# Consolidated Financial Statements
(Stated in Canadian Dollars)

[formerly Mega Silver Inc.]

December 31, 2010 and 2009

Grant Thornton

# Independent Auditor's Report

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To the Shareholders of
Mega Precious Metals Inc.

We have audited the accompanying consolidated financial statements of Mega Precious Metals Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years ended December 31, 2010 and 2009, 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 financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 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 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 financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mega Precious Metals Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years ended December 31, 2010 and 2009, 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 the Corporation incurred a net loss of $159,261 during 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 the Corporation's ability to continue as a going concern.

Grant Thornton LLP

Thunder Bay, Canada
April 28, 2011

Chartered Accountants
Licensed Public Accountants

[formerly Mega Silver Inc.]

(Incorporated under the laws of Ontario)

# CONSOLIDATED BALANCE SHEETS

As at December 31
(Stated in Canadian Dollars)

| | **2010** | 2009 |
|---|---|---|
| | $ | $ |
| | | *[restated - note 21]* |
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents *[note 4]* | **4,299,877** | 10,387,322 |
| Investments *[note 5]* | **75,000** | 1,755,000 |
| Accounts receivable | **348,476** | 239,149 |
| Prepaids and deposits | **247,391** | 101,984 |
| **Total current assets** | **4,970,744** | 12,483,455 |
| **Property and equipment** *[note 7]* | **92,135** | 102,477 |
| **Mineral properties** *[note 8]* | **32,349,813** | 12,216,952 |
| | **37,412,692** | 24,802,884 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **909,726** | 762,981 |
| Taxes payable | **1,687** | 6,489 |
| **Total current liabilities** | **911,413** | 769,470 |
| **Long term tax payable** | **18,815** | 23,519 |
| **Future tax liability** *[note 14]* | **1,337,158** | 632,887 |
| **Shareholders' equity** | | |
| Share capital | | |
| Issued | | |
| Common shares *[note 9]* | **49,184,423** | 40,190,253 |
| Share purchase warrants *[note 10]* | **3,573,595** | 5,493,236 |
| Contributed surplus *[note 12]* | **7,856,723** | 4,147,145 |
| Obligation to issue shares *[note 17]* | **1,746,712** | 603,260 |
| Deficit | **(27,216,147)** | (27,056,886) |
| **Total shareholders' equity** | **35,145,306** | 23,377,008 |
| | **37,412,692** | 24,802,884 |

*Nature of Business and Going Concern [note 1]*
*Standby Letters of Credit [note 6]*
*Commitments [note 17]*
*Subsequent Events [note 20]*

*See accompanying notes to consolidated financial statements*

On behalf of the Board:

*"Michael Sweatman"* Director          *"James Rogers"* Director

[formerly Mega Silver Inc.]

# CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS, AND DEFICIT

Year ended December 31
(Stated in Canadian Dollars)

| | **2010** | 2009 |
|---|---|---|
| | $ | $ |
| | | *[restated - note 21]* |
| **REVENUE** | | |
| Investment income | **39,496** | 118,105 |
| **EXPENSES** | | |
| Amortization | **28,998** | 34,063 |
| Stock-based compensation *[note 11]* | **1,369,437** | 1,390,240 |
| Flow-through interest penalty | **53,408** | 34,199 |
| General and administrative *[note 16]* | **1,038,804** | 1,357,906 |
| Professional fees | **100,784** | 154,302 |
| Exploration | **1,300** | 26,929 |
| | **2,592,731** | 2,997,639 |
| **Loss before the following** | **(2,553,235)** | (2,879,534) |
| Unrealized gain on investments | **-** | 407,040 |
| Loss on sale of equipment | **-** | (1,658) |
| Gain on sale of investments | **1,775,340** | - |
| Write-down of mineral properties *[note 8]* | **(167,023)** | (1,982,387) |
| **Loss before income taxes** | **(944,918)** | (4,456,539) |
| Future tax recovery *[note 14]* | **(785,657)** | (1,861,977) |
| **Loss and comprehensive loss for year** | **(159,261)** | (2,594,562) |
| Deficit, beginning of year, as previously reported | **(26,518,686)** | (24,079,507) |
| Restatement *[note 21]* | **(538,200)** | (382,817) |
| **Deficit, end of year** | **(27,216,147)** | (27,056,886) |
| **Basic and diluted loss per share** *[note 13]* | **-** | (0.08) |

*See accompanying notes to the consolidated financial statements*

[formerly Mega Silver Inc.]

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31
(Stated in Canadian Dollars)

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| | | *[restated - note 21]* |
| **OPERATING ACTIVITIES** | | |
| Loss and comprehensive loss for year | **(159,261)** | (2,594,562) |
| Add charges (deduct credits) to earnings not involving a current payment (receipt) of cash | | |
| Amortization | **28,998** | 34,063 |
| Stock-based compensation | **1,369,437** | 1,390,240 |
| Loss on sale of equipment | **-** | 1,658 |
| Gain on sale of investments | **(1,775,340)** | - |
| Unrealized gain on investments | **-** | (407,040) |
| Write-down of mineral properties | **(167,023)** | 1,982,387 |
| Future tax recovery | **(785,657)** | (1,861,977) |
| | **(1,488,846)** | (1,455,231) |
| Net change in non-cash working capital balances related to operations | **(272,285)** | 776,612 |
| **Cash used in operating activities** | **(1,761,131)** | (678,619) |
| | | |
| **INVESTMENT ACTIVITIES** | | |
| Mineral exploration and development expenditures, net | **(7,213,249)** | (4,643,840) |
| Purchase of property, plant and equipment | **(18,655)** | (4,305) |
| Redemption of investments, net | **2,883,090** | 9,815,994 |
| **Cash provided by (used in) investment activities** | **(4,348,814)** | 5,167,849 |
| | | |
| **FINANCING ACTIVITIES** | | |
| Proceeds from private placements | **-** | 6,037,500 |
| Proceeds from the exercise of share purchase warrants | **-** | 17,978 |
| Proceeds from the exercise of stock options | **22,500** | 81,540 |
| Share issue costs | **-** | (437,990) |
| **Cash provided by financing activities** | **22,500** | 5,699,028 |
| | | |
| **Increase (decrease) in cash and cash equivalents during year** | **(6,087,445)** | 10,188,258 |
| Cash and cash equivalents, beginning of year | **10,387,322** | 199,064 |
| **Cash and cash equivalents, end of year** | **4,299,877** | 10,387,322 |

*See accompanying notes to the consolidated financial statements*

[formerly Mega Silver Inc.]

