retroactively restated to reflect this consolidation unless otherwise stated.

Continued…

8. CAPITAL STOCK (Continued)

Options to purchase common shares outstanding at March 31, 2011 carry exercise prices and remaining terms to maturity as follows:

Options Outstanding

Number of Options	Options Exercisable	Exercise Price	Expiry Date
#	#	$	
75,000	75,000	1.71	06-Mar-12
83,333	83,333	0.66	19-Feb-13
66,666	66,666	0.30	16-Jun-14
2,500,000	2,500,000	0.20	11-Aug-15
200,000	100,000	0.20	16-Sep-12
200,000	200,000	0.20	27-Oct-15
100,000	100,000	0.20	9-Nov-15
3,224,999	3,124,999	0.23	

The weighted average remaining contractual life of the options is 4.04 years (2010 – 1.41).

9. CONTRIBUTED SURPLUS

Contributed surplus transactions for the respective years ended March 31 were as follows:

	2011	2010
	$	$
Balance, beginning of year	**4,474,555**	3,705,978
Employee stock option compensation	**280,300**	70,865
Non employee stock option compensation	**45,300**	1,733
Expiry of warrants	**-**	695,979
Balance, end of year	**4,800,155**	4,474,555

Continued…

10. INCOME TAXES

(a) Provision for Income Taxes
Major items causing the Company's income tax rate to differ from the Canadian statutory rate of 30% (2010 – 34%) were as follows:

	2011 $	2010 $
Loss before income taxes	(1,780,629)	(541,629)
Expected income tax recovery	(534,200)	(167,900)
Adjustments to benefit resulting from:		
Stock-based compensation	97,700	22,500
Share issue costs	(24,000)	-
Expiring non-capital losses	-	1,400
Change in tax rates	43,300	829,900
Other	-	18,700
	(417,200)	704,600
Change in valuation allowance	87,600	(704,600)
Future income tax recovery	(329,600)	-

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

	2011 $	2010 $
Equipment	30,300	30,300
Non-capital loss carry-forwards	310,700	248,700
Resource expenditures	5,025,200	4,991,100
Share issue costs	33,500	42,000
Valuation allowance	(5,399,700)	(5,312,100)
	-	-

(c) As at March 31, 2011, the Company has accumulated losses for income tax purposes of approximately $1,242,000 that are available to be carried-forward to reduce taxable income of future years. These losses expire as follows:

Year	Amount $
2014	69,000
2015	95,000
2026	169,000
2027	66,000
2028	201,000
2029	238,000
2030	275,000
2031	129,000
	1,242,000

The Company has approximately $770,000 and $19,235,000 Canadian development expenses and Canadian exploration expenditures respectively, as at March 31, 2011 which, under certain circumstances, may be utilized to reduce taxable income of future years.

Continued…

11. COMMITMENTS AND CONTINGENCIES

(a) Pursuant to the issuance of 8,346,820 flow-through shares on September 9, 2010 the Company has renounced $1,318,421 of qualified exploration expenditures with an effective date of December 31, 2010. The Company is required to expend these flow-through funds by December 31, 2011. As of March 31, 2011, the amount remaining to be expended is approximately $1,009,000.

The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that become payable by the shareholder as a result of the Company not having met its expenditure commitments.

(b) The Company has been named a defendant in legal proceedings brought by a former officer of the Company. The former officer had claimed approximately $30,000 in settlement of a promissory note (see Note 12) and approximately $170,000 damages for breach of contract.

During the year ended March 31, 2011, the Company paid $30,000 in settlement of the promissory note that was outstanding. The Company believes that the claims for damages are without merit and plans to vigorously defend itself. As the outcome of these proceedings cannot be reasonably determined, no further amounts have been recorded in these financial statements.

(c) An action has been brought by the Company against a former officer of the Company and his spouse for damages in the amount of $72,166 for breach of fiduciary duty and conversion. The action has been defended by the former officer and his spouse and the parties have exchanged affidavits of documents. The next steps in the litigation will be to schedule a settlement conference and mediation.

12. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2010 a former officer of the Company loaned the Company $30,000 in the form of an unsecured promissory note bearing interest at 12% per annum. During the year ended March 31, 2011, principal and interest in full settlement of the note was paid by the Company.

The amount owing to a shareholder of $916,587 is due on demand, unsecured and non-interest bearing.

13. INTERESTS IN JOINT VENTURES

The Company does not have any significant assets, liabilities, revenues, expenses or cash flows from its interests in joint ventures as at and for the years ended March 31, 2011 and 2010.