VVC EXPLORATION CORPORATION

Consolidated Financial Statements
Years ended January 31, 2011 and 2010

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MSCM LLP
Accountants & Advisors for a Complex World

Independent Auditors' Report

To the Shareholders of
VVC Exploration Corporation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of VVC Exploration Corporation which comprise of the consolidated balance sheets as at January 31, 2011 and 2010 and the consolidated statements of loss, comprehensive loss and deficit, accumulated other comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

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

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes uncertainty upon VVC Exploration Corporation's ability to continue as a going concern.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of VVC Exploration Corporation as at January 31, 2011 and 2010 and the results of its operations and its cash flows for years then ended in accordance with Canadian generally accepted accounting principles.

Signed: ***"MSCM LLP"***

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
May 30, 2011

VVC Exploration Corporation

Consolidated Balance Sheets

as at January 31,		**2011**		2010
Assets				
Current assets				
Cash and cash equivalents	**$**	**6,812**	$	1,845,308
Short-term investments (Note 4)		**158,900**		207,149
Accounts receivable		**187,813**		228,207
		353,525		2,280,664
Equipment (Note 5)		**11,708**		17,136
Mineral properties (Note 6)		**536,796**		1,400,751
Deferred property acquisition costs (Note 6)		**-**		105,571
	$	**902,029**	$	3,804,122
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (Note 7)	**$**	**216,716**	$	132,762
Shareholders' equity				
Share capital (Note 8(b))		**21,659,158**		21,237,758
Contributed surplus (Note 8(c) and 8(d) and 9)		**4,944,625**		4,824,504
Accumulated other comprehensive income		**144,350**		67,251
Deficit		**(26,062,820)**		(22,458,153)
		685,313		3,671,360
	$	**902,029**	$	3,804,122

Going Concern (note 1)
Commitments (note 14)

Approved by the Board

"Michel Lafrance" — Director

"Patrick Fernet" — Director

The accompanying notes are an integral part of these consolidated financial statements.

VVC Exploration Corporation

Consolidated Statements of Loss, Comprehensive Loss and Deficit

for the years ended January 31,

	2011	2010
Expenses		
Management and consulting fees (Note 7)	**$ 239,123**	$ 186,000
Investor relations	**234,487**	235,350
Professional fees	**169,876**	114,155
Stock-based compensation (Note 8(c))	**120,121**	196,915
Office and sundry	**67,230**	72,390
Rent	**42,630**	38,795
Travel and promotion	**31,304**	84,140
Investment counselling fees	**28,500**	111,000
Listing and transfer fees	**18,556**	32,519
Telephone	**14,869**	15,796
Amortization	**5,428**	7,959
Bank charges	**877**	1,332
Fair value of extended warrants	**-**	84,960
Expense recovery	**-**	(64,499)
	973,001	1,116,812
Other income:		
Gain on sale of investments	**218,114**	187,260
Write-down of exploration costs (Note 6)	**(2,169,348)**	(12,418)
Write down of investments (Note 17)	**(675,000)**	-
Foreign exchange (loss) gain	**(5,432)**	1,541
Loss on sale of long-term investment	**-**	(1,775,824)
Net loss for the year	**$ (3,604,667)**	$ (2,716,253)
Basic and diluted loss per share (Note 11)	**$ (0.07)**	$ (0.06)

Consolidated Statements of Comprehensive Loss

Net loss for the year	**$ (3,604,667)**	$ (2,716,253)
Reclassification adjustment for investment sold in the year	**(35,601)**	(18,500)
Unrealized gain on short-term investments	**112,700**	5,947
Comprehensive loss for the year	**$ (3,527,568)**	$ (2,728,806)

Consolidated Statements of Deficit

Deficit, beginning of year	**$(22,458,153)**	$(19,741,900)
Net loss for the year	**(3,604,667)**	(2,716,253)
Deficit, end of year	**$(26,062,820)**	$(22,458,153)

The accompanying notes are an integral part of these consolidated financial statements.

VVC Exploration Corporation

Consolidated Statements of Accumulated Other Comprehensive Income

for the years ended January 31,

		2011		2010
Opening balance	**$**	**67,251**	$	79,804
Reclassification adjustment for investment sold in the year		**(35,601)**		(18,500)
Unrealized gain on short-term investments		**112,700**		5,947
Accumulated other comprehensive income	**$**	**144,350**	$	67,251

The accompanying notes are an integral part of these consolidated financial statements.

