STRONGHOLD METALS INC.
(Formerly Carat Exploration Inc.)

Consolidated Financial Statements (Unaudited)
November 30, 2010 and 2009

Index

Notice of no auditor review of interim Financial Statements

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

These financial statements have been prepared by management of the Company and have not been reviewed by the Company's independent auditor.

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

STRONGHOLD METALS INC.
(Formerly Carat Exploration Inc.)
Consolidated Balance Sheets

	November 30 2010	August 31 2010
	(Unaudited)	(Audited)
ASSETS		
CURRENT		
Cash and cash equivalents (note 5)	$ 715,667	$ 1,240,140
Restricted cash (note 6)	57,500	57,500
Receivable and advances	5,731	-
HST receivable	38,098	17,250
Tax credit receivable (note 7)	3,630	3,630
Accrued interest receivable	3,442	2,499
Prepaid expenses and deposit	25,857	9,170
	849,925	1,330,189
EQUIPMENT (note 8)	5,321	-
MINERAL PROPERTIES (note 9)	1,539,076	1,180,776
	$ 2,394,322	$ 2,510,965
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 203,400	$ 117,731
Due to related parties (note 11)	25,363	8,891
	228,763	126,622
Future Income Tax Liability	235,438	235,438
	464,201	362,060
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 10)	6,378,845	6,337,856
CONTRIBUTED SURPLUS (note 10(b))	6,441,577	6,416,047
DEFICIT	(10,890,301)	(10,604,998)
	1,930,121	2,148,905
	$ 2,394,322	$ 2,510,965

Nature of Operations and Going Concern (note 1)
Commitment (note 9)
Subsequent Events (note 12)

APPROVED BY THE DIRECTORS:

"Jim Heras"	*"Yannis Tsitos"*
Jim Heras, Director	Yannis Tsitos, Director

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

STRONGHOLD METALS INC.
(FORMERLY CARAT EXPLORATION INC.)
Consolidated Statements of Operations, Comprehensive Loss and Deficit
(Unaudited)

	Three Months Ended November 30	
	2010	2009
EXPENSES		
Amortization	$ 136	$ -
Investor relations (note 11)	59,375	15,000
Management and consulting fees (note 11)	24,250	9,000
Office and miscellaneous (note 11)	21,561	10,664
Professional fees (note 11)	30,079	5,962
Salaries and benefits (note 11)	30,000	30,000
Stock-based compensation	41,519	7,995
Stock exchange and filing fees	1,500	100
Transfer agent fees	1,216	855
Travel and promotion	78,046	905
Loss Before Other Items	287,682	80,481
Interest income	(2,452)	(122)
Foreign exchange (gain)/loss	73	(6,377)
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	285,303	73,982
DEFICIT, BEGINNING OF PERIOD	10,604,998	8,192,525
DEFICIT, END OF PERIOD	$ 10,890,301	$ 8,266,507
BASIC LOSS PER SHARE	- 0.01	0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	45,587,448	40,062,790

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

STRONGHOLD METALS INC.
(FORMERLY CARAT EXPLORATION INC.)
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended November 30	
	2010	2009
OPERATING ACTIVITIES		
Net loss for the period	$ (285,303)	$ (73,982)
Add items not affecting cash:		
Amortization	136	-
Stock-based compensation	41,519	7,995
Net changes in non-cash working capital items		
Accounts payable and accrued liabilities	85,669	(132,351)
Accrued interest receivable	(943)	-
HST receivable	(20,848)	(1,785)
Prepaid and deposit	(16,687)	11,014
Receivable and advances	(5,731)	-
Amounts due to related parties	16,472	(20,570)
	(185,716)	(209,679)
FINANCING ACTIVITIES		
Proceeds of loan from related party	-	100,000
Repayment of loan from related party	-	(100,000)
Shares issued for cash	25,000	-
	25,000	-
INVESTING ACTIVITIES		
Purchase of capital assets	-5,457	-
Expenditures on mineral properties	(358,300)	(8,057)
	(363,757)	(8,057)
DECREASE IN CASH DURING THE PERIOD	(524,473)	(217,736)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,240,140	678,574
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 715,667	$ 460,838
Supplemental Cash Flow Information:		
Cash paid for income taxes	$ -	$ -
Interest paid	$ -	$ -

