fjordland EXPLORATION INC.

ANNUAL REPORT 2010

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fjordland EXPLORATION INC.

To Fellow Shareholders:

The past year has seen further strong growth of the base and precious metals industries globally, particularly gold and copper, the primary commodities of importance to Fjordland. The long-term fundamentals for these metals remain strong due largely to continued high economic growth in China and India. Fjordland has made considerable progress during the year by significantly advancing its flagship Woodjam Joint Venture projects, and developing additional joint ventures to advance its large portfolio of gold-copper properties. We are truly well positioned for discovery and growth!

Our focus continues on the discovery of copper-gold-molybdenum porphyry-type deposits in British Columbia. Our portfolio currently includes over 20 properties located in some of the most geological prospective areas of central British Columbia, with the additional benefit of easy access and mining-friendly environments. In addition, we reacted quickly to the reported new Iron Range discovery in southeast BC; Fjordland is now the largest mineral tenure holder in the region with 15 properties.

Highlights of the 2010 season include the significant advancements made on the Woodjam North and Woodjam South properties by Gold Fields, under separate Joint Venture Agreements. Gold Fields can earn up to a 70% interest in both projects by spending approximately $35 million on exploration through to 2016 including a comprehensive feasibility study on the Woodjam South property. Between February and December, 2010, Gold Fields spent approximately $4 million on exploration, including 75 drill holes totalling just under 22,000 metres – this was the 3rd largest drilling program in the province. In 2011, Gold Fields, approved a $6 million exploration program directed mainly at drilling to delineate a National Instrument 43-101 compliant resource at Woodjam South and to test new targets, primarily at Woodjam North which continues to yield gold-copper poryphry style discoveries. Drilling started in February, and when completed later this year, Gold Fields will vest an initial 51% interest on the Woodjam North and Woodjam South properties.

On September 21, 2010, we signed a letter agreement with Capstone Mining Corporation, granting Capstone an option to acquire up to a 70% interest in a large property portfolio (“Tak-Milligan”), prospective for copper-gold, porphyry-type deposits in central BC, located north and south of our Woodjam projects. During October and November, 2010, preliminary soil sampling and reconnaissance induced polarization surveys were completed on selected properties. Of note, two new mineralized occurrences were discovered by prospecting, and follow-up work is planned. A budget for the next phase of work has been approved by Capstone; when completed by June 30, 2011, it will earn an initial 49% in the project. Further work, based on results, is anticipated.

During 2010, we elected not to participate in funding our proportionate share of the QUEST Joint Venture, in order to preserve capital and minimize share dilution. Four of the twelve properties currently in the JV have defined drill targets. Joint venture partner, Serengeti Resources Inc., completed soil surveying on selected properties; as a result, our interest in the JV decreased to approximately 38%; we maintain the right to participate in any future work in the QUEST project. Discussions with third parties are in progress regarding a possible agreement on some or all the properties.

In early December, 2010, we acquired interests in 15 properties totalling over 81,000 hectares in the area of the emerging Iron Range gold and lead-zinc discovery in southeastern BC. A 100% interest in 8 properties were acquired through staking; the claims cover existing mineral occurrences, geologically favourable Aldridge Formation sedimentary rocks and numerous potentially very significant north and northeasterly trending faults. In addition, we completed an Option Agreement with Kootenay Gold Inc., to acquire a 60% interest in seven individual claim groups, located adjacent to the Eagle Plains/Providence Resources Range Project, and within the 90 kilometre long, northeasterly-trending Kimberley Gold Trend. The Company is planning on an active exploration season in the southeast.

Our continued successes at Woodjam are leading to more of a development focus, including a NI 43-101 compliant resource calculation for the Southeast Zone by late 2011. This also opens up more opportunities for us, especially in terms of property submissions from prospectors and junior companies who recognize our management skills in discovering and advancing projects.