VVC Exploration Corporation

Consolidated Statements of Cash Flows

for the years ended January 31,

	2011	2010
Cash flow from operating activities		
Loss for the period	**$ (3,604,667)**	$ (2,716,253)
Items not affecting cash:		
Amortization	**5,428**	7,959
Loss on sale of long-term investment	**-**	1,775,824
Stock-based compensation	**120,121**	196,915
Gain on sale of short-term investments	**(218,114)**	(187,260)
Fair value of extended warrants	**-**	84,960
Write-down of exploration costs	**2,169,348**	12,418
	(1,527,884)	(825,437)
Other uses of cash from operations:		
Accounts receivable	**40,394**	(168,743)
Accounts payable and accrued liabilities	**83,953**	17,246
	(1,403,537)	(976,934)
Cash flow from investing activities		
Purchase of short-term investments	**-**	(2,045,320)
Proceeds from the sale of short-term investments	**343,463**	2,248,241
Additions to mineral properties	**(778,422)**	(639,454)
Purchase of equipment	**-**	(15,330)
Deferred property acquisition costs	**-**	(105,572)
Proceeds from sale of long-term investment	**-**	1
Return of capital on long-term investment	**-**	445,790
	(434,959)	(111,644)
Cash flow from financing activities		
Common shares issued for cash	**-**	1,000,125
Share issue costs paid in cash	**-**	(100,000)
	-	900,125
Decrease in cash and cash equivalents	**(1,838,496)**	(188,453)
Cash and cash equivalents, beginning of year	**1,845,308**	2,033,761
Cash and cash equivalents, end of year	**$ 6,812**	$ 1,845,308
Cash and cash equivalents consist of:		
Cash	**$ 6,812**	$ 1,045,308
Highly liquid investments	**-**	800,000
	$ 6,812	$ 1,845,308

Supplemental cash flow information (Note 12)

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

VVC Exploration Corporation (the "Company") was incorporated on April 11, 1983 under the Company Act (British Columbia) and in August 2003, was continued federally under the Canada Business Corporations Act. The Company's principal business activities include the exploration and development of precious metals mineral properties in Canada and Mexico.

For the Company's exploration stage mineral properties, the Company is in the process of exploration and has not yet determined whether they contain economically recoverable reserves. The recoverability of amounts shown for exploration stage mineral properties (note 6) is dependent upon the discovery of economically recoverable ore reserves in its mineral properties, the ability of the Company to obtain the necessary financing to complete development, maintenance of the Company's interest in the underlying mineral claims and leases and upon future profitable production from or the proceeds from the disposition of its mineral properties.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes the realization of assets and settlement of liabilities in the normal course of business. The ability of the Company to continue as a going concern is dependent upon it obtaining the necessary financing through the issue of common shares and the exercise of warrants and stock options. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they come due (See note 18). Failure to continue as a going concern could require restatement of assets and liabilities on a liquidation basis, which would differ materially from the going concern basis.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation
These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly-owned subsidiary, VVC Mexico S.A., incorporated under the laws of Mexico during fiscal 2010. All intercompany transactions and balances have been eliminated upon consolidation.

Financial instruments
The Company's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, and accounts payable and accrued liabilities. Cash and cash equivalents are classified as held for trading and are measured at fair value. Changes in fair value are recognized in the statement of operations in the period in which the arise. Accounts receivable are classified as loans and receivables and accounts payable and accrued liabilities are classified as other financial liabilities, both of which are measured at amortized cost.

The Company's short-term investments consist of investments in publicly listed entities. The short-term investments are classified as available-for-sale and are measured at fair value. The fair value of the short-term investments is based on quoted bid prices. Unrealized gains and losses are recognized in the consolidated statement of comprehensive loss until the investments are derecognized or impaired, at which time the amounts would be recorded in the consolidated statement of operations.

Cash and cash equivalents
Cash and cash equivalents includes short-term and money market investments that are readily convertible to known amounts of cash and have an original maturity of less than or equal to 90 days.