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

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company was incorporated under the laws of the province of British Columbia on October 16, 2003 under the name Carat Exploration Inc. Effective April 12, 2010, the Company changed its name to Stronghold Metals Inc. The Company is an exploration stage company and is in the process of acquiring and exploring mineral properties.

These consolidated financial statements are prepared on a "going concern" basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As of November 30, 2010, the Company had working capital of $621,162 (August 31, 2010 - $1,203,567). The Company does not currently hold any revenue-generating properties and incurred losses of $285,303 for the three months ended November 30, 2010 (2009 - $73,982). The Company has an accumulated deficit of $10,890,301 as at November 30, 2010 (August 31, 2010 - $10,604,998).

The ability of the Company to continue as a going concern and meet its commitments as they become due, including exploration and development of its mineral interests, is dependent on the Company's ability to obtain the necessary financing. Management is planning to raise additional capital to finance operations and expected growth, and is looking at strategies to partner or dispose of its mineral interests (see note 9). If the Company is unable to obtain additional financing, the Company will be unable to continue.

The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. Ultimately, the Company continuing as a going concern is dependent upon its success in locating properties with economically recoverable resources and attaining either profitable operation from those properties or the proceeds from the disposition of those properties.

These consolidated financial statements do not reflect any adjustments that would be necessary if the going concern assumptions were not appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars.

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its integrated wholly-owned subsidiaries, Acarat (Chile) S.A, Mineracao Vale Do Sonho Ltda (Brazil) ("Do Sonho") and Stronghold Guyana Inc. (Guyana). All significant intercompany transactions and balances have been eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Use of estimates

The preparation of financial statements in accordance 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 amount of expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral properties, amount of tax credit receivable and accrued liabilities, the assumptions used in the determination of the fair value of stock-based compensation and the allocation of fair value to the warrants, and the determination of the valuation allowance for future income tax assets. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

(c) Mineral properties and exploration costs

The Company capitalizes all costs related to mineral properties on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, the property is sold or the Company's mineral rights are allowed to lapse.

All capitalized costs are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount (as estimated by quantifiable evidence of an economic geological resource or reserve or by reference to option or joint venture expenditure commitments) or when, in the Company's assessment, it will be unable to sell the property for an amount greater than the deferred costs, the property is written down for the impairment in value.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As such options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received.

(d) Revenue recognition

Interest income is recorded as earned at the stated rate of interest of the short-term investment over the term to maturity.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of outstanding options, warrants and similar instruments. Under this method, the dilutive effect on loss per common share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(f) Stock-based compensation

The Company has a stock option plan, which is described in note 10(c). The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of 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 or 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 directors, employees and non-employees, the fair value of the options is accrued and charged either to operations or mineral property interests, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are exercised, the applicable amounts are transferred to capital stock.

(g) Cash and cash equivalents

Cash and cash equivalents includes all cash balances and highly liquid investments that are readily redeemable or that have an initial maturity of three months or less.

(h) Future income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is substantively assured. Future tax benefits are recognized to the extent that realization of such benefits is considered to be more likely than not.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Asset retirement obligation

The Company recognizes the estimated fair value of legal obligations associated with the retirement of tangible long-lived assets that it is required to settle as a result of existing or enacted laws or by legal construction of a contract. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. The liability is initially recorded on a discounted basis, and is increased each period until the estimated date of settlement. The resulting expense is referred to as accretion expense and is included in operations. The Company reviews the asset retirement obligation for each long-lived asset on a periodic basis and adjusts the liability as necessary to reflect changes in the estimated future cash flows and timing underlying the fair value measurement.

