SEARCH MINERALS INC.
(An Exploration Stage Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2010

(unaudited)

Search Minerals Inc.

Interim Consolidated Financial Statements

Nine months ended August 31, 2010

NOTICE OF NO AUDITOR REVIEW OF

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

SEARCH MINERALS INC.
(An Exploration Stage Company)
INTERIM CONSOLIDATED BALANCE SHEETS
(unaudited)

	August 31, 2010	November 30, 2009
ASSETS		
Current		
Cash and cash equivalents	**$ 1,160,028**	$ 592,132
GST/HST recoverable and other receivables	**214,896**	46,152
Marketable securities (Note 3)	**94,300**	-
Other assets	**13,500**	1,500
	1,482,724	639,784
Equipment (Note 4)	**118,032**	7,480
Mineral properties and deferred exploration (Note 5)	**2,194,891**	848,861
Staking deposits (Note 6)	**327,292**	151,319
	$ 4,122,939	$ 1,647,444
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 8)	**$ 367,299**	$ 330,463
Shareholders' equity		
Share capital (Note 7)	**5,210,714**	2,267,666
Warrants (Note 7)	**95,581**	70,800
Contributed surplus (Note 7)	**535,452**	77,668
Accumulated other comprehensive income	**33,900**	-
Deficit	**(2,120,007)**	(1,099,153)
	3,755,640	1,316,981
	$ 4,122,939	$ 1,647,444

Nature of Operations and Ability to Continue as a Going Concern (Note 1)
Commitments (Notes 5 and 7)
Subsequent Events (Notes 3, 7 and 10)

On behalf of the Board:

"Tony Ker" Director
Tony Ker

"James Clucas" Director
James Clucas

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

SEARCH MINERALS INC.
(An Exploration Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the three months ended August 31,		For the nine months ended August 31,	
	2010	2009	**2010**	2009
GENERAL AND ADMINISTRATIVE EXPENSES				
Accounting and audit	**$ 14,670**	$ 9,249	**$ 73,617**	$ 13,730
Administration expense and management fees (Note 8)	**54,911**	4,800	**120,484**	13,800
Amortization (Note 4)	**6,882**	410	**12,535**	1,230
Bank charges	**1,835**	156	**4,311**	489
Consulting (Note 8)	**39,900**	4,500	**98,111**	11,500
Legal fees	**14,466**	14,465	**36,430**	17,670
Rent	**6,050**	4,800	**15,650**	10,800
Office and miscellaneous	**29,301**	4,511	**58,405**	12,271
Regulatory and transfer agent fees	**4,175**	4,614	**21,139**	13,372
Stock-based compensation (Note 7(c))	**209,842**	25,650	**470,284**	25,650
Travel and accommodation	**2,378**	2,655	**8,485**	3,851
Loss for the period before other items	**(384,410)**	(75,810)	**(919,451)**	(124,363)
Other income (expense) items				
Gain on option agreement (Note 5)	**43,886**	-	**43,886**	-
Interest income	**1,902**	77	**2,242**	184
Operator fee income	**38,757**	-	**38,757**	-
Technology research (Note 8)	**(47,603)**	-	**(186,288)**	-
Loss for the period	**$ (347,468)**	$ (75,733)	**$ (1,020,854)**	$ (124,179)
Basic and diluted loss per share	**$ (0.02)**	$ (0.01)	**$ (0.06)**	$ (0.02)
Weighted average number of common shares outstanding	**20,547,116**	8,085,385	**17,218,645**	8,085,385

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

SEARCH MINERALS INC.
(An Exploration Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(unaudited)

	For the three months ended August 31,		For the nine months ended August 31,	
	2010	2009	**2010**	2009
Net loss for the period	**(347,468)**	(75,733)	**(1,020,854)**	(124,179)
Other comprehensive income in the period				
Unrealized gain on marketable securities	**33,900**	-	**33,900**	-
Comprehensive loss for the period	**(313,568)**	(75,733)	**(986,954)**	(124,179)