Short-term investments
The Company classifies its short-term investments in public companies as available-for-sale which are reported at the fair market value based on bid prices. Unealized gains or losses are excluded from earnings and reported as other comprehensive income or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment

Equipment is recorded at cost. Amortization is provided over the expected useful life of the equipment as follows:

Computer equipment	30% declining balance.
Automobile	Straight line of three years

Mineral properties

Mineral property acquisition costs and related direct exploration and development expenditures, net of recoveries, are deferred until the properties are placed into production. These net costs will be amortized against income using the unit of production method based on estimated recoverable reserves if the properties are brought into commercial production, or written off if the properties are abandoned or the carrying value is determined to be in excess of possible recoverable amounts. The cost of mineral properties includes any cash consideration paid, and the fair market value of shares issued, if any, on the acquisition of property interests. The recorded amounts of property acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

The recoverability of amounts shown for mineral properties and deferred expenditures is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future profitable production or proceeds from the disposition thereof.

Mineral properties are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When events or changes in circumstances suggest possible impairment, estimated future net cash flows for a mine or development project are calculated using estimated future prices, mineral resources and operating and capital costs on an undiscounted basis. When estimated future undiscounted cash flows are less than the carrying value, the asset is considered impaired. Reductions in carrying value are recorded to the extent the book value exceeds the fair value of the assets.

Impairment of long-lived assets

Long-lived assets held for use are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. When the carrying value is not recoverable from future cash flows on an undiscounted basis and the carrying value exceeds the assets' fair value, an impairment loss is recorded for the excess of carrying value over fair value.

Stock-based compensation

The Company grants stock options in accordance with TSX Venture Exchange policies, as described in note 8(c). All stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable, with that expense being charged to the related activity over the vesting period. Fair value of the equity instruments issued is calculated using the Black-Scholes model for pricing options. The cost of stock-based payments that are fully vested and non-forfeitable at the grant date is measured and recognized at that date. On the exercise of stock options, consideration received and the accumulated contributed surplus amounts are credited to share capital.

Loss per share

The loss per share is calculated using the weighted-average number of shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method whereby all options, warrants and equivalents are assumed to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period.

Income taxes

The Company accounts for income taxes using the asset and liability method of accounting. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefits of income tax assets, including unused tax losses, are recognized subject to a valuation allowance, to the extent that it is more likely than not that such losses will be ultimately utilized. These future income tax assets and liabilities are measured using substantively enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be settled or realized.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign exchange
The Company's consolidated subsidiary located in a foreign country is considered an integrated operation. Accordingly, the temporal method is used for the translation of the foreign subsidiary. All monetary assets and liabilities are translated into Canadian dollars at the year-end rate of exchange and non-monetary assets and liabilities are translated into Canadian dollars at their respective historical exchange rates. Any gains or losses are reflected in income. Revenues and expenses are translated into Canadian dollars at the rate of exchange prevailing at the time of the transaction.

Measurement uncertainty
The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those reported.

Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to the estimated net realizable value of mineral properties, stock-based compensation and composition of future income tax assets and liabilities.

The Black-Scholes option valuation model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimates, and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants granted during the year. Future income taxes are based on estimates as to timing of the reversal of temporary differences and tax rates currently substantively enacted. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises, effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will adopt IFRS for its fiscal year beginning February 1, 2011. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company’s reported financial position and results of operations. Management is currently assessing the impact of adopting IFRS and it has not yet determined its effect on the Company’s consolidated financial statements.

The Company expects a smooth transition to IFRS for reporting in fiscal 2012.

4. SHORT-TERM INVESTMENTS

The following table presents a breakdown of the Company's short-term investments:

	2011	2010
Richmond Minerals Inc.	**$ -**	$ 20,625
GFK Resources Inc.	**-**	24,890
Sulliden Exploration Inc.	**158,900**	161,634
Balance	**$ 158,900**	$ 207,149

5. EQUIPMENT

2011		Cost		Accumulated Amortization		Net Book Value
Computer equipment	**$**	**41,913**	**$**	**35,952**	**$**	**5,961**
Automobile		**12,929**		**7,182**		**5,747**
	$	**54,842**	**$**	**43,134**	**$**	**11,708**

2010		Cost		Amortization		Value
Computer equipment	$	41,913	$	33,396	$	8,517
Automobile		12,929		4,310		8,619
	$	54,842	$	37,706	$	17,136