(j) Foreign currency translation

The functional currency of the Company is the Canadian dollar. The Company uses the temporal method for foreign currency translation of its subsidiaries. Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transaction (except for depreciation which is translated at the same rate as the related asset). Foreign exchange gains and losses are recognized in the determination of net loss in the year in which they arise.

(k) Financial instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income (loss). Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value.

(l) Unit offerings

The proceeds from the issuance of units are allocated between common shares and common share purchase warrants on a pro-rata basis based on relative fair values using the market trading price and the Black-Scholes option pricing model for the shares and warrants, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Equipment

Equipment is stated at cost and is amortized at 20% on the declining balance method over the estimated useful lives of the assets. Amortization is recorded at one-half the normal rate in the year of acquisition.

(n) Recent accounting pronouncements

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

In 2008, the Canadian Accounting Standards Board confirmed that the transition to IFRS from Canadian generally accepted accounting principles will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements for its November 30, 2011 interim consolidated financial statements. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended August 31, 2011. The Company is currently evaluating the impact of the conversion on the Company's consolidated financial statements and is considering accounting policy choices available under IFRS.

(ii) Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements. These sections are effective September 1, 2011. The Company will assess the impact of the above sections as required.

3. CAPITAL MANAGEMENT

The Company's objectives in managing its capital are as follows:

- To safeguard its ability to continue as a going concern; and
- To have sufficient capital to be able to meet its strategic objectives including the continued exploration of its existing mineral projects and the identification of additional projects.

Given the current exploration stage of its projects, the Company considers capital to be the shareholders' equity of the Company. The Company manages its capital structure in accordance with its strategic objectives and changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue new shares in the form of private placements and/or secondary public offerings.

The Company has no externally imposed capital requirements. There have been no changes to the Company's approach to capital management during the period.

4. FINANCIAL INSTRUMENTS

The Company classifies its cash and cash equivalents and term deposit, as held-for-trading; and accounts payable and due to related parties as other financial liabilities.

CICA Handbook Section 3862, "Financial Instruments – Disclosures", establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 715,667	$ -	$ -	$ 715,667
Restricted cash	57,500	-	-	57,500
Accrued interest receivable	3,442	-	-	3,442
	$ 776,609	$ -	$ -	$ 776,609

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

4. FINANCIAL INSTRUMENTS (Continued)

(a) Fair value

The carrying values of cash and cash equivalents, restricted cash, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these financial instruments.
The fair values of amounts due to related parties are not practicable to determine due to their nature.

(b) Credit risk

Credit risk to the Company is the risk that they will not be able to recover their financial assets, principally cash and cash equivalents. The Company has $693,560 (August 31, 2010 - $1,217,959) of cash and cash equivalents in a Canadian chartered bank and $22,107 (August 31, 2010 - $22,181) in a subsidiary of a Canadian chartered bank located in Chile. The amounts kept in Chile are to cover expected mineral property and deferred exploration costs for the ensuing quarter. The Company's exposure to credit risk is not considered significant.

The Company manages credit risk, in respect of cash and cash equivalents, by purchasing highly liquid, short-term investment-grade securities held at major financial institutions.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At November 30, 2010, the Company had accounts payable and accrued liabilities totalling $203,400 (August 31, 2010 - $117,731), due within three months of period-end, and amounts due to related parties of $25,363 (August 31, 2010 - $8,891), with no stated terms of repayment.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

The Company's cash and cash equivalents consists of cash held in bank accounts and a guaranteed investment certificate ("GIC") that earns interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in interest rates will not have a significant impact on the fair value or future cash flows of the cash and cash equivalents of the Company.