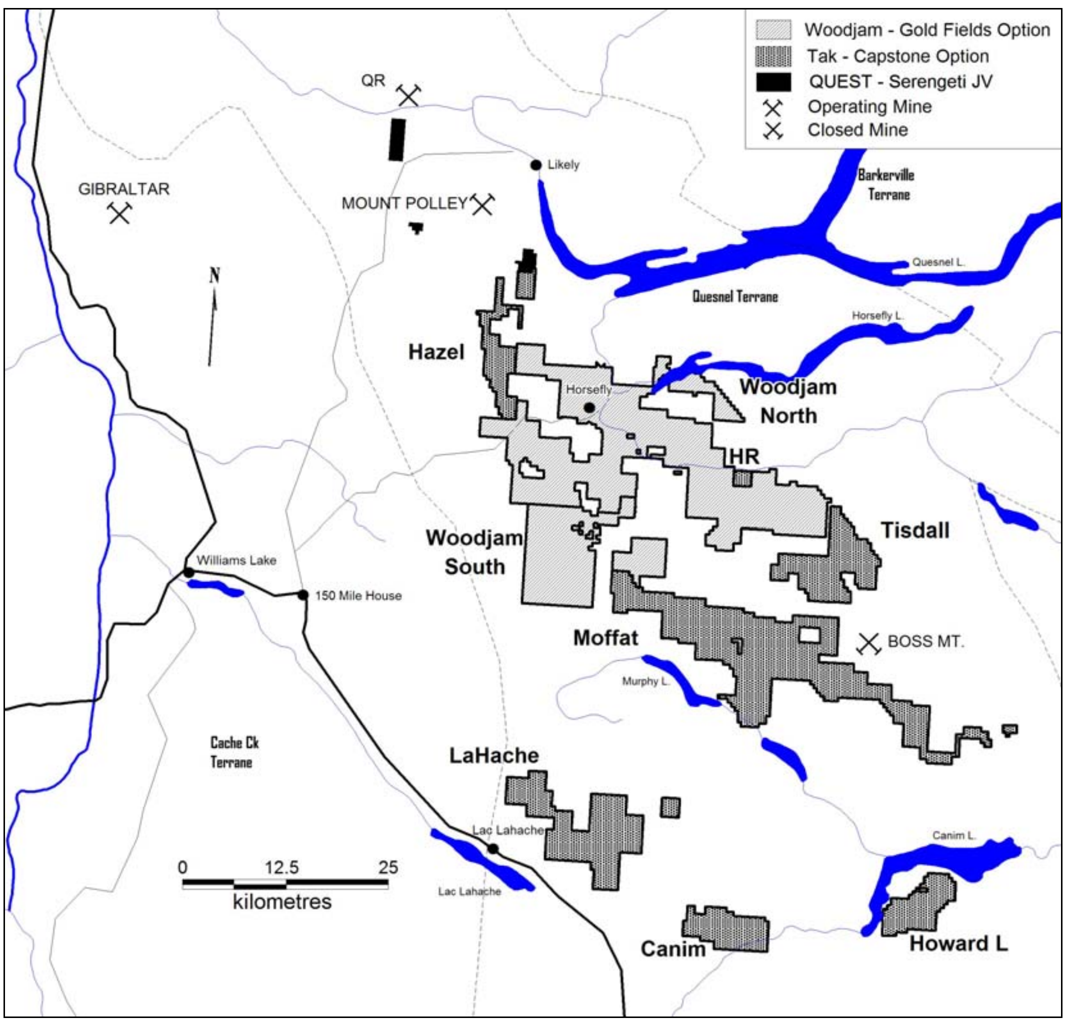
As part of our strategy, we continue to look at all our assets for ways to leverage and extract value, either on our own or as part of a joint venture as exemplified by the agreements with Gold Fields and Capstone. The upcoming year will be exciting as we move forward on exploration on multiple projects: Woodjam North, Woodjam South, and the Tak-Milligan porphyry properties. As well, the Company will be conducting work in southeastern BC, an area with a rich gold and base metals mining history.

With high industry growth and the expertise of our excellent joint venture partners, we should look forward to further exploration successes in 2011. On behalf of the Board of Directors and the management team of Fjordland, I sincerely thank you, the shareholders, for your strong support and confidence during the past year.

Respectfully,

"*Tom G. Schroeter*"

Tom G. Schroeter
President, CEO & Director
April 27, 2011



INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Fjordland Exploration Inc.

We have audited the accompanying consolidated financial statements of Fjordland Exploration Inc. which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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 financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Fjordland Exploration Inc. has an accumulated deficit of $13,716,231 for the year ended December 31, 2010. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about Fjordland Exploration Inc.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

April 27, 2011

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, BC, Canada, V7Y 1G6
Telephone (604) 687-0947 Fax (604) 687-6172

FJORDLAND EXPLORATION INC.
Consolidated Balance Sheets
December 31
Canadian Funds

	2010	2009
Assets		
Current		
Cash	$ 126,479	$ 297,052
Receivables	48,324	11,279
Prepaids	5,180	11,316
	179,983	319,647
Mineral Properties *(Note 4)*	4,987,714	4,947,961
Deposits	41,549	23,000
Equipment *(Note 5)*	6,604	4,360
	$ 5,215,850	$ 5,294,968
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 48,379	$ 43,367
Shareholders' Equity		
Share Capital *(Note 6)*	17,054,045	16,787,986
Option Compensation	1,189,985	1,159,980
Contributed Surplus	639,672	516,210
Deficit	(13,716,231)	(13,212,575)
	5,167,471	5,251,601
	$ 5,215,850	$ 5,294,968