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009
(Stated in Canadian Dollars)

## 1. NATURE OF BUSINESS AND GOING CONCERN

Mega Precious Metals Inc. (the "Corporation" or "Mega") is a Canadian-based exploration and development company with exploration projects in Canada. The principal business of the Corporation is the acquisition, exploration and development of high value mineral properties. Mega is considered a development stage company, as defined by Accounting Guideline 11 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook.

The accompanying audited consolidated financial statements have been prepared on the basis of Canadian generally accepted accounting principles applicable to a going concern. The appropriateness of using the going concern basis is dependent upon, among other things, future profitable operations, the ability to realize assets and discharge liabilities in the normal course of business in the foreseeable future and the ability of the Corporation to raise additional capital. Specifically, the recovery of the Corporation's investment in mineral properties and related deferred expenditures is dependent upon the discovery of economically recoverable reserves, the ability of the Corporation to obtain necessary financing to develop the properties and establish future profitable production from the properties, or from the proceeds of their disposition.

## 2. ACQUISITIONS

**Skybridge Development Corp.**

On May 26, 2009, the Corporation announced that it acquired the net assets of Skybridge Development Corp. ("Skybridge") through an all share transaction (the "Transaction"). Under the terms of the Transaction, shareholders of Skybridge received one (1) Mega common share in exchange for each two and one-half (2.5) Skybridge common shares held. Based upon the number of Mega common shares and Skybridge common shares outstanding as at May 26, 2009 (on an undiluted basis), and upon completion of the Transaction, Mega issued an aggregate of 8,105,384 Mega common shares to Skybridge shareholders, representing approximately 23% of the 35,222,572 outstanding Mega common shares following the transaction. The Transaction was effected by way of a three-cornered amalgamation, whereby a wholly-owned subsidiary of Mega amalgamated with Skybridge. The common shares of Skybridge ceased trading on the TSX-V as of close of trading on May 26, 2009.

The purchase consideration totaling $7,093,052, has been allocated as follows:

| | |
|---|---|
| Cash | $165,612 |
| Accounts receivable | 44,615 |
| Prepaids | 24,173 |
| Short term investments | 75,000 |
| Equipment | 4,439 |
| Mineral properties | 8,671,730 |
| Accounts payable | (90,826) |
| Future tax liability | (1,772,292) |
| Long term tax payable | (29,399) |
| Total net assets | 7,093,052 |
| | |
| Purchase consideration: | |
| 8,105,384 common shares issued | 6,370,914 |
| Obligation to issue shares (note 17) | 722,138 |

**Rolling Rock Resources Corp.**

On October 29, 2010 Mega and Rolling Rock Resource Corp. ("Rolling Rock") entered into an agreement whereby Mega would acquire the remaining 81.2% of the issued and outstanding common shares of Rolling Rock in exchange for common shares of Mega (the "Acquisition") that it did not already own. On December 14, 2010 the Acquisition received all regulatory approvals.

Under the terms of the Acquisition, shareholders of Rolling Rock received one (1) common share of Mega in exchange for each two and one-half (2.5) Rolling Rock common shares which they held immediately prior to the completion date of the Acquisition. Fractional shares were not be issued. Based on the weighted average closing price of Mega common shares on the TSXV for the 5-day period before and after September 23, 2010 (the date the terms of the Acquisition were agreed to and announced) of $0.60, and there being 42,775,000 common shares of Rolling Rock not already held by Mega but outstanding immediately prior to the completion of the Acquisition, Mega issued to Rolling Rock shareholders a total of 17,110,000 common shares of Mega valued at $10,266,000.

As part of the Acquisition, all of the issued and outstanding Rolling Rock warrants were, by their terms or with the consent of the holders, as applicable, adjusted to provide for the receipt by the holders upon exercise of Mega common shares in lieu of Rolling Rock common shares on the basis of one Mega common share for every 2.5 Rolling Rock common shares. At December 14, 2010, Rolling Rock had an aggregate of 6,000,000 warrants outstanding and 600,000 finder's options which may be exercised to acquire up to 2,880,000 Mega common shares. The fair value of the warrants and finder's options of $1,113,700 was calculated using the Black-Scholes option pricing model using the following assumptions: exercise prices ranging from $0.50 to $0.75; stock price at the date of measurement of $0.86; expected volatility of 107%; expected life of 1.11 years; and risk-free discount rate of 1.41%, and formed part of the purchase consideration.

As part of the Acquisition, all of the issued and outstanding Rolling Rock stock options were for a period of six months from the date of completion of the transaction subject to TSXV approval, adjusted to provide for the receipt by the holders upon exercise of Mega common shares in lieu of Rolling Rock common shares on the basis of one Mega common share for every 2.5 Rolling Rock common shares. At December 14, 2010, Rolling Rock had an aggregate of 3,265,000 stock options outstanding which may be exercised to acquire up to 1,306,000 Mega common shares. The fair value of the stock options in the amount of $463,751 was calculated using the Black-Scholes option pricing model using the following assumptions: exercise prices ranging from $0.30 to $1.88; stock price at the date of measurement of $0.86; expected volatility of 107%; expected life of 6 months; and risk-free discount rate of 1.41%, and formed part of the purchase consideration.

The Acquisition was effected by way of a three-cornered amalgamation, whereby Rolling Rock amalgamated with a wholly-owned subsidiary of Mega and the resulting corporation, a wholly-owned subsidiary of Mega, and will continue to carry on Rolling Rock's business.