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

SEARCH MINERALS INC.
(An Exploration Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the three months ended August 31, 2010	For the three months ended August 31, 2009	For the nine months ended August 31, 2010	For the nine months ended August 31, 2009
Cash provided by (used in)				
OPERATING ACTIVITIES				
Net loss for the period	**$ (347,468)**	$ (75,733)	**$ (1,020,854)**	$ (124,179)
Items not affecting cash:				
Amortization	**6,882**	420	**12,535**	1,230
Gain on option agreement	**(43,886)**	-	**(43,886)**	-
Stock-based compensation	**209,842**	25,650	**470,284**	25,650
	(174,630)	(49,663)	**(581,921)**	(97,299)
Changes in non-cash working capital items:				
GST/HST recoverable and other receivables	**(157,121)**	(6,338)	**(168,744)**	10,501
Other assets	**(3,000)**	-	**(12,000)**	-
Accounts payable and accrued liabilities	**(14,063)**	(16,267)	**(59,906)**	(13,613)
	(348,814)	(72,268)	**(822,571)**	(100,411)
INVESTING ACTIVITIES				
Mineral property costs, net	**(855,712)**	(69,773)	**(1,181,102)**	(89,125)
Purchase of equipment	**(39,141)**	-	**(123,087)**	-
Staking costs, net of recoveries	**(16,871)**	18,663	**(175,973)**	33,963
	(911,724)	(51,110)	**(1,480,162)**	(55,162)
FINANCING ACTIVITIES				
Issuance of common shares, net of issue costs	**39,851**	-	**2,870,629**	-
	39,851	-	**2,870,629**	-
(Decrease) increase in cash and cash equivalents during the period	**(1,220,687)**	(123,378)	**567,896**	(155,573)
Cash and cash equivalents, beginning of the period	**2,380,715**	838,673	**592,132**	870,868
Cash and cash equivalents, end of the period	**$ 1,160,028**	$ 715,295	**$ 1,160,028**	$ 715,295
Cash paid for interest	**$ -**	$ -	**$ -**	$ -
Cash paid for income taxes	**$ -**	$ -	**$ -**	$ -
Supplemental non-cash financing and investing information				
Amounts relating to mineral property costs included in accounts payable and accrued liabilities	**$ (156,131)**	$ -	**$ (96,742)**	$ -
Marketable securities received pursuant to mineral property option agreements	**$ 60,400**	$ -	**$ 60,400**	$ -
Issuance of common shares pursuant to mineral property agreements	**$ 4,700**	$ -	**$ 84,700**	$ -
Transfer from warrants to share capital on exercise of share purchase warrants and options	**$ 13,288**	$ -	**$ 24,319**	$ -

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

SEARCH MINERALS INC.
(An Exploration Stage Company)
INTERIM CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the nine months ended August 31, 2010
(unaudited)

	Issued Share Capital						
	Number of Shares	Amount	Warrants	Contributed Surplus	Deficit	AOCI	Total Shareholders' Equity
Balance, November 30, 2009	12,775,385	2,267,666	70,800	77,668	(1,099,153)	-	1,316,981
For cash pursuant to private placements of units	7,320,000	2,930,400	36,600	-	-	-	2,967,000
Less: Issue costs – cash	-	(162,831)	-	-	-	-	(162,831)
Pursuant to mineral property agreements (Note 5)	210,000	84,700	-	-	-	-	84,700
Pursuant to warrant exercises	237,030	46,460	-	-	-	-	46,460
Transfer on exercise of warrants	-	11,819	(11,819)	-	-	-	-
Pursuant to option exercises	100,000	20,000	-	-	-	-	20,000
Transfer on exercise of options	-	12,500	-	(12,500)	-	-	-
Stock-based compensation	-	-	-	470,284	-	-	470,284
Comprehensive income for the period	-	-	-	-	-	33,900	33,900
Net loss for the period	-	-	-	-	(1,020,854)	-	(1,020,854)
Balance, August 31, 2010	**20,642,415**	**5,210,714**	**95,581**	**535,452**	**(2,120,007)**	**33,900**	**3,755,640**

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

1. Nature of Operations and Ability to Continue as a Going Concern

Search Minerals Inc. (the "Company") was incorporated under the provisions of the Business Corporation Act (British Columbia) on June 7, 2006. On May 3, 2007, the Company commenced trading on the TSX Venture Exchange (the "TSX-V"). The Company is in the business of acquiring, exploring and evaluating mineral resource properties and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. At August, 31, 2010, the Company was in the exploration stage and had properties located in Canada.