Continued Operations *(Note 1)*
Commitments *(Note 12)*

On behalf of the Board: *"Thomas G. Schroeter"* Thomas G. Schroeter *"G. Ross McDonald"* G. Ross McDonald

See accompanying notes to the consolidated financial statements

FJORDLAND EXPLORATION INC.
Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended December 31
Canadian Funds

		2010		2009
General and administrative expenses				
Accounting and audit	$	63,800	$	72,528
Administration fees		37,737		36,357
Amortization		2,179		3,010
Consulting fees		19,525		3,600
Filing fees		18,727		13,064
Legal fees		9,416		2,971
Office and printing		32,049		27,791
Rent		38,780		35,128
Shareholders' information		83,219		65,507
Stock-based compensation *(Note 6 (d))*		154,320		342,722
Transfer agent fees		3,682		4,382
Wages and benefits		35,912		36,560
Loss Before Other Items		(499,346)		(643,620)
Other Items				
Interest income		1,080		2,535
Contract settlement *(Note 4(g),6(e))*		-		(148,000)
Property investigation		(41,335)		(13,620)
Mineral properties written-off *(Note 4)*		-		(803)
Loss Before Income Taxes		(539,601)		(803,508)
Future income tax recovery *(Note 11)*		35,945		189,000
Loss and Comprehensive Loss for the Year	$	(503,656)	$	(614,508)
Basic and Diluted Loss Per Share	$	(0.01)	$	(0.01)
Weighted Average Shares Outstanding		67,929,763		64,811,489

See accompanying notes to the consolidated financial statements

FJORDLAND EXPLORATION INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31
Canadian Funds

		2010		2009
Cash provided by (Used in):				
Operating Activities				
Loss for the year	$	(503,656)	$	(614,508)
Less: non cash items				
Amortization		2,179		3,010
Stock-based compensation		154,320		342,722
Contract settlement		-		148,000
Mineral properties written-off		-		803
Future income tax recovery *(Note 11)*		(35,945)		(189,000)
Net Change in non-cash working capital				
Receivables		(39,289)		34,256
Prepaid expenses		6,136		1,349
Accounts payable		1,102		7,431
		(415,153)		(265,937)
Financing Activities				
Shares issued for cash, net of issue costs		301,151		310,418
		301,151		310,418
Investing Activities				
Mineral property recoveries and option payments		253,528		382,011
Mineral property expenditures		(287,127)		(255,092)
Deposits		(18,549)		(3,500)
Purchase of equipment		(4,423)		-
		(56,571)		123,419
Change in Cash		(170,573)		167,900
Cash Position - Beginning of Year		297,052		129,152
Cash Position - End of Year	$	126,479	$	297,052

Supplemental Disclosure with Respect to Cash Flows *(Note 7)*

FJORDLAND EXPLORATION INC.
Consolidated Statements of Shareholders' Equity
For the Years Ended December 31
Canadian Funds

	Share Capital		Option	Contributed		Total Shareholder's
	No. of Shares	Amount	Compensation	Surplus	Deficit	Equity
	(Note 6)		*(Note 6(d))*			
Balance December 31, 2008	62,436,270	$ 16,585,168	$ 1,191,474	$ 73,994	$ (12,598,067)	$ 5,252,569
Shares issued for cash						
Private placements, net of issue costs	2,088,320	143,718	-	-	-	143,718
Exercise of warrants	1,667,000	166,700	-	-	-	166,700
Issued for other consideration						
Mineral properties	20,000	1,400	-	-	-	1,400
Tax cost recognized on issuance of flow-through shares	-	(189,000)	-	-	-	(189,000)
Transfer to contributed surplus on expiry of options	-	-	(374,216)	374,216	-	-
Settlement of contract dispute	1,000,000	80,000	-	68,000	-	148,000
Stock-based compensation	-	-	342,722	-	-	342,722
Loss for the year	-	-	-	-	(614,508)	(614,508)
	4,775,320	202,818	(31,494)	442,216	(614,508)	(968)
Balance, December 31, 2009	67,211,590	16,787,986	1,159,980	516,210	(13,212,575)	5,251,601
Shares issued for cash						
Private placement, net of issue costs	1,818,182	297,651	-	-	-	297,651
Exercise of options	10,000	1,000				1,000
Exercise of warrants	25,000	2,500	-	-	-	2,500
Issued for other consideration						
Tax cost recognized on issuance of flow-through shares	-	(35,945)	-	-	-	(35,945)
Transfer to share capital on exercise of options		853	(853)			-
Transfer to contributed surplus on expiry of options	-		(123,462)	123,462		-
Stock-based compensation	-	-	154,320	-	-	154,320
Loss for the year	-	-	-	-	(503,656)	(503,656)
	1,853,182	266,059	30,005	123,462	(503,656)	(84,130)
Balance December 31, 2010	**69,064,772**	**$ 17,054,045**	**$ 1,189,985**	**$ 639,672**	**$ (13,716,231)**	**$ 5,167,471**

See accompanying notes to the consolidated financial statements

1. CONTINUED OPERATIONS

The Company was incorporated on September 19, 1996 pursuant to the *Company Act* (British Columbia) and the common shares were listed for trading on the TSX Venture Exchange ("Exchange"). The Company is in the process of actively exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The Company is considered to be in the exploration stage and does not have operating cash flow.