The purchase consideration totaling $12,245,236, has been allocated as follows:

| | |
|---|---|
| Cash | $1,066,988 |
| Accounts receivable | 85,614 |
| Prepaids | 115,917 |
| Equipment | 18,655 |
| Mineral properties | 11,250,172 |
| Accounts payable | (292,110) |
| Total net assets | 12,245,236 |
| | |
| Purchase consideration: | |
| 17,110,000 common shares issued | 10,266,000 |
| Obligation to issue shares (note 17) | 1,577,451 |
| Transaction costs | 401,785 |

## 3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared on the basis of the Corporation's continuance as a going concern in accordance with Canadian generally accepted accounting principles and include the accounts of the Corporation and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

**Measurement uncertainty**

The accompanying consolidated financial statements have been prepared on the basis of Canadian generally accepted accounting principles ("GAAP"). The recovery of the Corporation's investment in mineral properties and related deferred expenditures is dependent upon the discovery of economically recoverable reserves, the ability of the Corporation to obtain necessary financing to develop the properties and establish future profitable production from the properties, or from the proceeds of their disposition.

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates. Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to, stock-based compensation, and current and future income taxes.

**Basis of consolidation**

These consolidated financial statements include the accounts of the Corporation and its subsidiaries Skybridge Development Corp and Rolling Rock Resources Corp.

**Subsidiaries**

Subsidiaries are entities in which the Corporation has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies. The subsidiaries are consolidated from the date on which control is acquired and is no longer consolidated when control ceases. The purchase method of accounting is used to account for the acquisition of a subsidiary. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in an acquisition are measured initially at their fair values at acquisition date.

**Cash and cash equivalents**

Short-term investments which have a term to maturity of three months or less from the acquisition date are considered cash equivalents.

**Revenue recognition**

Interest income is recognized on the accrual basis.

**Stock-based compensation**

All stock-based awards made to employees and non-employees are measured and recognized using the Black-Scholes option pricing model. For employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete, the date the performance commitment is reached, or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For employees and non-employees, the fair value of options is accrued and charged to operations on a graded basis over the vesting period with the offsetting credit to contributed surplus. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. No expense is recognized for awards that do not ultimately vest.

**Income taxes**

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered "more likely than not".

**Loss per common share (LPS)**

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants. The effect of potential issuances of shares under options and warrants would be anti-dilutive, and accordingly basic and diluted LPS are the same.

**Property and equipment**

Property and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a declining balance basis over the estimated useful life of the asset using the following rate:

| | |
|---|---|
| Office equipment | 30% - 45% |
| Computer equipment | 30% |
| Software | 30% |
| Exploration equipment | 45% |
| Leasehold Improvements | 30% |

Those expenditures which extend the useful life of an asset are capitalized, whereas repairs and maintenance expenditures, which do not extend the useful life of an asset, are charged to operations during the period they are incurred. The Corporation evaluates the recoverability of property and equipment on a periodic basis.

**Impairment of long-lived assets**

The Corporation reviews the recoverability of its long-lived assets at the end of each reporting period and when events and circumstances indicate an impairment event may have occurred. The Corporation assesses the recoverability of its long-lived assets by determining whether the carrying value of the long-lived assets can be recovered over their remaining lives through undiscounted future operating cash flows. In the event that future recoverability is not supported, the amount of impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Corporation’s average cost of funds. If the discounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized.

**Mineral properties**

The cost of mineral properties includes all direct exploration costs including administrative expenses and certain deferred costs that can be directly related to specific projects. Exploration and associated costs relating to non specific projects / properties are expensed in the period incurred. Significant property acquisition, exploration costs relating to specific properties for which economically recoverable reserves are believed to exist are deferred until the project to which they relate is sold, abandoned or placed into production. Costs related to properties abandoned are written-off when it is determined that the property has no continuing value. All of the Corporation's properties are in the exploration stage and have not yet attained commercial production. The ultimate realization of the carrying value of properties in the exploration stage is dependent upon the successful development or sale of these properties.

**Flow-through shares**

The Corporation has financed a portion of its exploration activities through the issuance of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. The proceeds received on the issue of such shares have been credited to share capital and the related exploration costs have been charged to mineral properties. Resource expenditure deductions for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital and increase the future tax liability.

**Financial instruments**

Financial assets are classified as held-to-maturity, loans and receivables, held-for trading or available-for-sale. The held-to-maturity classification is restricted to fixed maturity instruments that the Corporation intends and is able to hold to maturity. Assets classified as held-to-maturity or loans and receivables are accounted for at amortized cost using the effective interest method. Held-for-trading assets are recorded at fair value with realized and unrealized gains and losses reported in net income. The remaining financial assets are classified as available-for-sale and will be recorded at fair value with unrealized gains and losses reported in a new category of the balance sheet under shareholders equity called other comprehensive income.

Financial liabilities are classified as either held-for-trading or other liabilities. Held-for-trading liabilities are recorded at fair value with realized and unrealized gains and losses reported in net income, and the remaining financial liabilities are classified as other liabilities and accounted for at amortized cost using the effective interest method.

The Corporation designated its cash and cash equivalents and investments as held-for-trading which are measured at fair value. Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. Upon purchase of share units, the Corporation bifurcates the cost between the fair value of the embedded warrant and the share. Accounts receivable and deposits are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities and measured at amortized cost. The Corporation had no financial instruments available for sale during the year ended December 31, 2010. Changes in the fair value of the Corporation's cash and cash equivalents and investments are included in income each period.

**Fair Value Hierarchy**

In January 2009, the CICA adopted amendments to sections 3862 "Financial Instruments Disclosures". These amendments require the Corporation to present certain information about financial instruments measured at fair value in the Consolidated Balance Sheets. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted in active markets for identical assets or liabilities);
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. Additional disclosure has been provided for in Note 19 as a result of this section.

[formerly Mega Silver Inc.]

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009
(Stated in Canadian Dollars)

## RECENT ACCOUNTING PRONOUNCEMENTS

**Business Combinations / Consolidated Financial Statements / Non-Controlling Interests**

In January 2009, the CICA adopted sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests" which superseded current sections 1581, "Business Combinations" and 1600, "Consolidated Financial Statements". These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. These new sections were created to converge Canadian GAAP to IFRS. As the Corporation has not chosen to early adopt, these standards will affect the accounting for any business combinations completed after January 1, 2011.

## FUTURE ACCOUNTING CHANGES

**Convergence with International Financial Reporting Standards**

In 2006, the Canadian Accounting Standards Board ("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 International Financial Reporting Standards (IFRS) over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the transition date for publicly listed companies to implement IFRS, which will replace Canadian GAAP for these types of entities.