6. MINERAL PROPERTIES AND DEFERRED PROPERTY ACQUISITION COSTS

		Balance January 31, 2010		Additions/ (Recoveries)		Write-downs/ Disposals		Balance January 31, 2011
Mineral properties:								
Santa Valeria, Santa Cristina, Cumeral and La Tuna mineral properties (Mexico):								
Administration	$	92,991	$	38,847	$	(89,915)	**$**	**41,923**
Drilling and exploration		313,439		120,926		(365,099)		**69,266**
Consulting		91,519		13,477		(84,149)		**20,847**
Geologist		123,065		21,181		(122,737)		**21,509**
Camp and travel		122,199		8,266		(108,709)		**21,756**
Acquisition		374,252		762,971		(792,695)		**344,528**
Supervision		22,784		58,238		(80,522)		**500**
Assaying and analysis		23,850		14,108		(24,980)		**12,978**
General expenses		21,585		7,960		(27,113)		**2,432**
Claims		-		15,757		(14,702)		**1,055**
		1,185,684		1,061,731		(1,710,621)		**536,794**
Ontario and Quebec area properties (Canada):								
Acquisition costs		144,000		221,001		(364,999)		**2**
Claims and staking		11,699		-		(11,699)		**-**
Camp travel and general		895		1,561		(2,456)		**-**
Geological and geochemical consulting		51,563		-		(51,563)		**-**
Consulting		6,910		21,100		(28,010)		**-**
		215,067		243,662		(458,727)		**2**
Total development stage properties	$	1,400,751	$	1,305,393	$	(2,169,348)	**$**	**536,796**

6. MINERAL PROPERTIES AND DEFERRED PROPERTY ACQUISITION COSTS (continued)

	Balance January 31, 2010	Additions	Transfers/ Write downs	Balance January 31, 2011
Deferred property acquisition costs				
(Mexico):				
Administration	$ 18,349	$ -	$ (18,349)	**$ -**
Consulting	3,000	-	(3,000)	**-**
Geologist	2,270	-	(2,270)	**-**
Camp and travel	8,266	-	(8,266)	**-**
Acquisition	36,682	-	(36,682)	**-**
Supervision	-	-	-	**-**
Assaying and analysis	486	-	(486)	**-**
General expenses	36,518	-	(36,518)	**-**
Advance	-	-	-	**-**
	$ 105,571	$ -	$ (105,571)	**$ -**

	Balance January 31, 2009	Additions/ (Recoveries)	Write-downs/ Disposals	Balance January 31, 2010
Mineral properties:				
Santa Valeria and Santa Cristina mineral properties (Mexico):				
Administration	$ -	$ 92,991	$ -	**$ 92,991**
Drilling	-	313,439	-	**313,439**
Consulting	-	91,519	-	**91,519**
Geologist	-	123,065	-	**123,065**
Camp and travel	-	122,199	-	**122,199**
Acquisition	-	374,252	-	**374,252**
Supervision	-	22,784	-	**22,784**
Assaying and analysis	-	23,850	-	**23,850**
General expenses	-	21,585	-	**21,585**
	-	1,185,684	-	**1,185,684**
Ontario and Quebec area properties (Canada):				
Acquisition costs	144,000	-	-	**144,000**
Claims and staking	11,699	-	-	**11,699**
Camp travel and general	895	-	-	**895**
Geological and geochemical consulting	51,563	-	-	**51,563**
Consulting	6,910	-	-	**6,910**
	215,067	-	-	**215,067**
Total development stage properties	$ 215,067	$ 1,185,684	$ -	**$ 1,400,751**

6. MINERAL PROPERTIES AND DEFERRED PROPERTY ACQUISITION COSTS (continued)

	Balance January 31, 2009	Additions	Transfers/ Write downs	Balance January 31, 2010
Deferred property acquisition costs *(Mexico):*				
Administration	$ 15,431	$ 18,349	$ (15,431)	**$ 18,349**
Consulting	66,200	3,000	(66,200)	**3,000**
Geologist	50,233	2,270	(50,233)	**2,270**
Camp and travel	8,370	8,266	(8,370)	**8,266**
Acquisition	71,512	36,682	(71,512)	**36,682**
Supervision	500	-	(500)	**-**
Assaying and analysis	838	486	(838)	**486**
General expenses	-	36,518	-	**36,518**
Advance	117,366	-	(117,366)	**-**
	$ 330,450	$ 105,571	$ (330,450)	**$ 105,571**

Mexico

Santa Valeria Silver Mining Property, Mexico

On March 11, 2009, the Company signed an Option Agreement to acquire a 100% interest in the Santa Valeria Silver Mining Property (the "SV Property") located in Mexico. The Company had the exclusive rights to explore and develop the SV Property over the next five years in consideration for the issuance of 550,000 common shares of the Company (issued) and total cash payments of 6,037,000 Mexican pesos (equivalent to CDN $495,034 at January 31, 2010), payable to the optionor.