These consolidated financial statements have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

As at December 31, 2010, the Company has an accumulated deficit of $13,716,231 (2009 - $13,212,575), has no source of revenue, and has significant cash requirements to meet its administrative overhead and maintain its mineral interests. The Company's ability to continue as a going concern is dependent on its ability to raise equity financing and attain profitable operations. Management is actively seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost cutting measures.

These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities and the reported revenues and expenses should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

(a) Basis of Presentation

These consolidated financial statements include the accounts of the Company and its wholly owned inactive subsidiary Nevada Prospectors Inc. ("NPI").

(b) Mineral Properties

Acquisition costs of mineral properties and direct exploration expenditures thereon are capitalized on an individual prospect basis. Costs relating to properties abandoned are written-off when such decision is made. When production is attained, these costs are reclassified as mining assets and are amortized using the unit of production method based upon estimated recoverable reserves.

If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to develop the properties and future profitable production from the properties or proceeds from disposition.

Ownership in mineral interests involves certain inherent risks due to the difficulties of determining the validity of certain mineral claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral interests. The Company has investigated title to its mineral interests and, to the best of its knowledge, ownership of its interests are in good standing.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Property Option Agreements

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received. The Company does not accrue the estimated costs of maintaining its mineral interests in good standing.

(d) Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is recognized using the following:

Office equipment - 30% declining balance
Furniture and fixtures - 20% declining balance
Leasehold improvements - straight line basis over term of lease

(e) Stock-Based Compensation

The Company accounts for stock-based payments to directors, employees and non-employees, including direct awards of stock, using the Black-Scholes option pricing model, a fair value based method, and are recorded as an expense over the period the stock-based payments are vested with a corresponding increase in shareholders' equity under option compensation. When stock options are exercised the corresponding fair value is transferred to share capital. When stock options are forfeited, cancelled or expired the corresponding fair value is transferred to contributed surplus.

(f) Earnings (Loss) per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

For the years presented, this calculation proved to be anti-dilutive and is not presented separately.

(g) Asset Retirement Obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

The Company does not have any significant asset retirement obligations.

(h) Share Capital

Share capital is comprised of proceeds from share issuances, net of issue costs. Shares issued for consideration other than cash are valued at the quoted market price on the date of issue.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Share Capital (continued)

Canadian tax legislation permits a company to issue flow-through common shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investor(s) rather than the company. The Company records a future income tax liability and a reduction in share capital for the estimated tax benefit transferred to the investor(s).

When flow-through expenditures are renounced, a portion of future income tax assets not recognized in previous years, due to the recording of valuation allowance, will be offset against related future income tax liabilities and recognized as a recovery of future income taxes in the Statement of Operations.

(i) Foreign Currency Translation

The accounts of the Company's foreign operations have been translated into Canadian dollars, using the temporal method, as follows:

(i) Monetary assets and liabilities at year-end rates;
(ii) All other assets and liabilities at historical rates; and
(iii) Revenue and expense and exploration and development items at rates approximating those in effect at the time of the transactions.

Exchange gains and losses arising from these transactions are reflected in income or expense in the year.

(j) Future Income Taxes

The Company uses the asset and liability method of accounting for income taxes whereby the change in the net future tax asset or liability is included in income. The income tax effects of temporary differences at the time when income and expenses are recognized in accordance with Company accounting practices, and the time they are recognized for income tax purposes, are reflected as future income tax assets or liabilities. Future income tax assets and liabilities are measured using statutory rates that are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

(k) Management's Estimates

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. Significant areas of estimate include the impairment of assets and rates for amortization, accrued liabilities, future income tax balances and valuation allowances, and the inputs used in calculating stock-based compensation. Actual results may differ from those estimates and may impact future results of operations and cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial instruments

The Company classifies all financial instruments as either held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities. Financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instruments classification. Held-for-trading instruments are measured at fair value with unrealized gains and losses recognized in results of operations. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost.

The Company has classified its cash as held-for-trading. Receivables are classified as loans and receivables. Deposits for reclamation are classified as held to maturity. Accounts payable and accrued liabilities are classified as other financial liabilities; all of which are measured at amortized cost.

The Company follows CICA Handbook Section 3862, *Financial instruments – disclosures,* which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages such risks.