The effective date for this change is interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2010 will require the restatement for comparative purposes of quarterly and annual amounts reported by the Corporation for the year ended December 31, 2010.

Initial Adoption of IFRS

IFRS 1 “First-time Adoption of International Financial Reporting Standards” sets forth guidance for the initial adoption of IFRS. Under IFRS1 the standards are applied retrospectively at the transitional balance sheet date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. Following the initial examination the Corporation plans to apply the following exemptions to its opening balance sheet dated January 1, 2010:

(i) Business Combinations

IFRS 1 indicates a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Corporation will take advantage of this election and will apply IFRS 3 to business combinations that occur on or after January 1, 2010. As the Corporation has chosen to apply the IFRS exemption and has no business combinations in fiscal 2010. IFRS 3 will affect the accounting for any business combinations completed after January 1, 2011.

(ii) IFRS 2 - Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payments to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Corporation has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009
(Stated in Canadian Dollars)

IFRS employs a conceptual framework that is similar to Canadian GAAP. The adoption of IFRS will not have any material impact on the financial information previously disclosed under Canadian GAAP. The Corporation identified the following adjustments as a result of the adoption of IFRS:

(i) Income tax expense is calculated in a similar manner in accordance with GAAP and IFRS. Future income tax asset / liability is also calculated in a similar manner in accordance with GAAP and IFRS. However, the treatment of future income taxes with respect to asset purchases will differ and, consequently, the purchase price allocation for the Skybridge and Rolling Rock acquisitions will change.

In order for the users of the financial statements to better understand other changes between IFRS and GAAP that do not have any quantitative effect or require adjustment to the Corporation's financial statements, the following qualitative explanation of the differences between GAAP and IFRS is provided:

(i) Property, plant and equipment under GAAP and IFRS allow the use of original cost less depreciation rates as the cost base. IFRS requires separate depreciation rate for components that depreciate differently.

(ii) Exploration for and Evaluation of Mineral Resources under GAAP and IFRS allow the capitalization of costs associated with the exploration for and evaluation of mineral resources. Although there are differences in categorization of expenses under IFRS (distinguishing between property, plant and equipment and intangibles) and timing of the commencement of capitalization, it is not anticipated that they will have a quantitative effect in the Corporation's financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009
(Stated in Canadian Dollars)

## 4. CASH AND CASH EQUIVALENTS

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Cash | **622,200** | 886,678 |
| Short-term deposits | **3,677,677** | 9,500,644 |
| | **4,299,877** | 10,387,322 |

As at December 31, 2010, the Corporation held Canadian dollar denominated cashable short-term financial instruments maturing within 221 days, yielding 0.90% - 1.30% [December 31, 2009 - 49 days, yielding of 0.094% - 0.100%].

## 5. INVESTMENTS

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Fair Value**<br>**$** | **Cost**<br>**$** | Fair Value<br>$ | Cost<br>$ |
| **Equities** | | | | |
| Canadian equities (*) | **-** | **-** | 1,680,000 | 1,272,960 |
| **Other Financial Assets** | | | | |
| Guaranteed investment certificates (**) | **75,000** | **75,000** | 75,000 | 75,000 |
| | **75,000** | **75,000** | 1,755,000 | 1,347,960 |

(*) Canadian equities represent shares of publicly traded entities listed on Canadian exchanges

(**) At December 31, 2010, the Corporation's investments consist of a guaranteed investment certificate maturing within 91 days, yielding 1.20% [December 31, 2009 - maturing within 29 days, yielding 1.20%]. Furthermore, the Corporation has entered into an agreement with the Royal Bank of Canada that prevents the Corporation from removing securities or monies from its account if the effect would be to reduce the market value of the account below the security provided for in the letters of credit described in note 6.

Fair value of equities included in previous year was determined as the bid price as at December 31, 2010.

[formerly Mega Silver Inc.]

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009
(Stated in Canadian Dollars)

## 6. STANDBY LETTERS OF CREDIT

The Corporation's wholly owned subsidiary has a $75,000 standby letter of credit outstanding in favour of the Kitikmeot Inuit Association relating to reclamation obligations associated with the Blue Caribou Property in Nunavut.

Security for the standby letter of credit held with the Royal Bank of Canada is described in note 5.

## 7. PROPERTY AND EQUIPMENT

Details of year end property, plant and equipment balances are as follows:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Cost**<br>$ | **Accumulated amortization**<br>$ | Cost<br>$ | Accumulated amortization<br>$ |
| Computer equipment | **28,860** | **14,840** | 28,860 | 10,625 |
| Exploration equipment | **113,968** | **102,606** | - | - |
| Software | **5,396** | **2,936** | 5,396 | 2,037 |
| Office equipment | **134,848** | **82,781** | 94,686 | 30,613 |
| Leasehold improvements | **24,275** | **12,049** | 24,274 | 7,464 |
| | **307,347** | **215,212** | 153,216 | 50,739 |
| **Property and equipment, net** | **92,135** | | 102,477 | |

Amortization for the year is $26,865 [2009 - $34,063].

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## 8. MINERAL PROPERTIES

Accumulated costs with respect to the Corporation's interest in mineral properties owned, leased or under option, consisted of the following:

| | **2010** | | | | | 2009 |
|---|---|---|---|---|---|---|
| | **Deferred Exploration Expenditures** | **Option Payments and acquisition costs** | **Option Payments Received** | **Mineral Property Write-downs** | **Total** | Total |
| | $ | $ | $ | $ | $ | $ |
| North Madsen, Ontario | **3,642,242** | **904,178** | **-** | **-** | **4,546,420** | 1,822,975 |
| Headway, Ontario | **2,370,329** | **552,500** | **-** | **-** | **2,922,829** | 708,879 |
| Blue Caribou, Nunavut | **1,149,175** | **8,573,055** | **-** | **-** | **9,722,230** | 9,579,346 |
| Monument Bay, Manitoba | **72,822** | **13,201,326** | **-** | **-** | **13,274,148** | |
| Domain, Manitoba | | **2,033,274** | **(354,408)** | **-** | **1,678,866** | |
| Other areas | **110,903** | **56,120** | **-** | **(167,023)** | **-** | 105,752 |
| | **7,345,471** | **25,320,453** | **-** | **(167,023)** | **32,144,493** | 12,216,952 |

**ONTARIO**

**North Madsen Property**
The North Madsen property is comprised of the East My-Ritt property,the Laverty property, and the Skookum lake property all located in Red Lake, Ontario.