The Company allowed the option agreement to expire in fiscal 2011, as a result all associated costs were written down to nil.

Santa Cristina Gold Property, Mexico

On June 4, 2009, the Company optioned the 498.5 hectare Santa Cristina property (the " SC Property"), located in the foothills of the Sierra Madre gold trend, approximately 60 km to the south of Hidalgo del Parral, Chihuahua State, in northern Durango State, Mexico. Pursuant to the Option Agreement, the Company can acquire a 100% interest in the SC Property from Invesmin San Miguel S de RL de CV ("Invesmin") and had the exclusive rights to explore and develop the SC Property over the next five years in consideration for: (i) 1,150,000 shares of the Company (issued) and (ii) total option payments of 10,000,000 Mexican Pesos (currently equivalent to CA$820,000) payable to the optionor.

The Company allowed the option agreement to expire in fiscal 2011, as a result all associated costs were written down to nil.

6. MINERAL PROPERTIES AND DEFERRED PROPERTY ACQUISITION COSTS (continued)

Cumeral, Mexico

In March 2010, the Company finalized an agreement which provides an option to acquire a 100% interest in the 665 hectare gold mining project known as Cumeral (the " Cumeral Property"), consisting of three mining concessions in the State of Senora, Mexico. The 100% interest in the Cumeral Property can be acquired for cash consideration of US$800,000 plus applicable taxes ("VAT"), payable over a period of three years and the issuance of 200,000 common shares of the Company. The Cumeral Property is subject to the reservation of a 2% Net Smelter Return ("NSR"). A finders fee of US$5,000 and 130,000 common shares of the Company was paid to third parties who were instrumental in arranging the transaction. Payments to the optionor will be as follows:

$120,000 USD on April 15, 2010 (paid)
$100,000 USD on October 15, 2010 (paid in December 2010)
$100,000 USD on April 15, 2011 (paid)
$125,000 USD on October 15, 2011
$150,000 USD on April 15, 2012
$175,000 USD on October 15, 2012

La Tuna, Mexico

In March 2010, the Company completed the acquisition of a 3,533 hectare gold mining project known as La Tuna, located in the municipality of Alamos in the State of Sinaloa, Mexico. The Company acquired a 100% interest in La Tuna for cash consideration of US$40,000 plus VAT and 300,000 common shares of the Company. La Tuna is subject to the reservation of a 2% NSR with a buy-back option.

Timmins area properties (Ontario)

In fiscal 2007, the Company staked a nine-claim unit in Timmins Township, located about 80km east southeast of Timmins, in the Abitibi Greenstone Belt of Northern Ontario. The Company carried out a geophysical survey which identified some excellent drilling targets. During 2008, the Company changed its focus to concentrate on Mexico, and no additional work was carried out on these claims. The Company intends to either sell or option these claims to another party.

Due to the lack of continuous work on these nine units, they were written off during the year.

Beauce-Bellechase Gold Property, Quebec

On March 9, 2010, the Company signed a Letter of Intent (“LOI”) to acquire a 100% interest in the Beauce-Bellechasse Gold Property (the "BB Property") consisting of 250 mining claims covering over 13,500 hectares. The BB property is located 70 km southeast of Quebec City. Under the terms of the LOI, the Company can earn a 100% interest in the BB Property by paying $45,000 (paid) and issuing 800,000 (issued) common shares to the vendor on the signing of the definitive option agreement and incurring at least $500,000 of exploration and development expenses within three years.

Due to the lack of developments in the area and the Company's emphasis in Mexico, the Company intends to sell or option its interest in the BB Property. The Company did not carry out exploration on the BB Property, as a result, the BB property was written off during the year.