The Company also follows CICA Handbook Section 3863, *Financial instruments – presentation,* which establishes standards for presentation of financial instruments and non-financial derivates. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

(m) Comprehensive Income

Comprehensive income is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale.

3. RECENT ACCOUNTING PRONOUNCEMENTS

(a) International Financial Reporting Standards ("IFRS")

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

3. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

(b) Business Combinations, Non-controlling Interest and Consolidated Financial Statements

In January 2009, the CICA issued Handbook Sections 1582 *Business Combinations*, 1601 *Consolidated Financial Statements* and 1602 *Non-controlling Interests* which replace CICA Handbook Sections 1581 *Business Combinations* and 1600 *Consolidated Financial Statements*. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combinations accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

The Company does not anticipate the adoption of the above standards will have a significant impact on the Company's consolidated financial statements.

4. MINERAL PROPERTIES

At December 31, 2010 and 2009, expenditures made on mineral properties by the Company are as follows:

	Woodjam South BC.	Woodjam North BC.	QUEST BC.	Tak-Milligan* BC.	Iron Range BC	Total
Balance, December 31, 2009	$1,311,805	$2,998,089	$598,825	$39,242	$ -	$4,947,961
Additions during year:						
Acquisition costs	-	-	4,222	20,612	23,737	48,571
Exploration costs:						
Operator fees	(185)	-	(191)	-	-	(376)
Property	2,295	2,954	225	9,159	2,700	17,333
Permitting	-	-	-	456	-	456
Administration	11,107	5,699	2,128	3,372	1,240	23,546
Geology	15,525	-	900	40,359	-	56,784
Geophysics	-	-	-	86,406	-	86,406
Geochemistry	-	-	-	35,558	-	35,558
Data verification	10,770	5,622	126	1,021	1,240	18,779
Drilling	3,554	2,670	-	-	-	6,224
	43,066	16,945	3,188	176,331	5,180	244,710
Additions during year	43,066	16,945	7,410	196,943	28,917	293,281
Joint Venture recoveries	(20,417)	-	(7,987)	-	-	(28,404)
Option payments	-	(72,000)	-	-	-	(72,000)
Cost recoveries	-	(855)	(230)	(152,039)	-	(153,124)
Write-off	-	-	-	-	-	-
Balance, December 31, 2010	$1,334,454	$2,942,179	$598,018	$84,146	$28,917	$4,987,714

	Woodjam South BC.	Woodjam North BC.	QUEST BC.	Tak* BC.	Other* BC	Total
Balance, December 31, 2008	$1,230,493	$3,128,650	$577,106	$ -	$ -	$4,936,249
Additions during year:						
Acquisition costs	747	2,420	10,052	18,406	1,748	33,373
Exploration costs:						
Operator fees	(137)	-	(1,334)	-	-	(1,471)
Property	34,613	1,510	15,900	440	-	52,463
Permitting	-	960	-	440	-	1,400
Administration	7,540	2,320	2,357	760	-	12,977
Geology	47,523	1,227	22,022	16,581	1,350	88,703
Geophysics	2,742	-	6,000	-	-	8,742
Geochemistry	-	-	11,506	-	-	11,506
Data verification	20,154	2,319	4,965	320	-	27,758
Drilling	16,151	-	507	-	-	16,658
	128,586	8,336	61,923	18,541	1,350	218,736
Additions during year	129,333	10,756	71,975	36,947	3,098	252,109
Joint Venture recoveries	(11,316)	-	(17,751)	-	-	(29,067)
Option payments	-	(48,000)	-	-	-	(48,000)
Cost recoveries	(36,705)	(93,317)	(32,505)	-	-	(162,527)
Write-off	-	-	-	-	(803)	(803)
Balance, December 31, 2009	$1,311,805	$2,998,089	$598,825	$36,947	$2,295	$4,947,961

* In 2010, the property and costs of Other, BC were added to the Tak - Milligan, BC property.

4. MINERAL PROPERTIES (continued)

(a) Woodjam, B.C.

The Company holds a 60% interest in certain mineral claims located in central British Columbia through a joint venture agreement with Cariboo Rose Resources Ltd. ("Cariboo Rose"). The Company is the operator of the project and pursuant to the agreement will charge a 3% operator fee on exploration expenditures incurred to offset its' administrative costs.

In July 2009, the Woodjam Joint Venture divided its Woodjam properties into the Woodjam North and Woodjam South properties.

Woodjam North, B.C.

On July 29, 2009, the Woodjam Joint Venture signed an Option and Joint Venture Exploration Agreement granting an option to Gold Fields Horsefly Exploration Corporation ("Gold Fields") to earn up to a 70% interest in the northern portion of the Woodjam property. Under the terms of the agreement, Gold Fields may earn an initial 51% interest by expending $7,000,000 in exploration costs and making a cash payment of $350,000 to the Woodjam Joint Venture over a three year period with a minimum expenditure of $1,000,000 in the first year. Gold Fields may earn an additional 19% interest in the property by funding a further $12,000,000 in exploration costs over a four year period.