4. FINANCIAL INSTRUMENTS (Continued)

(ii) Foreign currency risk

The Company is exposed to foreign currency fluctuations to the extent expenditures incurred are not denominated in Canadian dollars. The Company has operations in both Brazil and Chile. As at November 30, 2010, the Company had monetary net assets of approximately $19,031 (August 31, 2010 - $19,104) in Chilean pesos. A 10% increase or decrease in the value of the Chilean peso against the Canadian dollar would have a $1,903 (August 31, 2010 - $1,910) increase or decrease on the monetary net assets of the Company. The Company has not entered into any foreign currency contracts to mitigate this risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

5. CASH AND CASH EQUIVALENTS

As at November 30, 2010, the Company's cash and cash equivalents consists of cash of $37,700 and a GIC of $677,967.

The GIC was purchased June 15, 2010 and matures June 15, 2011. The GIC has a principal of $677,967, is redeemable at any time at the option of the Company and bears interest at a rate of prime minus 1.75%.

6. RESTRICTED CASH

The Company has $57,500 (August 31, 2010 - $57,500) of cash on hand, which is held as collateral for corporate credit cards with the Bank of Montreal. The $57,500 was invested in a redeemable one-year GIC at an interest rate of prime minus 1.85% maturing May 9, 2011.

7. TAX CREDIT RECEIVABLE

The Company made certain expenditures on the Seneca property that qualified for the British Columbia Mining Exploration Tax Credit ("BCMETC") from 2004 to 2009. The BCMETC is a refundable income tax credit, which is equal to 20% of qualified mining exploration costs incurred by the Company. The Company received $315,090 during the year ended August 31, 2009 relating to its 2005 and 2006 work programs on the Seneca property, including interest of $24,901. As at November 30, 2010, and August 31, 2010, the $3,630 balance relates to the 2008 and 2009 tax credits.

8. EQUIPMENT

	November 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Office Furniture and Equipment	$ 5,457	$ 136	$ 5,321
	$ 5,457	$ 136	$ 5,321

9. MINERAL PROPERTIES

	Seneca Canada	Combarbala Chile	Tucuma Brazil	Eagle Mountain Guyana	Total
Balance, August 31, 2009	$ 1	$ 1,013,354	$ 245,873	$ -	$ 1,259,228
Acquisiton costs					
Option payments - cash	-	-	664,725	-	664,725
Other acquisition expenses	-	-	277,028	-	277,028
Total acquisition costs for the year	-	-	941,753	-	941,753
Additions during the year:					
Analytical	-	3,232	-	-	3,232
Geological surveys, consulting and report	-	26,432	(11,896)	-	14,536
Professonal fees	-	69,804	-	-	69,804
Miscellaneous	-	37,790	21,211	-	59,001
Sampling and prospecting	-	-	(16,167)	-	(16,167)
Travel, supplies and field expenses	-	4,826	-	-	4,826
Total expenditures for year	-	142,084	(6,852)	-	135,232
Written down	-	(1,155,437)	-	-	(1,155,437)
Balance, August 31, 2010	1	1	1,180,774	-	1,180,776
Acquisition costs					
Option payments - shares	-	-	-	-	-
Other acquisition expenses	-	-	-	-	-
Total acquisition costs for the period	-	-	-	-	-
Additions during the year:					
Drilling	-	-	124,846	-	124,846
Equipment rental	-	-	14,005	-	14,005
Geological surveys, consulting and report	-	-	39,841	36,372	76,213
Professional fees	-	-	8,500	-	8,500
Miscellaneous	-	-	31,461	6,719	38,180
Rent	-	-	21,103	-	21,103
Sampling and prospecting	-	-	29,071	-	29,071
Travel, supplies and field expenses	-	-	16,860	-	16,860
Transportation	-	-	29,522	-	29,522
Total expenditures for the perid	-	-	315,209	43,091	358,300
Written down	-	-	-	-	-
Balance, November 30, 2010	$ 1	$ 1	$ 1,495,983	$ 43,091	$ 1,539,076

9. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)

Seneca Property

Pursuant to an agreement dated June 21, 2004, the Company was granted an option to acquire a 100% undivided interest in six mineral claims situated in the New Westminster Mining Division, British Columbia. As consideration for the property, the Company paid $20,000. The claims are subject to a net smelter return royalty ("NSR") of which 1% can be purchased by the Company for $250,000 at any time before the property is put into commercial production. During the years ended August 31, 2004 and 2005, the Company staked 28 additional mineral claims at a cost of $38,958.