7. RELATED PARTY TRANSACTIONS AND BALANCES

During fiscal 2011, the Company paid or accrued management, consulting and other fees of $287,134 (2010 - $248,000) to its officers, directors, persons related to an officer and companies controlled by them. As at January 31, 2011, $73,570 (2010 - $6,000) owing to related parties was included in accounts payable and accrued liabilities.

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

8. SHARE CAPITAL

(a) Authorized
Unlimited common shares without par value

(b) Issued:

	Number of shares	Amount
Balance, January 31, 2009	44,284,890	$ 20,545,108
Shares issued for mineral property	800,000	164,000
Shares issued on private placement	2,857,500	1,000,125
Valuation of share purchase warrants	-	(371,475)
Share issue costs	-	(100,000)
Balance, January 31, 2010	47,942,390	21,237,758
Shares issued for mineral property	2,330,000	421,400
Balance, January 31, 2011	50,272,390	$ 21,659,158

On October 9, 2009, an investor subscribed for a private placement financing of 2,857,500 units at a price of $0.35 per unit for gross proceeds of $1,000,125. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase common shares of the Company at a price of $0.42 per share. The common share purchase warrants expire on October 9, 2011. The fair value of the 2,857,500 warrants were valued using the Black-Scholes option pricing model with the following assumptions; dividend yield - 0%, volatility - 76.63%, risk-free interest rate - 1.7%, and expected life - 2 years. The fair value of the warrants was estimated at $371,475. The Company paid $100,000 in share issue costs related to this financing.

(c) Stock Options

The Company grants options pursuant to the policies of the TSX Venture Exchange with respect to eligible persons, exercise price, maximum options per person and termination of eligible person status. Options granted have a 5 year life and vest as to 25% upon grant and 25% each six months thereafter.

A summary of the status of the Company's option plan as of January 31, 2011 and January 31, 2010 and changes during the years ending on those dates is presented as follows:

	Number of Stock Options		Weighted average Exercise Price	
	2011	2010	**2011**	2010
			$	
Opening Balance	**4,461,000**	4,161,000	**0.32**	0.36
Options granted	**200,000**	1,946,000	**0.28**	0.30
Options expired/cancelled	**(154,000)**	(1,646,000)	**0.50**	0.40
Ending Balance	**4,507,000**	4,461,000	**0.31**	0.32

8. SHARE CAPITAL (continued)

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at January 31, 2011 are as follows:

Options Outstanding				Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Weighted Average Exercise Price
$ 0.28	575,000	$ 0.28	3.53	425,000	$ 0.28
$ 0.29	1,511,000	$ 0.29	2.02	1,511,000	$ 0.29
$ 0.30	1,861,000	$ 0.30	2.24	1,689,500	$ 0.30
$ 0.36	310,000	$ 0.36	3.45	310,000	$ 0.36
$ 0.50	250,000	$ 0.50	0.29	250,000	$ 0.50
	4,507,000	$ 0.31	2.30	4,185,500	$ 0.31

During the year, the Company granted 200,000 (2010 - 1,946,000) options, pursuant to the Company's stock option plan to directors, officers, employees and consultants. These options are exercisable at a weighted average price of $0.28 (2010 - $0.30) per share and vest as to 25% upon grant and 25% every six months thereafter.

The fair value of the 200,000 stock options granted in the year was estimated at $33,932 (2010 - $330,820), using the Black Scholes model for pricing stock options. The $33,932 (2010 - $330,820) is being expensed over the vesting period of the respective options. Stock option compensation expense of $120,121 (2010 - $196,915) during the year includes $19,356 (2010 - $19,158) relating to options granted during the year.

The following weighted average assumptions were used for the options granted:

	2011	2010
Risk free interest rate	2.09 %	1.95 - 2.21%
Dividend yield	NIL	NIL
Expected stock volatility	72.81 %	76.3 % - 84.84%
Expected life	5 years	5 years

8. SHARE CAPITAL (continued)

(d) Warrants

The following tables reflect the continuity of warrants:

2011

Expiry Date	Exercise Price	Balance January 31, 2010	Warrants Issued	Warrants Exercised	Expired/ Cancelled	Balance January 31, 2011
February 27, 2012	$0.50	1,440,000	-	-	-	1,440,000
October 9, 2011	$0.42	2,857,500	-	-	-	2,857,500
		4,297,500	-	-	-	4,297,500