East My-Ritt property
On May 22, 2009, the Corporation entered into an agreement (the "Agreement") in respect of an option to acquire a 100% interest in the “East My-Ritt” property in Red Lake, Ontario from a Joint Venture between Premier Gold Mines Limited , a company related to Mega through a common director and officer, and Sabina Silver Corporation (the “Vendors”). Terms of the Agreement between Mega and the Vendors include cash payments totaling $250,000, issuance of 600,000 common shares of Mega and exploration work commitments totaling $1,250,000. The initial payment obligation at signing of the Agreement between the parties includes $45,000 cash and issuance of 200,000 Mega shares. The Vendors retain a 0.5% Net Smelter Returns royalty with Mega and the Vendors jointly retaining the right to buy out underlying royalty provisions on a prorated basis as may be available for purchase. Underlying royalty provisions include a 3% Net Smelter Returns royalty on all 8 claims, as well as a 10% Net Profits Interest (NPI) on six of the claims.

Laverty property
On February 2, 2009 the Corporation's subsidiary Skybridge Development Corp. entered into an agreement (the "Agreement") in respect of an option to acquire a 100% interest in the historic “Laverty” property in Red Lake, Ontario. Terms of the Agreement between Mega and the vendor, Mosquito Consolidated Gold Mines Limited (“Mosquito”) include annual payments totaling $500,000, issuance of 1,500,000 common shares of Mega and exploration work commitments totaling $1,500,000 over 2 years. The initial payment obligation at signing of the Agreement between the parties was $100,000 cash and issuance of 250,000 Skybridge shares, prior to acquisition. Mosquito retains a 2% Net Smelter Returns royalty with Mega granted the right to purchase half within one year of the final closing of the fully vested option agreement for $1,000,000.

**Headway Property**
On October 5, 2009 the Corporation entered into an agreement (the "Agreement") with King's Bay Gold Corporation (the "Vendor", or "King's Bay") in respect of an option to acquire a 100% interest in the "Headway" property, located in the Red Lake region of Ontario. Terms of the Agreement between Mega and King's Bay include cash payments totalling $460,000, issuance of 4,425,000 common shares of Mega and project expenditures of $3,000,000 over 3 years. The initial payment obligations at signing of the option agreement included $340,000 cash, issuance of 200,000 Mega shares and first year project expenditures of $750,000. Of the $340,000 paid by Mega on signing the option agreement, $140,000 was paid to Richview Resources Inc. to satisfy certain obligations of the Vendor, and $200,000 was paid to King's Bay. There is a 2% Net Smelter Royalty payable to the initial vendors of the property.

**Manitoba**

**Monument Bay Property**

The Corporation owns 100% of the Monument Bay Project (“Monument Bay”) located in northern Manitoba. Upon completion of a feasibility study the Corporation is required to issue 4,000,000 common shares to Kinross Gold Corporation (“Kinross”) and upon commencement of commercial production the Corporation is required to issue to Kinross a further 3,000,000 common shares. The Corporation has also granted a 1.5% net smelter return (“NSR”) royalty to Kinross. Monument Bay is subject to a 2% NSR royalty until the production of one million troy ounces of gold equivalent and 3% NSR royalty thereafter to Newmont Canada Limited (“Newmont”). In addition Newmont will be entitled to a cash payment in the amount of $500,000 upon completion of a final, positive, independent feasibility study prepared by a reputable third party of national recognition and a cash payment in the amount of $500,000 upon the commencement of commercial production. Pursuant to the July 2006 purchase agreement for Monument Bay, the Corporation was to issue 1,500,000 common shares to Wolfden Resources Inc. (“Wolfden”) upon completion of a feasibility study and a further 500,000 common shares upon commencement of commercial production. The Corporation’s obligation to Wolfden, through a series of acquisitions and mergers, became an obligation to MMG Resources, Inc. (“MMG”).

On August 31, 2009 the Corporation entered into an agreement whereby, in consideration for the payment of $10,000 to MMG, the Corporation was irrevocably released from any liability or obligation under previous agreements to issue shares to Wolfden after completion of a feasibility study or at commencement of commercial production.

**Domain Property**

The Corporation has a 65% joint venture interest in the Domain Project with its 35% interest joint venture partner NDT Ventures Ltd. The Domain Project is located in northern Manitoba. The Corporation is the operator of the joint venture and earns a 10% management fee.

**NUNAVUT**

**Blue Caribou Property**
The Blue Caribou property located in Nunavut, Canada is comprised of 23 mining claims covering 58,106 acres. The claims were staked by the Corporation in June 2007 subject to an Inuit Owned Land Use License administered by the Kitikmeot Inuit Association.

**Mineral property write downs**

As at December 31, 2010, the Corporation decided to relinquish its interest in the Mink Lake property located in Red Lake, Ontario. As such, the carrying value of $121,843 has been charged against earnings during the year.

As at December 31, 2010, the Corporation decided to relinquish its interest in the Sunshine Lake property, located in Dryden, Ontario. As such, the carrying value of $45,180 has been charged against earnings during the year.