Pursuant to an agreement dated July 22, 2005, the Company was granted an option to acquire a 100% undivided interest in two mineral claims situated in the New Westminster Mining Division, British Columbia. As consideration, the Company paid $40,000 and agreed to $20,000 of exploration expenditures on or before March 20, 2006 (incurred). The claims are subject to a 2% NSR, which can be purchased by the Company for $1,250,000 at any time.

The Company did not perform any significant exploration activities on the property during 2009 and 2010. During the 2009 fiscal year, the Company extended the term of two tenure claims totaling 504 hectares to 2013 and six tenure claims totaling 150 hectares to 2016 with the Government of British Columbia. The Company has no future exploration programs planned on this property and during the year ended August 31, 2009, wrote-down the carrying value of the Seneca property to a net book value of $1.

Combarbala Property

Pursuant to an agreement dated July 14, 2006, the Company was granted an option to acquire a 50% undivided interest in 33 mineral claims located in Region IV of Chile. To earn its interest, the Company was required to spend US$250,000 by July 14, 2007 (incurred) and an additional US$1,000,000 by July 14, 2009. Upon completing the expenditures, the Company would form a joint venture with the optionor ("BHP Billiton") for the continued exploration and development of the property. BHP Billiton may elect to acquire up to a 70% interest in the joint venture within 180 days of formation, by repaying the historical expenditures incurred by the Company and funding additional expenditures on the property up to an aggregate of $12,000,000 or completing a pre-feasibility study, whichever occurs earlier. On August 31, 2009, the Company amended the arrangements and entered into a Royalty Agreement with BHP Billiton whereby the Company acquired a 100% interest to the 33 mineral claims of the Combarbala Property by agreeing to pay BHP Billiton a 2% NSR.

During the year ended August 31, 2010, the Company wrote down the carrying value of the Cambarbala property to a net book value of $1 as it has no future exploration programs planned on the property.

9. MINERAL PROPERTIES (Continued)

Tucuma Property

In December 2009, as amended in May 2010, the Company entered into agreements with Do Sonho and the shareholders of Do Sonho, whereby the Company agreed to acquire all of the issued and outstanding shares of Do Sonho ("Do Sonho Shares"). As consideration, the Company issued 1,500,000 common shares and 750,000 non-transferable share purchase warrants to the holders of the Do Sonho Shares. Each warrant will entitle the warrant holder to acquire an additional common share in the capital of the Company at a price of $0.75 for a period of two years from the date of issue. On the commencement of commercial production for primary ore (excluding alluvial minerals) from the Tucuma Property, the Company will pay a sum of US$3,000,000 and a 1% NSR to the Do Sonho former shareholders.

The aggregate purchase price of $941,753 consisted of 1,500,000 common shares valued at $540,000, 750,000 share purchase warrants valued at $124,725, $41,590 of transaction costs and $235,438 of future income tax liability. The value of the common shares issued was based on the market price of the Company's common shares on the share issuance date. The value of the share purchase warrants was estimated using the Black-Scholes option pricing model (note 10(d)). The acquisition has been accounted for as a purchase of an asset of $941,753 and the excess purchase price over the net asset acquired was allocated to mineral properties.

Eagle Mountain Property

On September 29, 2010, the Company entered into a definitive Earn-In and Joint Venture Agreement (the "Agreement") with a subsidiary of IAMGOLD Corporation ("IAMGOLD"), under which the Company has been granted the right to acquire in stages up to 100% in the Eagle Mountain Gold Property, located in Guyana, South America, by paying an aggregate of US$11,000,000 and issuing an aggregate of 6,000,000 common shares of the Company and expend US$3,500,000 in exploration expenditures. The Eagle Mountain property is owned by Omai Gold Mines Ltd. ("OGML"), a 95% owned subsidiary of IAMGOLD with the Republic of Guyana ("Guyana") holding the remaining 5%. The Company has a commitment to pay US$250,000, issue 2,000,000 common shares in the capital of the Company to OGML and incur exploration expenditures of not less than US$400,000 on the Eagle Mountain Gold Property by December 31, 2010.