2010

Expiry Date	Exercise Price	Balance January 31, 2009	Warrants Issued/ Re-issued	Warrants Exercised	Expired/ Cancelled	Balance January 31, 2010
February 26, 2009	$0.50	1,440,000	-	-	(1,440,000)	-
February 27, 2012	$0.50	-	1,440,000	-	-	1,440,000
October 9, 2011	$0.42	-	2,857,500	-	-	2,857,500
		1,440,000	4,297,500	-	(1,440,000)	4,297,500

On February 27, 2009, 1,440,000 warrants initially issued on February 26, 2008, expiring February 26, 2009 were extended to February 27, 2012. The extended warrants were revalued using the Black-Scholes option pricing model with the following assumptions; dividend yield - 0%, volatility - 75%, risk-free interest rate - 1.64%, and expected life - 3 years. The estimated fair value of $84,960 was charged to operations in the prior year.

9. CONTRIBUTED SURPLUS

The following table reflects the continuity of contributed surplus:

	2011	2010
Balance, beginning of year	**$ 4,824,504**	$ 4,171,154
Fair value of warrants issued/extended	**-**	456,435
Fair value of stock options granted	**120,121**	210,455
Fair value of stock options cancelled/forfeited	**-**	(13,540)
Balance, end of year	**$ 4,944,625**	$ 4,824,504

10. INCOME TAXES

a) Provision for income taxes, current and future

The following table reconciles the expected income tax recovery at the Canadian Federal and Provincial statutory rate of 30% (2010 - 31%) to the amount recognized in the statement of operations:

	2011	2010
Loss before provision for income taxes	**$ (3,604,667)**	$ (2,716,253)
Income tax recoverable based on statutory rates:	**(1,081,400)**	(842,038)
Increase (decrease) resulting from:		
Permanent differences	**379,706**	248,606
Tax rate changes and other adjustments	**322,476**	707,252
Expiry of non-capital losses	**147,373**	87,964
Share issue costs	**-**	(31,000)
Increase in valuation allowance	**231,845**	(170,784)
Income tax recovery	**$ -**	$ -

b) Future income tax assets

The tax effects of temporary differences that give rise to significant components of future income tax assets are as follows:

	2011	2010
Future income tax assets:		
Non-capital losses	**$ 1,589,248**	$ 1,346,662
Mineral properties and exploration costs	**277,737**	198,616
Capital assets	**10,384**	9,027
Net capital losses	**131,368**	221,978
Other	**7,025**	7,633
Future income tax assets before valuation allowance	**2,015,762**	1,783,916
Valuation allowance	**(2,015,762)**	(1,783,916)
Net future income tax asset	**$ -**	$ -

c) Tax loss carry-forwards

At January 31, 2011, the Company had non-capital losses carried forward of approximately $6,357,000 which have not been recognized in these consolidated financial statements. The right to use these losses expires as follows:

2015	**$ 718,400**
2026	**859,300**
2027	**898,200**
2028	**670,600**
2029	**863,500**
2030	**979,000**
2031	**1,368,000**
	$ 6,357,000

11. LOSS PER SHARE

The following table sets forth the computation of basic and diluted loss per share:

	2011	2010
Numerator:		
Loss for the year	**$ (3,604,667)**	$ (2,716,253)
Denominator:		
Weighted average number of common shares outstanding, basic and diluted	**49,120,526**	45,511,616
Loss per share - basic and diluted	**$ (0.07)**	$ (0.06)

As a result of losses incurred in the years ended January 31, 2011 and 2010, the potential effect of the exercise of stock options and warrants was anti dilutive.

12. SUPPLEMENTAL CASH FLOW INFORMATION

	2011	2010
Non-cash transactions:		
Shares issued for property purchase	**$ 421,400**	$ 168,000

13. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being mineral exploration. As at January 31, 2011, the Company's mineral resource properties are located in Mexico and Canada and its corporate assets are located in Canada. the Company is in the exploration stage and, accordingly, has no reportable segment revenues during the years ended January 31, 2011 and 2010.