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## 9. COMMON SHARES

The Corporation is authorized to issue an unlimited number of common shares.

| | **Number** # | **Fair Value** $ |
|---|---|---|
| | | *[restated - note 21]* |
| **Balance, December 31, 2008, as restated** | 26,916,984 | 33,621,723 |
| Stock options exercised | 136,500 | 69,040 |
| Stock options exercised pursuant to obligation to issue shares arising from Skybridge acquisition | 50,000 | 12,500 |
| Shares issued for acquisition of Skybridge *[note 2]* | 8,105,384 | 6,370,914 |
| Warrants exercised pursuant to obligation to issue shares arising from Skybridge acquisition | 71,912 | 17,978 |
| Reallocation from contributed surplus amounts relating to the exercise of stock options | - | 57,439 |
| Reallocation from obligation to issue shares amounts relating to the exercise of stock options | - | 21,700 |
| Reallocation from obligation to issue shares amounts relating to the exercise of share purchase warrants | - | 31,211 |
| Revaluation of warrants due to extension | - | (1,800,250) |
| Shares issued for mineral properties | 605,000 | 483,950 |
| Private placement | 8,050,000 | 2,817,500 |
| Share issue costs | - | (791,585) |
| Flow through share renunciation adjustment | - | (877,250) |
| Tax effect of share issue costs | - | 155,383 |
| **Balance, December 31, 2009** | 43,935,780 | 40,190,253 |
| Stock options exercised | 75,000 | 22,500 |
| Shares issued for mineral properties | 283,000 | 181,420 |
| Shares issued for acquisition of Rolling Rock *[note 2]* | 17,110,000 | 10,266,000 |
| Reallocation from contributed surplus amounts relating to the exercise of stock options | - | 13,500 |
| Flow through share renunciation | - | (1,489,250) |
| **Balance, December 31, 2010** | 61,403,780 | 49,184,423 |

**2009**

**Acquisition of Skybridge Development Corp.**

In connection with the acquisition of Skybridge Development Corp. (note 2), the Corporation issued 8,105,384 shares.

**Shares issued for mineral properties**

The Corporation issued 200,000 shares, valued at $218,000, in connection with the acquisition of the My-Ritt property in Red Lake, Ontario (note 8).

The Corporation issued 75,000 shares, valued at $65,250, as an option payment on the Fisher property in the Yukon Territory (note 8).

The Corporation issued 200,000 shares, valued at $126,000, in relation to the acquisition of the Headway property (note 8).

The Corporation issued 30,000 shares, valued at $20,700, in relation to the Mink Lake property acquisition (note 8).

The Corporation issued 100,000 shares, valued at $54,000, in relation to an option payment on the Laverty property in Red Lake, Ontario (note 8).

**Private placement**

On October 20, 2009 the Corporation announced that it had sold, on a best efforts basis, 8,050,000 flow-through units (the "Unit"), after full exercise of an over-allotment option, at a price of $0.75 per Unit. Each Unit consists of one flow-through common share and one whole share purchase warrant. Each share purchase warrant entitles the holder to acquire one additional common share of Mega at any time up to October 20, 2011 for an exercise price of $1.15. The agents received an aggregate commission equal to 6% of the gross proceeds of the offering and broker warrants in an aggregate amount of 10% of the number of Units sold. Each broker warrant is exercisable by the agents to acquire one common share of Mega at a price of $0.75 per share at any time up to October 20, 2011.

**2010**

**Acquisition of Rolling Rock Resources Corp.**

In connection with the acquisition of Rolling Rock Resources Corp. (note 2), the Corporation issued 17,110,000 shares.

**Shares issued for mineral properties**

The Corporation issued 8,000 shares valued at $3,920, as an option payment on the Skookum property in Red Lake, Ontario (included in North Madsen property, note 8).

The Corporation issued 100,000 shares, valued at $40,000, in relation to an option payment on the East My-Ritt property in Red Lake, Ontario (included in North Madsen property, note 8).

The Corporation issued 75,000 shares, valued at $46,500, in relation to an option payment on the Headway property in Red Lake, Ontario (see note 8).

The Corporation issued 100,000 shares, valued at $91,000, in relation to an option payment on the Laverty property in Red Lake, Ontario (included in North Madsen property, note 8).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009
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## 10. SHARE PURCHASE WARRANTS

The following table reflects the continuity of warrants:

| | Number of Warrants | | Weighted Average Exercise Price | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **#** | # | **$** | $ |
| Opening balance | **16,867,500** | 9,154,300 | **1.25** | 1.47 |
| Warrants granted | **-** | 8,855,000 | **0.70** | 1.10 |
| Warrants expired | **(8,012,500)** | (1,141,800) | **1.57** | 1.20 |
| | **8,855,000** | 16,867,500 | **1.25** | 1.25 |

The following table reflects the value of share purchase warrants currently outstanding:

| Warrants | Number<br>#| Fair Value<br>$ |
|---|---|---|
| Share purchase warrants, exercisable at $1.15 and expiring October 20, 2011 | 8,050,000 | 3,220,000 |
| Broker warrants, exercisable at $0.75 and expiring October 20, 2011 | 805,000 | 353,595 |
| | **8,855,000** | **3,573,595** |

The fair value of the share purchase warrants were estimated using the Black-Scholes option pricing model. The assumptions used for the valuation of the respective warrants were:

No dividends are to be paid, expected volatility of 139% to 156%, a risk-free interest rate of 1.1611% to 1.36% and an expected life to the expiry date.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## 11. SHARE INCENTIVE PLAN

The Corporation has a share incentive plan (the "Plan") which is restricted to directors, officers, key employees and consultants of the Corporation. The number of common shares subject to options granted under the Plan (and under all other management option and employee stock purchase plans) is limited to 10% in the aggregate and 5% with respect to any one optionee of the number of issued and outstanding common shares of the Corporation at the date of the grant of the option. Options issued under the Plan may be exercised during a period determined by the Board of Directors which cannot exceed ten years.

The following table reflects the continuity of stock options under the Plan:

| | **Number of Stock Options** | | **Weighted Average Exercise Price** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **#** | # | **$** | $ |
| Opening balance | **2,410,000** | 2,165,000 | **1.25** | 1.43 |
| Options granted | **2,631,000** | 1,735,000 | **0.75** | 1.15 |
| Options cancelled | **(200,000)** | (1,353,500) | **0.42** | 0.98 |
| Options exercised | **(75,000)** | 136,500 | **0.18** | 0.50 |
| | **4,766,000** | 2,410,000 | **1.25** | 1.25 |

The following table reflects the stock options outstanding as at December 31, 2010:

| **Expiry Date** | **Exercise Price $** | **Options Granted #** | **Options Vested #** |
|---|---|---|---|
| January 2, 2011 | 1.25 | 100,000 | 100,000 |
| June 14, 2011 | 0.30 | 400,000 | 400,000 |
| June 14, 2011 | 0.40 | 210,000 | 210,000 |
| June 14, 2011 | 0.65 | 126,000 | 126,000 |
| June 14, 2011 | 0.88 | 260,000 | 260,000 |
| June 14, 2011 | 1.88 | 310,000 | 310,000 |
| February 27, 2013 | 1.79 | 500,000 | 500,000 |
| June 11, 2014 | 1.15 | 1,450,000 | 1,450,000 |
| October 22, 2014 | 0.75 | 160,000 | 106,667 |
| October 22, 2014* | 0.75 | 25,000 | 25,000 |
| May 27, 2015 | 0.33 | 1,150,000 | 600,000 |
| November 24, 2015 | 0.72 | 75,000 | 75,000 |
| | | **4,766,000** | **4,162,667** |

(*) Options vest equally over four consecutive quarters (12 months).