The Company is currently exploring its mineral properties and has not yet determined whether the properties contain mineral reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and deferred exploration is dependent upon the discovery of economically recoverable mineral reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain the necessary financing to complete the development, and the attainment and maintenance of future profitable production or disposition thereof.

The consolidated financial statements of the Company are prepared on a going concern basis, which assumes that the Company will continue realizing its assets and discharging all its liabilities in the normal course of business for the next twelve months. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At August 31, 2010, the Company had not yet achieved profitable operations, has accumulated losses of $2,120,007 since inception and expects to incur further losses in the development of its business. The Company's ability to continue as a going concern is dependent upon the discovery of economically recoverable reserves, its ability to obtain the necessary financing to develop the properties, its ability to license the technology, and to meet its obligations and repay its liabilities arising from normal business operations when they come due. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

2. Significant Accounting Policies

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles, following accounting policies consistent with the Company's audited consolidated financial statements and notes thereto for the year ended November 30, 2009. These consolidated financial statements do not include all the disclosures required by generally accepted accounting principles for annual financial statements and should be read in conjunction with the most recent audited consolidated financial statements of the Company.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Alterra Resources Inc. All intercompany transactions and balances have been eliminated.

<u>Future accounting and reporting changes</u>

i) Business combinations, consolidated financial statements and non-controlling interest

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-controlling Interests". These sections replace the former CICA Handbook 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. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date.

It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3, "Business Combinations" (January 2008).

2. Significant Accounting Policies (continued)

The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, "Consolidated and Separate Financial Statements" (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company will adopt these sections on December 1, 2010. The Company has determined that adopting these standards will not have a material impact on the Company's consolidated financial statements.

ii) International Financial Reporting Standards ("IFRS")

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 IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company of December 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2010. The Company has begun an internal diagnostic review to understand, identify and assess the overall effort required to produce financial information under IFRS, however, at this time, the financial reporting impact of the transition to IFRS cannot be reasonably estimated.

3. Marketable Securities

On June 2, 2010, the Company received 200,000 common shares of Great Western Minerals Group Ltd. ("GWG") pursuant to a mineral property option agreement. The shares have been classified as an available-for-sale financial instrument and, as a result, are measured at fair market value each reporting period with any change in fair value recognized through other comprehensive income (loss). Based on GWG's closing trading price on August 31, 2010 of $0.29 per share, an unrealized gain of $19,000 was recognized as other comprehensive income for the nine months ended August 31, 2010 on the revaluation of the shares to $58,000 at August 31, 2010 (November 30, 2009: $nil).

On June 28, 2010, the Company received 10,000 common shares of Quest Rare Minerals Ltd. ("Quest") pursuant to a mineral property option agreement. The shares have been classified as an available-for-sale financial instrument and, as a result, are measured at fair market value each reporting period with any change in fair value recognized through other comprehensive income (loss). Based on Quest's closing trading price on August 31, 2010 of $3.63 per share, an unrealized gain of $14,900 was recognized as other comprehensive income for the nine months ended August 31, 2010 on the revaluation of the shares to $36,300 at August 31, 2010 (November 30, 2009: $nil).

The aggregate unrealized gain on marketable securities recognized as other comprehensive income during the nine months ended August 31, 2010 was $33,900 (nine months ended August 31, 2009: $nil).

Subsequent to August 31, 2010, the Company sold 100,000 common shares of GWG for total proceeds of $36,638.

4. Equipment

	August 31, 2010		
	Cost	Accumulated Amortization	Net
Vehicles	$ 13,771	$ 9,326	$ 4,445
Office furniture	799	188	611
Equipment	116,623	9,705	106,918
Computers	7,879	1,821	6,058
	$ 139,072	$ 21,040	$ 118,032

	November 30, 2009		
	Cost	Accumulated Amortization	Net
Vehicles	$ 13,771	$ 8,036	$ 5,735
Office furniture	799	80	719
Computers	1,415	389	1,026
	$ 15,985	$ 8,505	$ 7,480

5. Mineral Properties

The Company, through its wholly-owned subsidiary, Alterra Resources Inc., owns interests in mineral properties in Newfoundland and Labrador. The Company is exploring the following mineral properties. Details of accumulated costs are as follows:

	Port Hope Simpson REE District, Labrador	Strange Lake, Labrador	Red Wine, Labrador	Katie, Newfoundland	Other, Newfoundland and Labrador	Total
Balance, November 30, 2009	$ 383,470	$ 22,557	$ 45,114	$ 171,690	$ 226,030	$ 848,861
Acquisition costs						
Cash	20,000	-	-	-	-	20,000
Shares	80,000	4,700	-	-	-	84,700
Staking	14,840	-	-	-	550	15,390
	114,840	4,700	-	-	550	120,090
Deferred exploration costs						
Airborne surveys	11,926	-	-	-	-	11,926
Assays	107,385	-	-	-	180	107,565
Drilling	12,334	-	-	1,755	-	14,089
Geological consulting	101,898	-	-	11,141	2,400	115,439
Helicopters	364,812	-	-	-	31,212	396,024
Line cutting	4,343	-	-	5,133	-	9,476
Other	266,001	2,125	-	10,243	1,078	279,447
Prospecting	330,445	-	-	900	7,762	339,107
Salaries, wages and benefits	32,982	-	-	13,822	-	46,804
Tax credits received	(37,023)	-	-	-	-	(37,023)
	1,195,103	2,125	-	42,994	42,632	1,282,854
Option agreements						
Option payments received – cash	-	-	(50,000)	-	-	(50,000)
Option payments received – shares	-	(21,400)	(39,000)	-	-	(60,400)
Operator fees paid	-	9,600	-	-	-	9,600
	-	(11,800)	(89,000)	-	-	(100,800)
Option proceeds recognized in the income statement	-	-	43,886	-	-	43,886
Balance, August 31, 2010	**$ 1,693,413**	**$ 17,582**	**$ -**	**$ 214,684**	**$ 269,212**	**$ 2,194,891**

Although the Company has taken steps to verify 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 do not guarantee a clear title. Property title may be subject to unregistered prior agreements and regulatory requirements. The Company is not aware of any disputed claims of title.

The Company acquired the mineral properties primarily by staking the claims. In order to maintain title to the claims, the Company must incur minimum exploration expenditures per claim as specified by the Mineral Act of the Province of Newfoundland and Labrador. In lieu of incurring the minimum expenditures, the Company may make security deposits with the Government of Newfoundland and Labrador (Note 6). Other commitments relating to mineral properties are as follows:

5. Mineral Properties (continued)

Port Hope Simpson, B and A Claims, Labrador

On December 10, 2009, the Company entered into a binding letter of intent (the "LOI") with B and A Minerals Inc. ("B and A"), further defined in a Mining Option Agreement, for an option to acquire an undivided 100% interest in and to certain claims in southeast Labrador owned by B and A ("Port Hope Simpson, B and A Claims").

Under the terms of the Mining Option Agreement, to earn the undivided 100% interest in Port Hope Simpson, B and A Claims, the Company must pay B and A an aggregate of $140,000. The Company paid $20,000 during the nine months ended August 31, 2010. The Company must pay $30,000 on or before January 14, 2011, $40,000 on or before January 14, 2012 and $50,000 on or before January 14, 2013.

The Company must also issue an aggregate 1,100,000 common shares of the Company. The Company issued 200,000 common shares on March 29, 2010 at the fair value of $80,000. The Company must issue 250,000 shares on or before January 14, 2011, 300,000 shares on or before January 14, 2012 and 350,000 shares on or before January 14, 2013.

The Mining Option Agreement is subject to a three (3) % net smelter return in favor of B and A, of which the Company can purchase 2% at any time for $2,000,000.

Strange Lake Property, Labrador

On June 22, 2010, the Company entered into an agreement with Quest Rare Minerals Ltd. ("Quest") pursuant to which Quest transferred four licenses consisting of nine mineral claims to the Company in consideration for 10,000 common shares of the Company (issued at the fair value of $4,700). The mineral claims are located adjacent to the Company's Strange Lake Property.

On June 22, 2010, the Company entered into an option agreement with Quest pursuant to which the Company has granted Quest an option (the "Option") to acquire up to a 65% undivided working interest in the Company's Strange Lake Property located on 750 hectares in Western Labrador in the Province of Newfoundland and Labrador.

