

**JAYDEN RESOURCES INC.**  
(formerly Pinnacle Mines Ltd.)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND  
RESULTS OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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*The following Management's Discussion and Analysis ("MD&A") is intended to assist the reader to assess material changes in financial condition and results of operations of Jayden Resources Inc. ("Jayden" or the "Company") as at December 31, 2010 and for the year then ended in comparison to the same period in 2009.*

*In August 2010, the applicable provincial securities commissions granted the Company exemptive relief to adopt International Financial Reporting Standards ("IFRS") with an adoption date of January 1, 2010 and a transition date of January 1, 2007.*

*This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010 and supporting notes. These financial statements have been prepared using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB"). A reconciliation of the previously disclosed comparative periods' financial statements prepared in accordance with Canadian generally accepted accounting principles to IFRS is set out in Note 3 to these financial statements.*

*All monetary amounts are in Canadian dollars unless otherwise specified. The effective date of this MD&A is March 31, 2011. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

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## **1. Overview**

Jayden is a mining exploration company engaged in resource exploration and project development. In this regard, the Company's plan is to acquire properties of merit and take them through the exploration phase and hopefully through feasibility and on to construction and operations.

Jayden is in the advanced stage of exploration on its 70% owned Silver Coin Property. Since 2004, the Company, along with its joint venture partner Mountain Boy Minerals Ltd. ("Mountain Boy") has conducted extensive exploration as well as environmental, metallurgical and resource studies on its Silver Coin Property. In April 2007, Minefill Services calculated a NI 43-101 compliant resource on the Silver Coin Property. Subsequently, the Company conducted aggressive drill campaigns in 2007 and 2008. In December of 2009 Tetra Tech Inc completed a NI 43-101 compliant Preliminary Economic Assessment, incorporating the new drill holes and issued an update to this report on March 12, 2010.

The Company completed the process of refining its resource estimates, development timeline and cost estimates and issued in September a new NI 43-101 compliant Technical Report prepared by Minarco Mineconsult.

Jayden has conducted the majority of its exploration on its properties using third party geological consultants while using subcontractors for specialized aspects of exploration.

The Company is taking additional steps to advance the Silver Coin Property toward production. These include contracting AMEC Earth and Environmental to continue environmental baseline studies begun in 2009 by Cambria Gordon Ltd. This baseline environmental study will be part of the Company's future effort to complete an environment assessment and obtain permits to build and operate the project.

Metallurgical test work, including comminution testing, continues to support the Company's belief that the Silver Coin mineralization can be effectively treated using standard milling practices.

The Company completed a drill program in September of 2010 with the objectives of confirming historical drill results, filling in undrilled portions of the mineralization, extending the mineralization to the north of the existing resource and obtaining fresh core for continued metallurgical testing.

## **2. Highlights for the quarter ended December 31, 2010**

- In November 2010, the Company received conditional approval to list on the Toronto Stock Exchange, where it will continue to trade under the symbol "JDN".

### ***2.1 Highlights for the year ended December 31, 2010***

- On May 6, 2010, the Company announced the completion of a rights offering under a short form prospectus whereby a total of 91,576,134 Shares were issued for gross proceeds of \$4,578,807. Each holder of record of Shares received one right for each common share of the Company held. One right entitles the holder thereof to acquire one common share of the Company, upon payment of \$0.05 per common share. Progress Advanced Holdings Limited ("Progress Advanced") agreed to provide a standby commitment to purchase from the Company any common shares that were not otherwise subscribed for under the rights offering prior to April 30, 2010. In consideration, Progress Advanced was granted 22,894,033 warrants (the "Rights Warrants") with each Rights Warrant entitling Progress Advanced to purchase an additional common share at a price of \$0.05 per common share for a period of six months. Such expiry date was subsequently extended to April 30, 2011.