A summary of total assets by geographic region is as follows:

January 31, 2011	**Canada**	**Mexico**	**Total**
Current assets	**$ 203,566**	**149,959**	**$ 353,525**
Mineral properties	**115,412**	**421,384**	**536,796**
Equipment	**11,708**	**-**	**11,708**
	$ 330,686	**$ 571,343**	**$ 902,029**

January 31, 2010	Canada	Mexico	Total
Current assets	$ 2,170,340	110,324	$ 2,280,664
Mineral properties	936,492	464,259	1,400,751
Deferred property acquisition costs	41,418	64,153	105,571
Equipment	17,136	-	17,136
	$ 3,165,386	$ 638,736	$ 3,804,122

14. COMMITMENTS

The Company entered into an operating lease agreement for rental of office space for the period to September 30, 2011 that requires annual payments of $16,114.

15. CAPITAL MANAGEMENT

In the management of capital, the Company includes shareholders equity (excluding accumulated other comprehensive income). The Company's objective in managing capital is to ensure that financial flexibility is present to increase shareholder value and respond to changes in economic and/or market conditions; to retain a strong capital base so as to maintain investor, creditor and market confidence and to safeguard the Company’s ability to obtain financing should the need arise.

Currently, the Company has no outstanding debt or covenants, and therefore has no externally or internally imposed capital requirements. In maintaining its capital, the Company has a strict investment policy which includes investing its surplus capital only in highly liquid and highly rated financial instruments. The Company's investments are all short-term in nature.

The Company reviews its capital management approach on an ongoing basis. There were no changes in the Company’s approach to capital management during the year.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

Credit Risk
Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents. The Company invests its excess cash on a daily basis in highly liquid and highly rated financial instruments. A change in the credit worthiness of the companies invested in could have an impact on the value of the Company's daily investments. Management believes this risk of loss is remote.

Liquidity Risk
The Company has no income and relies on equity financing to support its exploration programs. Management prepares budgets and ensures funds are available prior to commencement of any such program. As at January 31, 2011, the Company does not have sufficient capital to fund its operations over the next twelve months. A Public financing has been arranged and was successfully completed subsequent to the year end (note 18). As at January 31, 2011, the Company had a cash and cash equivalents balance of $6,812 (2010 - $1,845,308) to settle current liabilities of $216,715 (2010 - $132,762).

Market Risk
Market risk is the risk of loss that may arise from changes in market factors such as interest rates and commodity and equity prices.

a) Interest rate risk
Excess cash and cash equivalents are invested on a daily basis in highly liquid and highly rated financial instruments. Due to the nature of these investments, fluctuations in interest rates may affect the carrying value of these investments. However, due to the nature of the Company's investments, such changes in interest rate would have limited impact on the Company over the short term.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Price risk
The Company is exposed to price risk with respect to commodity and equity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. Commodity price risk is remote since the Company is not a producing entity.

Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

Sensitivity Analysis
The Company's short-term investments consist mainly of equity investments in various publicly listed entities. 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:

(i) A +/- 10% movement in the closing market value of the Company's short-term investments, with all other variables held constant, would affect comprehensive income by $15,900.

(ii) The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts receivable and accounts payable and accrued liabilities that are denominated in Mexican Pesos. Sensitivity of closing balances to a plus or minus 10% change in foreign exchange rates, with all other variables held constant, would affect net loss by approximately $13,500.

17. WRITE DOWN OF INVESTMENTS

In 2007, the Company invested $1,800,000 with Bull Market Trading ("BMT"), a company carrying on business as an investment firm in the Province of Quebec. The Company received investment returns in excess of $585,000 over a four year period. The Company withdrew $1,125,000 of its principal along with the $585,000 of investment returns for working capital purposes. Total withdrawal from the investment account amounted to $1,710,000. During the year, the Company was advised that BMT no longer qualified to operate as an investment firm and as a result $675,000 of principal was at risk. The Company sought actions to mitigate the possible loss and was provided a debenture in the amount of $675,000 plus interest. Collectability of the debenture is uncertain. The Company therefore wrote down the $675,000 principal balance to nil.

18. SUBSEQUENT EVENTS

On April 11, 2011, the company closed a brokered private placement of 11,000,000 units at a price of $0.07 per unit amounting for gross proceeds of $770,000. Each unit comprises one common share and one share-purchase warrant to purchase an additional share at $0.12 until April 11th, 2012. Palos Merchant Bank L.P. ("Palos"), through its sole general partner, Palos Management Inc., of Montreal, Quebec, acted as agent and received a fee of $47,950 plus applicable taxes, of which $9,450 was paid in cash and the balance settled by the issuance of an additional 550,000 common shares of the Company.

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