Pursuant to the option agreement, Quest may earn a 50% undivided working interest in the Strange Lake Property by issuing an aggregate of 90,000 common shares of Quest to the Company over a period of three years as follows:

- 10,000 common shares of Quest on June 22, 2010, 2010 (received at the fair value of $21,400 (Note 3));
- 15,000 common shares of Quest on or before June 14, 2011;
- 25,000 common shares of Quest on or before June 14, 2012; and,
- 40,000 common shares of Quest on or before June 14, 2013.

The Company has received 10,000 common shares of Quest at the fair value of $21,400 (Note 3). In addition, Quest must incur mineral exploration expenditures of $500,000 in aggregate over a period of three years as follows:

- $100,000 on or before June 14, 2011;
- $150,000 on or before June 14, 2012; and,
- $200,000 on or before June 14, 2013.

Upon Quest earning a 50% undivided working interest in the Strange Lake Property, Quest may earn an additional 15% undivided working interest in the property by incurring additional mineral exploration expenditures of $1,250,000 in aggregate over a period of two years and paying $75,000 in cash to the Company on or before June 14, 2014.

The property is subject to a 1.5% net smelter return royalty in favour of the Company. Quest may, at any time, purchase 1% of the NSR royalty for $1,000,000.

Quest will be the operator for the property and the Company will pay Quest an amount equal to 10% of the expenditures incurred by Quest for each year of the Option.

5. Mineral Properties (continued)

Red Wine Property, Labrador

On March 16, 2010, the Company entered into an option agreement (the "Letter Agreement") with Great Western Minerals Group Ltd. ("GWG") whereby GWG can acquire up to a 50% working interest in the Company's Red Wine Property, located approximately 100km north-east of Churchill Falls, Labrador.

Under the terms of the Letter Agreement, GWG will pay an aggregate of $225,000 and GWG will issue an aggregate of 1,050,000 common shares as follows:

- $50,000 (received) and 200,000 common shares of GWG on March 16, 2010 (received at the fair value of $39,000 (Note 3));
- $75,000 and 350,000 common shares of GWG on or before March 16, 2011; and,
- $100,000 and 500,000 common shares of GWG on or before March 16, 2012.

GWG will also fund an exploration program of an aggregate of $1,500,000 of exploration expenditures as follows:

- $750,000 on or before March 16, 2011;
- $250,000 on or before March 16, 2012; and,
- $500,000 on or before March 16, 2013.

The Company will be the operator of the exploration activities and GWG will pay the Company a 10% operator fee, payable in cash. During the nine months ended August 31, 2010, the Company recorded $38,757 of operator fee income (2009: $nil).

During the nine months ended August 31, 2010, the Company recorded a gain on option agreement of $43,886. This amount represents the value of cash and shares recorded in excess of the carrying amount of the Red Wine Property.

On commencement of commercial production, GWG will have a three year renewable right (the "Marketing Arrangement") to market the Company's share of production of rare earth elements ("REE's") from the Red Wine Property. The Company will retain the option to renew the Marketing Arrangement for each subsequent three year period.

6. Staking deposits

Staking security deposits are refundable if certain exploration expenditure criteria specified in the Mineral Act of the Province of Newfoundland and Labrador are met. Until such time as the Company makes application to have the deposits refunded, they will be classified as a non-current asset.

The Company has refundable deposits with the Governments of Newfoundland and Labrador as follows:

		Total
Balance, November 30, 2009	$	151,319
Additions		185,498
Recoveries		(9,525)
Balance, August 31, 2010	$	327,292

7. Share capital

a. Common shares authorized

Unlimited number of common shares

b. Financings

During the nine months ended August 31, 2010:

In February 2010, the Company completed a non-brokered private placement of 2,500,000 units at a price of $0.35 per unit for gross proceeds of $875,000. Each unit is comprised of one common share and one share purchase warrant. Each warrant entitles the holder thereof to purchase an additional common share of the Company at $0.50 per share up to February 11, 2011. A value of $12,500 has been attributed to the warrants using the residual method. The Company incurred $7,750 of legal fees and other fees in connection with the private placement.

In March 2010, the Company completed a non-brokered private placement of 2,400,000 units at a price of $0.35 per unit for gross proceeds of $840,000. Each unit is comprised of one common share and one share purchase warrant. Each warrant entitles the holder thereof to purchase an additional common share of the Company at $0.50 per share up to March 5, 2011. A value of $12,000 has been attributed to the warrants using the residual method. The Company incurred $51,469 of legal fees and other fees in connection with the private placement.