Furthermore, the Company has agreed to pay OGML an additional US$250,000 on the earlier of: (i) December 1, 2010; and (ii) five days from the date on which Guyana grants OGML an extension notice (the "Extension Notice") for the concessions that cover the Property for the period October 2010 to October 2011.

Provided the Extension Notice has been granted, the Company shall fund an additional US$1,100,000 of expenditures, issue an additional 2,000,000 common shares and pay an additional US$1,000,000 to OGML by October 31, 2011. Once the Company has satisfied the above requirements and therefore has funded an aggregate of US$1,500,000 of expenditures, issued an aggregate of 4,000,000 common shares and paid US$1,500,000 to OGML, the Company will have earned a 25% equity interest in the Property.

9. MINERAL PROPERTIES (Continued)

Eagle Mountain Property (Continued)

To acquire a further 25% interest (50% in aggregate), the Company shall by no later than October 31, 2012 pay US$1,000,000, issue 2,000,000 common shares of the Company and fund additional exploration expenditures of US$2,000,000. The Company may earn the remaining 50% interest (100% in aggregate) by paying an additional US$1,000,000 in October 2012 and US$7,500,000 on granting of a mining license for the Eagle Mountain property. Once the Company has satisfied the above requirements, the Company will either be issued, or have assigned, transferred or conveyed to it, such number of shares in the capital of OMGL as will constitute it the registered and beneficial owner of 100% of OMGL's entire issued capital stock, once such shares have been issued (excluding any equity interest, which may be held by Guyana).

Furthermore, the Company will pay a finder's fee of up to 1,500,000 common shares in stages over the term of the agreement, as follows:

- 428,723 common shares in the first year of the options;
- 206,382 common shares in the second year of the options;
- 106,383 common shares in the third year of the options; and
- 758,512 when the Government of Guyana grants a mining license for the property.

Realization

The Company's investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful commercial production or from the proceeds of their disposal. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or proceeds from the disposition thereof.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

Title

Although the Company has taken steps to ensure the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures may not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Environmental

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral property interests, the potential for production on the property may be diminished or negated.

9. MINERAL PROPERTIES (Continued)

Environmental (Continued)

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company. As at November 30, 2010 and 2009, the Company has determined that no provision for asset retirement obligations is required.

10. CAPITAL STOCK

(a) Authorized

During the annual general meeting on April 6, 2010, the shareholders of the Company approved a change in its authorized capital stock from 400,000,000 to an unlimited number of common shares without par value.

(b) Issued and fully paid

	Number of Shares	Capital Stock	Contributed Surplus
Balance, August 31, 2009	40,062,790	4,846,882	5,137,807
Private placement	4,000,000	1,041,331	358,669
Shares issued for property	1,500,000	540,000	-
Warrants issued for property	-	-	124,725
Share issuance costs	-	(63,016)	-
Fair value of finders' warrants	-	(27,341)	27,341
Stock-based compensation	-	-	767,505
Balance, August 31, 2010	45,562,790	6,337,856	6,416,047
Private placement	-	-	-
Stock options exercised	100,000	25,000	-
Transfer of contributed surplus on exercise of stock options		15,989	(15,989)
Stock-based compensation	-	-	41,519
Balance, November 30, 2010	45,662,790	$ 6,378,845	$ 6,441,577

During the year ended August 31, 2010:

The Company completed a private placement of 4,000,000 common shares at a price of $0.35 per share for total gross proceeds of $1,400,000. Each unit consists of one common share and one-half of one transferable share purchase warrant. Each whole warrant entitles the holder thereof to purchase an additional common share for a period of two years, expiring June 16, 2012, at a price of $0.45 if exercised in the first year and $0.55 if exercised in the second year. The Company allocated $1,041,331 to common shares and $358,669 to contributed surplus based on the relative fair values of the common shares and warrants. The Company paid finders' fees totaling $63,016 in cash and 113,400 finders' warrants with each warrant having the same terms as the warrants above with a fair value of $27,341.