On May 27, 2010 the Corporation granted 1,250,000 options to various directors and employees at an exercise price of $0.33, vesting quarterly over 18 months, and expiring in 5 years. The value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: no dividends to be paid, volatility 146%, risk-free rate of 3.025%, and an expected life of 5 years.

On November 24, 2010 the Corporation granted 75,000 options to a consultant to the Corporation. These options have an exercise price of $0.72, vest quarterly over 18 months, and expire in 5 years.The value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: no dividends to be paid, volatility 139%, risk-free rate of 1.1611%, and an expected life of 5 years.

As part of the Acquisition, all of the issued and outstanding Rolling Rock stock options will for a period of six months from the date of completion of the transaction subject to TSXV approval, adjust to provide for the receipt by the holders upon exercise of Mega common shares in lieu of Rolling Rock common shares on the basis of one Mega common share for every 2.5 Rolling Rock common shares. At December 13, 2010, Rolling Rock had an aggregate of 3,265,000 stock options outstanding which may be exercised to acquire up to 1,306,000 Mega common shares. The fair value of the stock options in the amount of $525,722 was calculated using the Black-Scholes option pricing model using the following assumptions: exercise prices ranging from $0.30 to $1.88; stock price at the date of measurement of $0.86; expected volatility of 139%; expected life of 6 months; and risk-free discount rate of 1.1611%, and formed part of the purchase consideration.

The Corporation applies the fair value method of accounting for all stock based compensation awards and accordingly, $1,369,437 was recorded as compensation for the 3,137,667 stock options that vested during the year [2009 - $1,390,240 was recorded as compensation for the 1,114,165 stock options that vested].

## 12. CONTRIBUTED SURPLUS

The following table reflects the continuity of contributed surplus:

| | $ |
|---|---|
| **Balance, December 31, 2008** | 1,779,300 |
| Stock options vested | 1,390,240 |
| Stock options exercised | (57,439) |
| Expiry of warrants | 969,077 |
| Reallocation of stock options and share purchase warrants from obligation to issue shares | 65,967 |
| **Balance, December 31, 2009** | 4,147,145 |
| Stock options vested | 1,369,437 |
| Stock options exercised | (13,500) |
| Expiry of warrants | 1,919,641 |
| Reallocation of stock options and share purchase warrants from obligation to issue shares | 434,000 |
| **Balance, December 31, 2010** | **7,856,723** |

## 13. LOSS PER SHARE

The basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Fully diluted loss per share is the same as basic loss per share. The effect of common share purchase options and warrants on the net loss is not reflected as to do so would be anti-dilutive.

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

| | **2010** | 2009 *[restated - note 21]* |
|---|---|---|
| Numerator: | | |
| Net loss | **(159,261)** | (2,594,562) |
| Denominator: | | |
| Weighted average number of common shares | **44,874,454** | 33,557,795 |
| **Weighted average loss per share** | **-** | (0.08) |

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## 14. INCOME TAXES

The income tax recovery attributable to Loss before income taxes differs from the amount computed by applying the combined federal and provincial tax rate of 31.00% (2009 - 33.00%) to pre-tax loss as a result of the following:

| | **2010** $ | 2009 $ *[restated - note 21]* |
|---|---|---|
| Loss before income taxes | **(944,918)** | (4,456,539) |
| Expected income tax recovery from applying tax rate | **(292,925)** | (1,470,658) |
| Increase (decrease) from: | | |
| Stock compensation | **424,525** | 458,779 |
| Non deductible and non taxable items | **(157,720)** | (70,252) |
| Write-off of mineral properties | **51,777** | 654,735 |
| Mineral property interests | **(41,756)** | (495,597) |
| Other timing differences | **-** | 38,195 |
| Change in valuation allowance | **(1,292,738)** | (215,507) |
| Effect of change in statutory income tax rate | **523,180** | (761,672) |
| **Income tax recovery** | **(785,657)** | (1,861,977) |

| | **2010** $ | 2009 $ |
|---|---|---|
| Non-capital losses | **2,033,615** | 1,372,721 |
| Capital losses carried forward | **642,250** | 642,250 |
| Share issues costs | **160,148** | 493,689 |
| Carrying value of mineral interests (greater) less than tax basis | **(3,573,990)** | (1,181,318) |
| Other items | **53,803** | - |
| | **(684,174)** | 1,312,837 |
| Valuation allowance | **(652,984)** | (1,945,724) |
| **Net future tax liability** | **(1,337,158)** | (632,887) |

The Corporation has unclaimed common share issue costs of $640,591 and non-capital losses of $8,134,462 available to reduce future taxable income which expire as follows: $5,101 in 2015, $179,251 in 2026, $632,079 in 2027, $3,225,756 in 2028, $2,669,541 in 2029, and $1,422,734 in 2030. As well, the Corporation has approximately $5,138,000 in capital losses that have an unlimited carry-forward period to reduce future years' capital gains.

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## 15. SUPPLEMENTAL CASH FLOW INFORMATION

| | **2010**<br>$ | **2009**<br>$ |
|---|---|---|
| **Non-cash financing activities** | | |
| Common shares issued for non-cash consideration | **194,920** | 594,300 |
| Warrants issued | **-** | (353,595) |
| Share issue costs financed through broker warrants | **-** | 353,595 |
| Reduction of contributed surplus for stock options exercised | **(13,500)** | (57,439) |
| Reduction of share purchase warrants for warrants exercised | **-** | (31,211) |
| Reduction of obligation to issue shares for stock options exercised | **-** | (21,700) |
| | **181,420** | 483,950 |
| **Non-cash investing activities** | | |
| Mineral properties financed through common share issuance | **181,420** | 483,950 |
| | **-** | - |

[formerly Mega Silver Inc.]