Woodjam South, B.C.

On May 20, 2010, the Woodjam Joint Venture signed an Option and Joint Venture Exploration Agreement granting an option to Gold Fields to earn up to a 70% interest in the southern portion of the Woodjam property. Under the terms of the agreement, Gold Fields may earn an initial 51% interest by expending US$7,000,000 in exploration costs and by subscribing for $300,000 worth of the Company's common shares (1,818,182 common shares issued at a price of $0.165 per share) with a minimum expenditure of US$2,000,000 in the first eighteen months. Gold Fields may earn an additional 19% interest in the property by funding a further US$8,000,000 in exploration costs over a four year period. Gold Fields must also complete a comprehensive feasibility study of all known targets or deposits on the property.

(b) QUEST, BC

By a Letter of Intent dated July 30, 2007, the Company agreed to enter into a 50% - 50% Joint Venture with Serengeti Resources Inc. ("Serengeti"), a company related by a director in common, to explore properties in the Quesnel Terrane (Prince George) area of British Columbia.

On February 21, 2008, the Company executed a joint venture agreement with Serengeti. The Company was the operator of the QUEST Joint Venture for 2008. The operatorship is to alternate on an annual basis dependent upon the interest held at the time and will earn an operator fee of 5% or 10% based on the magnitude of individual expenditures. In 2009, Serengeti took over as operator of the Joint Venture.

During the 2009 fiscal year, the Company decided not to participate in the joint venture exploration budget and accordingly, its' interest in the QUEST property was diluted to 41%.

During the 2010 fiscal year, the Company decided not to participate in the joint venture exploration budget and accordingly, its' interest in the QUEST property is forecast to be diluted to an estimated 38% pending final accounting.

4. MINERAL PROPERTIES (continued)

(c) Tak - Milligan, BC

The Company acquired, by staking, a 100% interest in 8 properties located in central British Columbia, called the Tak - Milligan properties. Pursuant to an agreement, the Company issued 20,000 shares with a value of $1,400 towards acquisition of one of the properties.

On September 21, 2010, the Company entered into a letter agreement with Capstone Mining Corp. ("Capstone") which allows Capstone to acquire up to a 70% interest in the Tak - Milligan property. Under the terms of the agreement, Capstone may earn an initial 49% interest by expending $300,000 (paid $150,000) in exploration costs on or before June 30, 2011. Capstone may earn an additional 21% interest in the property by funding a further $5,700,000 in exploration costs over a six year period.

(d) Iron Range, BC

The Company acquired, by staking, a 100% interest in certain properties located in southeastern British Columbia called the Iron Range properties.

(e) Kimberley Gold Trend, BC

On December 20, 2010, the Company entered into an option agreement with Kootenay Gold Inc. ("Kootenay Gold") which allows the Company to acquire an undivided 60% interest in seven individual claim groups called the Kimberley Gold Trend property. Under the terms of the agreement, the Company must issue an aggregate of 7,000,000 common shares of the Company and expend $7,000,000 in exploration costs on or before December 20, 2014.

Subsequent to December 31, 2010, the Company issued 700,000 common shares pursuant to this agreement.

(f) Other, BC

The Company acquired, by staking, a 100% interest in 3 properties located in central British Columbia. Of these three properties, the Company relinquished two and has written off $803 in acquisition costs, net of recoveries.

During the 2010 fiscal year, the property and costs were added to the Tak - Milligan, BC property.

(g) Olympic-Rob, Yukon

In 2006, the Company was granted an option to acquire a 60% interest in mineral claims located in Yukon, Canada from Commander Resources Ltd. ("Commander"), a company with a director in common at that time.

In December 2007, the Company relinquished its option on the property and had written-off $792,561 of acquisition and exploration costs, net of recoveries.

The Company and Commander were in disagreement as to whether the Company had fulfilled certain requirements under the option agreement. In June 2009, the Company and Commander reached a settlement of the disagreement. Under the terms of the settlement the Company issued to Commander 1,000,000 units; each unit consisted of one common share and one share purchase warrant. Each share purchase warrant will entitle the holder to purchase one common share at a price of $0.16 until June 23, 2011. The shares issued as part of the unit had a value of $80,000 and the warrants issued had a value of $68,000, for a total value of $148,000 expensed as contract settlement.