In May 2010, the Company completed a non-brokered private placement of 2,000,000 non flow-through units at a price of $0.50 per non flow-through unit and 420,000 flow-through units at a price of $0.60 per flow-through unit for aggregate gross proceeds of $1,252,000. Each non flow-through unit is comprised of one common share and one share purchase warrant. Each flow-through unit is comprised of one flow-through common share and one share purchase warrant. Each warrant entitles the holder thereof to purchase an additional common of the Company at $0.75 per share up to May 31, 2012. A value of $12,100 has been attributed to the warrants using the residual method. The Company incurred $103,612 of legal fees and other fees in connection with the private placement.

c. Stock option plan

The Company has a stock option plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. The exercise price of each option granted under the plan may not be less than the Discounted Market Price (as that term is defined in the policies of the TSX-V. Options may be granted for a maximum term of five years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as a director or officer of the Company.

Changes in share purchase options during the nine months ended August 31, 2010 are as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Life (Years)
Outstanding, November 30, 2009	650,000	$0.13	3.92
Granted	1,475,000	$0.43	
Exercised	(100,000)	$0.20	
Outstanding and exercisable, August 31, 2010	2,025,000	$0.34	4.29

7. Share capital (continued)

At August 31, 2010, the following share purchase options were outstanding entitling the holder thereof the right to purchase one common share for each option held:

Number	Exercise Price	Expiry Date
100,000	$0.20	May 3, 2012
450,000	$0.10	July 3, 2014
875,000	$0.40	February 16, 2015
600,000	$0.47	June 22, 2015
2,025,000		

The weighted average fair value of share purchase options granted of $0.32 (2009: $0.06) per option was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	Nine months ended August 31, 2010	2009
Risk-free interest rate	1.98%	2.46$
Expected life	5.0 years	5.0 years
Expected volatility	134%	124%
Expected dividends	Nil	Nil
Expected forfeitures	10%	Nil

During the nine months ended August 31, 2010, the Company recorded stock-based compensation expense of $470,284 (2009: $25,650).

d. Warrants

Changes in share purchase warrants during the nine months ended August 31, 2010 are as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Life (Years)
Balance, November 30, 2009	1,450,500	$0.25	0.76
Issued	7,320,000	$0.58	
Exercised	(237,030)	$0.20	
Balance, August 31, 2010	8,533,470	$0.53	0.78

7. Share capital (continued)

At August 31, 2010, the following share purchase warrants were outstanding entitling the holder thereof the right to purchase one common share for each warrant held:

Number	Exercise Price	Expiry Date
817,500(1)	$0.15	September 24, 2010
85,970(2)	$0.35	October 23, 2010
310,000(3)	$0.46	October 23, 2010
2,500,000	$0.50	February 11, 2011
2,400,000	$0.50	March 5, 2011
2,420,000	$0.75	May 31, 2012
8,533,470		

(1) Subsequent to August 31, 2010, 817,500 share purchase warrants were exercised at a price of $0.15 per share for gross proceeds of $122,625.
(2) Subsequent to August 31, 2010, 85,970 share purchase warrants were exercised at a price of $0.35 per share for gross proceeds of $30,090.
(3) Subsequent to August 31, 2010, 310,000 share purchase warrants at a price of $0.46 per share expired unexercised.

e. Escrow

As a result of the acquisition of Alterra, the Qualifying Transaction as defined by the TSX-V (the "QT"), in October, 2008, an aggregate of 2,985,000 common shares were placed in escrow. 10% of the escrowed shares (298,500 shares) were released on completion and approval of the QT. An additional 15% (447,750 shares) of the aggregate escrowed common shares will be released on each six month anniversary of the completion of the QT. As at August 31, 2010, the Company had 1,343,250 (November 30, 2009: 1,791,000) shares held in escrow. The final 447,750 common shares will be released from escrow on November 1, 2011.

f. Flow-through Shares

During May 2010, the Company issued 420,000 flow-through units at $0.60 per flow-through unit for gross proceeds of $252,000. In connection with this, the Company must incur eligible Canadian Exploration Expenditures of $252,000 on or before December 31, 2011. The Company incurred aggregate eligible Canadian Exploration Expenditures in this amount prior to August 31, 2010. The amount will not be available to the Company for future deduction from taxable income.