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## 16. RELATED PARTIES

The following are the related party transactions, recorded at the exchange amount as agreed to by the parties:

[a] Included in general and administrative expenses are amounts totaling $17,316 (2009 - $19,607) for corporate secretarial services provided to the Corporation by companies related to the Corporation through the Corporate Secretary.

[b] Included in general and administrative expenses are amounts totaling $269,446, and included in the mineral property expenditures are amounts totalling $101,093 (2009 - $134,934 and $50,626) for rent, facilities related charges, and accounting and management services provided by a company related to the Corporation through the Chief Financial Officer, and a common director.

[c] Included in mineral property expenditures are amounts totalling $22,950 (2009 - $22,950) for the rental of a core shack provided by a company related to the Corporation through a common director and the Chief Financial Officer.

[d] Included in general and administrative expenses are amounts totaling $nil (2009 - $50,000) for management fees paid to a former director and officer of the Corporation.

[e] Included in general and administrative expenses are amounts totaling $nil (2009 - $28,500) for administrative and accounting fees paid to a company owned by a former officer of the Corporation.

[f] Included in project costs are amounts totaling $nil (2009 - $1,464) for geological supplies purchased from a company related to the Corporation through a common director.

[g] Included in mineral property expenditures are amounts totalling $nil (2009 - $22,950) for the rental of a core shack provided by a company related to the Corporation through a common director and officer.

## 17. COMMITMENTS

The Corporation has commitments relating to property leases, facilities related charges, and a management and accounting services agreement.

The minimum annual payments for the next year are as follows:

| | $ |
|---|---|
| 2011 | 191,415 |

**Obligation to issue shares**

Pursuant to the agreement with Skybridge Development Corp. (note 2), the Corporation has committed to issuing up to 1,390,000 common shares in relation to Skybridge options and warrants granted prior to the date of the agreement. The fair value in the amount of $722,138 for the stock options and warrants was determined using the Black-Scholes option pricing model using the following assumptions: no dividends to be paid, risk free interest rate of 1.19%, expected volatility of 132%, expected life of 1.88 years. The obligation has been reduced to $169,261 at December 31, 2010 due to the exercise and expiry of stock options valued at $73,780, and exercise and expiry of share purchase warrants valued at $479,097.

Pursuant to the agreement with Rolling Rock Resources Corp. (note 2), the Corporation has committed to issuing up to 3,946,000 common shares in relation to Rolling Rock options and warrants granted prior to the date of the agreement. The fair value in the amount of $1,577,451 for the stock options and warrants was determined using the Black-Scholes option pricing model using the following assumptions: no dividends to be paid, risk free interest rate of 1.16%, expected volatility of 139%, expected life of 1.15 years.

## 18. MANAGEMENT OF CAPITAL

The Corporation's objective when managing capital is to safeguard the Corporation's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimises the costs of capital at an acceptable risk. In the management of capital, the Corporation includes the components of shareholders' equity. The Corporation 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 Corporation may attempt to issue new shares, acquire or dispose of assets, or adjust the amount of cash and cash equivalents and investments.

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## 19. FINANCIAL INSTRUMENTS

The Corporation had no held-to-maturity or available for sale instruments and no allowance for credit losses as at December 31, 2010 and December 31, 2009:

| | 2010 | 2009 |
|---|---|---|
| Financial Assets | | |
| *Held for trading, measured at fair value* | | |
| Cash and cash equivalents | **4,299,877** | 10,387,322 |
| Investments | **75,000** | 1,755,000 |
| | **4,374,877** | 12,142,322 |
| *Loans and receivables, measured at amortized cost* | | |
| Accounts receivable | **348,476** | 239,149 |
| Financial Liabilities | | |
| *Other liabilities, measured at amortized cost* | | |
| Accounts payable and accrued liabilities | **909,726** | 762,981 |

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Corporation manages its credit risk by holding cash and cash equivalents through large Canadian financial institutions. Investments (including those presented as part of cash and cash equivalents) are comprised of financial instruments issued by the Federal Government of Canada. The Corporation's accounts receivable consist primarily of sales taxes due from the Federal Government of Canada. Financial assets are all current and therefore the maximum credit exposure would be the carrying value of these assets.

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.

(c) Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Corporation will realize a significant loss as a result of a decline in the fair market value of the investments and other items held within cash and cash equivalents is limited due to the relatively short maturity of the investments. The Corporation manages its interest rate risk by investing in short-term investments and therefore is not exposed to significant fluctuations in interest rates.

(d) Fair Value

Financial instruments consist of cash and cash equivalents, investments, accounts receivable, and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value, unless otherwise noted due to the short terms to maturity.

(e) Fair Value Hierarchy

The financial assets and liabilities measured at fair value in the Consolidated Balance Sheets are grouped into Level 1 for investments.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



## 20. SUBSEQUENT EVENTS

On February 24, 2011 the Corporation successfully completed a bought deal public offering of flow-through common shares (the "Flow-Through Shares"). Mega issued 14,375,000 Flow-Through Shares at a price of $0.80 per share for aggregate gross proceeds of $11,500,000 before expenses of the offering. The offering was completed through a syndicate of underwriters led by Stonecap Securities Inc. and including Octagon Capital Corporation.

## 21. PRIOR PERIOD RESTATEMENT

The 2009 comparative figures have been restated to reflect a correction in recording the future income taxes related to share issue costs. The future income tax expense recovery related to share issue costs was initially recorded as a future income tax recovery, whereas it should have been recorded as a credit to share capital. The effect of the restatement has been to increase the 2009 opening deficit and 2009 opening common share value by $382,817, decrease the 2009 future income tax recovery by $155,383, increase 2009 common share value by $155,383 and increase the 2009 basic and diluted loss per share to (0.08). The cumulative effect of the restatement has been to increase the opening 2010 deficit by $538,200.