5. EQUIPMENT

Details are as follows:

December 31, 2010	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 6,161	$ 5,301	$ 860
Office equipment	36,549	33,980	2,569
Leasehold improvements	13,699	10,524	3,175
	$ 56,409	$ 49,805	$ 6,604

December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 6,161	$ 5,086	$ 1,075
Office equipment	35,654	33,215	2,439
Leasehold improvements	10,171	9,325	846
	$ 51,986	$ 47,626	$ 4,360

6. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value

(b) Private Placements

(i) In August 2010, the Company completed a non-brokered private placement, pursuant to the Option and Joint Venture Exploration Agreement on the Woodjam South property, for the issue of 1,818,182 common shares at $0.165 per share. The Company incurred share issue costs in the amount of $2,350 in connection with the private placement.

(ii) In March 2009, the Company completed a non-brokered private placement for the issue of 2,054,000 flow-through common shares at $0.07 per share. The Company issued 34,320 shares as finders' fees valued at $2,402 and incurred additional share issue costs of $62 in connection with the private placement.

6. SHARE CAPITAL (continued)

(c) Stock Options

Options to purchase common shares have been granted to directors, officers, employees and consultants at exercise prices determined by reference to the market value on the date of the grant.

On June 3, 2010, the Company received shareholder approval to grant up to 13,442,000 common shares under the Company's Stock Option Plan. Options granted under the plan vest as follows:

(i) 25% on the date of the grant;
(ii) 25% six months after the date of the grant;
(iii) 25% twelve months after the date of the grant;
(iv) 25% eighteen months after the date of the grant.

At December 31, 2010, the Company had stock options outstanding for the purchase of 8,705,000 common shares. Of this amount, options to purchase 8,072,500 (2009 - 6,827,500) common shares with a weighted average exercise price of $0.16 (2009 - $0.17) were fully vested and exercisable at December 31, 2010.

	2010		**2009**	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	8,140,000	$0.16	6,600,000	$0.22
Granted	1,265,000	$0.12	2,625,000	$0.10
Exercised	(10,000)	$0.10	-	-
Cancelled/Expired	(690,000)	$0.18	(1,085,000)	$0.35
Outstanding at end of year	8,705,000	$0.15	8,140,000	$0.16

The following summarizes information about stock options outstanding at December 31, 2010:

Number of Shares	Expiry Date	Exercise Price
150,000	February 23, 2011*	$0.210
150,000	May 31, 2011	$0.370
1,500,000	December 20, 2011	$0.205
500,000	May 28, 2012	$0.320
2,525,000	May 5, 2013	$0.150
2,615,000	June 22, 2014	$0.100
1,140,000	March 10, 2015	$0.12
125,000	June 7, 2015	$0.10
8,705,000		

* Subsequent to December 31, 2010, 150,000 stock options with an exercise price of $0.21 expired, unexercised.

6. SHARE CAPITAL (continued)

(d) Stock-Based Compensation

During the year ended December 31, 2010 the Company granted stock options to employees, directors and consultants to acquire up to 1,140,000 common shares at an exercise price of $0.12 per share and 125,000 common shares at an exercise price of $0.10 per share (2009 - 2,625,000 common shares at an exercise price of $0.10 per share).

The fair value of options granted during the year was $112,822 (2009 - $223,270). Total stock-based compensation expense recognized for the options that vested during the year was $154,320 (2009 - $342,722).

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2010	**2009**
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	117%	172%
Risk-free interest rate	1.99%	2.88%
Expected life of options	5 years	5 years

The weighted average fair value of options granted during the year is $0.12 (2009 - $0.09) per option.

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

6. SHARE CAPITAL (continued)

(e) Warrants

At December 31, 2010 there was an aggregate of 1,810,000 share purchase warrants outstanding as follows:

Exercise Price	Expiry Date	Outstanding at December 31, 2009	Warrants Issued	Warrants Exercised	Warrants Expired	Outstanding at December 31, 2010
$0.10	June 09, 2011*	835,000	-	(25,000)	-	810,000
$0.16	June 23, 2011**	1,000,000	-	-	-	1,000,000
					-	
		1,835,000	-	(25,000)	-	1,810,000

At December 31, 2009 there was an aggregate of 1,835,000 share purchase warrants outstanding as follows:

Exercise Price	Expiry Date	Outstanding at December 31, 2008	Warrants Issued	Warrants Exercised	Warrants Expired	Outstanding at December 31, 2009
$0.10	June 09, 2011*	835,000	-	-	-	835,000
$0.10	November 27, 2009	1,667,000	-	(1,667,000)	-	-
$0.16	June 23, 2011**	-	1,000,000	-	-	1,000,000
		2,502,000	1,000,000	(1,667,000)	-	1,835,000

* Warrants were re-priced and extended from June 9, 2009 at $0.35 to June 9, 2011 at $0.10. These warrants have a forced exercise provision whereby if the Company's stock price is $0.13 for 10 consecutive trading days, the warrant holders will have 30 days to exercise the warrants; otherwise they will expire on the 31st day.