8. Related Party Transactions

During the three months and nine months ended August 31, 2010 and 2009, the Company incurred the following expenditures charged by directors and officers of the Company, or former directors and officers of the Company, and/or companies they owned or were significant shareholders of:

	Three months ended August 31,		Nine months ended August 31,	
	2010	2009	**2010**	2009
Administration and management fees	**$ 51,000**	$ -	**$ 106,000**	$ -
Consulting fees	**-**	-	**45,938**	2,000
Technology research	**22,500**	-	**160,736**	-
Mineral property expenditures				
General exploration	**-**	-	**16,628**	-
Geological consulting	**40,000**	-	**57,500**	-
	$ 113,500	$ -	**$ 386,802**	$ 2,000

These expenditures were measured at the exchange amount which is the amount agreed upon by the transacting parties.

At August 31, 2010, accounts payable and accrued liabilities included $28,097 (November 30, 2009: $108,285) of amounts owing to directors and officers of the Company and/or companies they control or of which they were significant shareholders. The amounts owing include amounts related to expenditures charged to the Company and for reimbursements of expenditures paid for on behalf of the Company. The amounts owing are unsecured, non-interest bearing and due on demand.

9. Financial Instruments

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, other receivables, marketable securities, and accounts payable and accrued liabilities. The Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. The other receivables are designated as loans and receivables, which are measured at amortized cost. The marketable securities are designated as available-for-sale financial assets, which are measured at fair value. Accounts payable and accrued liabilities are designated as other financial liabilities, which are measured at amortized cost. The fair value of cash and cash equivalents, other receivables and accounts payable and accrued liabilities approximates their carrying value due to their short term nature.

The Company's investments in marketable securities are transacted in active markets. The Company classifies the fair value of these transactions according to the following fair value hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Values based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 – Level 2 valuation is based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – Values based on prices or valuation techniques that are not based on observable market data.

9. Financial Instruments (continued)

The value of marketable securities has been assessed based on the fair value hierarchy described above and are classified as Level 1. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

Discussions of risks associated with financial assets and liabilities are detailed below:

<u>Credit Risk</u>

Credit risk arises from cash held with banks and financial institutions as well as from receivables and amounts due from shareholders and related parties. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company's cash and cash equivalents are held with a large Canadian bank.

<u>Liquidity Risk</u>

Liquidity risk is the risk that the Company will not have sufficient funds to meet its financial obligations when they are due. The Company manages liquidity risk by maintaining sufficient cash and cash equivalent balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities are current.

<u>Commodity Price Risk</u>

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market price of minerals under exploration.

<u>Market Risk</u>

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 comprises three types of risk: currency risk, interest rate risk and price risk.

a) Currency Risk

As at August 31, 2010 and November 30, 2009, all of the Company's cash and cash equivalents were held in Canadian dollars, the Company's functional currency. The Company has no operations in foreign jurisdictions outside of Canada at this time and as such has no currency risk associated with its operations.

b) Interest Rate Risk

The Company has investments in guaranteed investment certificates that are highly liquid. As such, the Company has been exposed to nominal interest rate risk.

c) Price Risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. The Company holds common shares of GWG and Quest. The Company is subject to price risk due to changes in the fair value of the GWG and Quest common shares. GWG and Quest are traded on the TSX-V. A 5% change in the fair value of the GWG and Quest shares would result in the Company incurring an unrealized gain/loss of $4,715.

10. Subsequent Events

Flow-Through Private Placement

On November 1, 2010, the Company completed a flow-through private placement of 2,000,000 flow-through units at $0.50 per flow-through unit for gross proceeds of $1,000,000. Each flow-through unit is comprised of one flow-through common share and one non-flow-through common share purchase warrant. Each whole warrant entitles the holder thereof to purchase an additional common share of the Company at $0.80 per common share up to November 1, 2011 and at $1.00 per common share up to November 1, 2012.

In connection with the completion of the flow-through private placement, the Company paid a cash finders' fee of $45,000 and issued 144,000 finders' warrants entitling the holder thereof to purchase an additional common share of the Company at $0.80 per common share up to November 1, 2011 and at $1.00 per common share up to November 1, 2012.

Bonus

In September 2010, the Company approved aggregate bonuses of $75,000 payable to the team conducting exploration work on the Company's mineral properties in Newfoundland and Labrador.