10. CAPITAL STOCK (Continued)

(b) Issued and fully paid (Continued)

In June 2010, the Company issued 1,500,000 common shares and 750,000 warrants in exchange for all of the issued and outstanding shares of Do Sonho (note 9). The shares were valued at $540,000 based on the market price of the shares and the warrants were valued at $124,725 using the Black-Scholes option pricing model.

(c) Stock options

At the Company's annual general meeting held on April 6, 2010, the Company adopted a stock option plan (the "Plan") whereby the maximum number of options to acquire common shares of the Company that may be granted under the Plan will be 8,012,558. The term of those options to acquire common shares can be no longer than five years.

The Company has granted share purchase options to directors, officers, employees and consultants of the Company to purchase common shares of the Company.
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These options are granted with an exercise price equal to the market price of the Company's stock at the date of grant

A summary of the stock options activities follows:

	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
Balance, August 31, 2009	6,500,000	0.75	6,350,000	0.75
Granted	2,350,000	0.38	2,200,000	0.37
Re-priced	1,500,000	0.40	1,500,000	0.40
Foreited	(3,000,000)	0.92	(3,000,000)	0.92
Cancelled	(2,200,000)	0.75	(2,200,000)	0.75
Vested from prior periods	-	-	150,000	0.25
Balance, August 31, 2010	5,150,000	0.38	5,000,000	0.38
Granted	-	-	-	-
Exercised	(100,000)	0.25	(100,000)	0.25
Vested	-	-	37,500	0.40
Balance, November 30, 2010	5,050,000	$ 0.38	4,937,500	$ 0.38

During year ended August 31, 2010:

- On November 24, 2009, the Company granted 500,000 options to a director with an exercise price of $0.295 per share, which vested immediately.
- On April 6, 2010, the Company granted 1,600,000 incentive stock options to directors, officers, employees and consultants exercisable for a period of five years at an exercise price of $0.40 per share and the stock options vested immediately.

10. CAPITAL STOCK (Continued)

(c) Stock options (Continued)

- The Company also re-priced 1,500,000 stock options held by a director from $0.92 to $0.40 per share.
- On July 6, 2010, the Company granted 150,000 stock options to a consultant with an exercise price of $0.40 per share to be vested equally every three months over one year.
- On July 30, 2010, the Company granted 100,000 options to a director with an exercise price of $0.40 per share, which vested immediately.
- On August 4, 2010, the Company cancelled 100,000 stock options granted on April 30, 2007 at $0.92 per share and 600,000 stock options, which had been re-priced on April 6, 2010.

Stock options outstanding at November 30, 2010 were as follows:

Expiry Date	Number of Options	Exercise Price	Exercisable
May 19, 2011	100,000	$0.250	100,000
April 30, 2012	900,000	$0.400	900,000
July 6, 2012	150,000	$0.400	37,500
July 30, 2012	100,000	$0.400	100,000
January 2, 2013	900,000	$0.400	900,000
July 28, 2014	800,000	$0.320	800,000
November 24, 2014	500,000	$0.295	500,000
April 6, 2015	1,600,000	$0.400	1,600,000
	5,050,000		4,937,500
Weighted average remaining conractual life	3.07 years		3.10 years

Stock options outstanding at August 31, 2010 were as follows:

Expiry Date	Number of Options	Exercise Price	Exercisable
May 19, 2011	200,000	$0.250	200,000
April 30, 2012	900,000	$0.400	900,000
July 6, 2012	150,000	$0.400	-
July 30, 2012	100,000	$0.400	100,000
January 2, 2013	900,000	$0.400	900,000
July 28, 2014	800,000	$0.320	800,000
November 24, 2014	500,000	$0.295	500,000
April 6, 2015	1,600,000	$0.400	1,600,000
	5,150,000		5,000,000
Weighted average remaining conractual life	3.27 years		3.31 years