** The Company granted 1,000,000 warrants in relation to the settlement of the Olympic Rob contract dispute (Note 4(g)). The warrants were valued at $68,000 or $0.07 per warrant using the Black-Scholes option-pricing model with the following assumptions:

	2009
Risk-free interest rate	0.28%
Expected dividend yield	-
Expected stock price volatility	175%
Expected warrant life in years	2.00

Subsequent to December 31, 2010, 810,000 warrants with an exercise price of $0.10 were exercised for gross proceeds of $81,000.

7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company had non-cash transactions as follows:

		2010		2009
Significant non-cash investing and financing activities:				
Investing activities				
Resource expenditures included in accounts payable at year end	$	-	$	3,910
Exploration partner recoveries included in receivables at year end		654		2,898
Exploration partner advances applied to mineral property recoveries		-		-
Exploration advances applied to mineral property costs		-		-
Financing activities				
Shares issued for resource properties	$	-	$	1,400
Shares issued as finder's fees		-		2,402
Fair value of options exercised		853		-
Other cash flow information				
Income taxes paid	$	-	$	-
Interest paid	$	-	$	-

8. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company defines its capital as shareholder's equity.

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

In order to facilitate the management of its capital requirements, the Company prepares periodic expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. These budgets require approval by the Board of Directors.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account.

9. RELATED PARTY TRANSACTIONS

Transactions and balances with related parties are as follows:

(a) The Company incurred geological consulting fees of $4,000 (2009 - $Nil) charged by a director. The Company also incurred accounting fees of $10,400 (2009 - $33,500) charged by a business owned by a spouse of a director.

(b) Included in receivables is $13,066 (2009 - $4,744) due from companies with a director in common and included in accounts payable is $Nil (2009 - $1,250) owed to a company with a director in common.

(c) The Company incurred administrative and corporate secretary fees of $30,000 (2009 - $30,000) charged by an officer.

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

10. SEGMENTED INFORMATION

The Company operates in one segment, being the exploration of mineral properties. All of the Company's assets and operations are located in Canada.

11. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

		2010		**2009**
Loss before income taxes	$	(539,601)	$	(803,508)
Expected income tax recovery		(153,786)		(241,052)
Non-deductible items		56,490		108,729
Deductible items		(10,172)		(11,086)
Unrecognized (recognized) benefit of non-capital losses		71,523		(45,591)
Future income tax recovery	$	(35,945)	$	(189,000)

Future income tax assets reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's future tax assets are as follows:

		2010		**2009**
Non-capital loss carry-forwards	$	492,000	$	537,000
Mineral property exploration expenditures		829,000		759,000
Equipment		14,000		14,000
Share issuance costs		10,000		18,000
		1,345,000		1,328,000
Valuation allowance		(1,345,000)		(1,328,000)
	$	-	$	-

11. INCOME TAXES (continued)

The Company has available for deduction against future taxable income non-capital losses of approximately $2,150,000. The Company's non-capital loss carry-forwards expire through 2030. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

During the current fiscal year, the Company renounced $143,780 (2009 - $755,955) of its mineral expenditures to flow-through shareholders. The resultant loss of future income tax assets, which is treated as a cost of issuing flow-through shares gives rise to a future income tax liability of $35,945 (2009 - $189,000). This liability has been offset by the Company's recognition of future income tax assets that had been previously offset by a valuation allowance which resulted in a future income tax recovery of $35,945 (2009 - $189,000).

12. COMMITMENTS

On May 4, 2010, the Company entered into a five-year sub lease agreement with Diamonds North Resources Corp. for office premises effective August 1, 2010. Approximate future annual lease payments based on basic rent charges are as follows:

Year		Amount
2011	$	28,994
2012		30,569
2013		32,143
2014		33,061
2015		22,042
	$	146,809

In addition to basic rent, the Company is also subject to its proportionate share of taxes and operating costs.

13. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, deposits for reclamation, and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value, unless otherwise noted. Cash, which is carried at fair value, is measured using level 1 inputs.

Credit Risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations.

The Company's cash is primarily held in major Canadian financial institutions. The Company's receivables consist mainly of HST receivables due from the Federal Government of Canada and a balance due relating to mineral property recoveries. Management believes that the credit risk concentration with respect to these financial instruments is minimal.

Interest Rate Risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

13. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk

The Company ensures that there is sufficient capital in order to meet annual business requirements, after taking into account administrative, property holding and exploration budgets, against cash and cash equivalent holdings. As the Company does not have operating cash flow, the Company has relied primarily on equity financings to meet its capital requirements.

Foreign Exchange Risk

The Company is not exposed to significant foreign exchange risk as it operates in Canada and does not undertake any significant foreign currency transactions.