10. CAPITAL STOCK (Continued)

(c) Stock options (Continued)

The total calculated fair value of stock-based compensation for the period ended November 30, 2010 and August 31, 2010 would be allocated in the respective statements of operations as follows:

		November 30, 2010		August 31, 2010
Investor relations	$	41,519	$	54,039
Management and administration fees		-		713,466
	$	41,519	$	767,505

During the period ended November 30, 2010, the Company recognized $41,519 (2009 - $ 7,995) of stock-based compensation expense in the statements of operations for stock options that were granted and/or vested to directors, officers and consultants of the Company.

The fair value of the stock options granted during the year ended August 31, 2010 was estimated using the Black-Scholes option pricing model with the following assumptions:

	August 31, 2010
Risk-free interest rate	2.44%
Expected dividend yield	-
Expected stock price volatility	116%
Expected life of options	3.7 years
Weight average fair value of options granted	$0.29

(d) Warrants

	Number Of Warrants	Weighted Average Exercise Price
Balance, September 1, 2009	368,025	$0.62
Granted	2,863,400	$0.53
Expired	(368,025)	$0.62
Balance, August 31, 2010	2,863,400	$0.53
Granted	-	-
Exercised	-	-
Expired	-	-
Balance, November 30, 2010	2,863,400	$0.53

10. CAPITAL STOCK (Continued)

(d) Warrants (Continued)

The fair value of the warrants issued during the year ended August 31, 2010 was estimated using the Black-Scholes option pricing model with the following assumptions:

	August 31, 2010
Risk-free interest rate	1.61%
Expected dividend yield	-
Expected stock price volatility	117%
Expected life of warrants	2 years

11. RELATED PARTY TRANSACTIONS

During the period ended November 30, 2010, the Company incurred the following related party transactions:

(a) $Nil (2009 - $9,000) for management and administration fees to a company controlled by a director;

(b) $8,960 (2009 - $2,680) for accounting fees to a firm controlled by an officer of the Company. As of November 30, 2010, $4,122 (2009 - $2,016) was included in due to related parties;

(c) $58,250 (2009 - $30,000) for salaries and consulting fees paid to directors of the Company;

(d) $2,548 (2009 - $Nil) for office and travelling expenses paid to a director of the Company;

(e) $Nil (2009 - $4,107) for office and other expenses to a company related through common directors;

(f) $23,090 in credit (2009 - $23,090 in credit) for mineral property expenditures to a private company controlled by a director;

(g) $9,375 (2009 - $Nil) for investor relations services to a relative of a director.

All transactions were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

12. SUBSEQUENT EVENTS

(a) The Company completed a private placement of 7,200,000 units at price of $0.55 per unit for total proceeds of $3,960,000. Each unit consists of one common share and one-half of one transferable share purchase warrant. Each warrant entitles the holder to purchase an additional common share for a period of 18 months from the closing of the private placement at $0.75 per share. The Company paid $256,757 cash to agents for finder fees and also issued 538,650 compensation warrants entitling an agent to acquire one common share of the Company for each compensation warrant at a price of $0.55 per share until December 14, 2011.

(b) The Company issued 2,000,000 common shares and paid US$500,000 pursuant to the agreement for the acquisition of the Eagle Mountain property.

(c) The Company issued 85,000 shares on the exercise of stock options for total proceeds of $34,000.

(d) The Company issued 21,000 shares on the exercise of warrants for proceeds of $9,450.

13. CONTINGENCY

A local Brazilian individual has initiated an action against the Company and two more entities under labour laws in Brazil. The Company's management, in consultation with legal counsel attending the matter, believe the action is completely without merit and is vigorously defending against it, but cannot reasonably estimate the amount of any potential loss at this time.