- On May 17, 2010, the Company entered into an option agreement with Great Bear Resources Ltd. ("Great Bear"), pursuant to which the Company granted an option to Great Bear to earn a 100% interest in the Surprise Creek Property for a cash payment of \$150,000 and the issuance of 700,000 Shares (the "Great Bear Option Agreement"). The Company retained a royalty on the Surprise Creek Property equal to 1% of the net smelter returns upon commencement of commercial production. The Company's rights, title, interest and obligations under the Great Bear Option Agreement were subsequently transferred to Jayden Canada on August 11, 2010.
- On May 6, 2010, the Company entered into a financial services advisory agreement with Baron Capital Ltd. of Hong Kong ("Baron HK") pursuant to which Baron HK will provide various consulting services, including general corporate and financial advice as to strategies, structures and alternatives to provide the Company exposure to new markets and funding opportunities. Upon signing the agreement, Baron HK received an initial payment of US\$400,000. In addition Baron HK is entitled to receive reimbursement of expenses reasonably incurred in the provision of its services and a success fee may be payable upon certain conditions being satisfied. See "Interest of Management and Others in Material Transactions".
- Effective June 29, 2010, the Company changed its name from Pinnacle Mines Ltd. to Jayden Resources Inc.
- Effective July 5, 2010, the Company's subsidiary, 0781639 B.C. Ltd., changed its name to Jayden Resources (Canada) Inc. (Jayden Canada")
- On August 20, 2010, the Company received approval for early adoption of International Financial Reporting Standards ("IFRS") whereby the Company would adopt IFRS effective January 1, 2010 with the date of transition being January 1, 2007.
- Effective August 23, 2010, the Company's interest in the Silver Coin Property, the Surprise Creek Property and nine plots of land used in connection with the Company's field office in Stewart, B.C. were transferred to Jayden Canada.
- On September 15, 2010, Minarco MineConsult completed a 43-101 compliant technical report on the Silver Coin Property.
- Effective September 27, 2010, Jayden Canada sold its interest in the Surprise Creek Property to 0891596 B.C. Ltd., subject to the Company's right to receive the option and royalty payment pursuant to the Great Bear Option Agreement.
- On December 9, 2010, the Company graduated to the Toronto Stock Exchange (the "TSX") from the TSX Venture Exchange (the "TSXV") and the Shares commenced trading on the TSX under its existing trading symbol of "JDN".

## ***2.2 Highlights subsequent to the quarter ended December 31, 2010***

- In March 2011, the Company released an updated resource calculation on its Silver Coin Property. This updated resource estimate represents an overall increase in the average gold grade of 10.9% and an 11.1 % increase in the number of resources ounces previously reported, from 191,300 measured oz, 644,300 indicated oz and 655,200 inferred oz, to 218,410 measured oz, 624,006 indicated oz and 813,273 inferred oz. The updated resource estimate incorporates a total of 732 drill holes (88,645 metres) plus 76 trenches (1,447 metres).

### 3. Results of operations for the three and twelve months ended December 31, 2010

The following table sets forth selected consolidated information for the three and twelve months ended December 31, 2010 and 2009

	Three Months ended December 31,		Twelve Months ended December 31,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenue	2,319	123,857	251,370	130,890
Administrative expenses	(894,007)	(138,420)	(4,954,849)	(765,988)
Operating expenses	-	(6,697)	(4,493)	(864,835)
Net loss for the year	(891,688)	(21,260)	(4,707,972)	(1,499,933)
Basic and diluted loss per share	(0.0048)	(0.0004)	(0.0257)	(0.0109)

#### Quarter ended December 31, 2010 compared to quarter ended December 31, 2009

For the three-month period ended December 31, 2010, the Company recorded a net loss of \$891,688 compared to \$21,260 in the comparable period in the prior year. The increase in net loss from the period in the prior year is attributable to much higher professional, consulting and regulatory fees due to the rights offering. Management fees and investor relations were also higher than the comparable period in the prior year reflecting a company that has reorganized and is committed to moving forward in the current economic climate.

The Company started 2010 with a working capital of \$765,629 and by the end of the three-month period ended March 31, 2010 this position had decreased to \$375,101, a net decrease of \$390,528 which is primarily accounted for in exploration expenditures and professional and regulatory fees but with the completion of the rights offering in May, the working capital increased by the end of the second quarter to \$3,302,186. At the end of the third quarter the working capital had again decreased to \$1,874,031 reflecting the increased general and administrative expenditures. By the end of the fourth quarter the working capital had decrease to \$585,506.

#### **3.1 Exploration projects**

##### **3.1.1 Silver Coin Property:**

Jayden Resources Inc. has filed an updated NI 43-101 technical report in regards to the company's Silver Coin project. The report was prepared by Minarco-Mine Consult and is available on SEDAR. The Silver Coin project is located near the town of Stewart, B.C. The report includes an updated resource estimate incorporating the assay results of 18 holes that the company drilled during the fall of 2010 which had not previously been reported or included in resource estimates. This updated resource estimate represents an overall increase in the average gold grade of 10.9 per cent and an 11.1-per-cent increase in the number of resource ounces previously reported, from 191,300 measured ounces, 644,300 indicated ounces and 655,200 inferred ounces, to 218,410 measured ounces, 624,006 indicated ounces and 813,273 inferred ounces. The updated resource estimate incorporates a total of 732 drill holes (88,645 metres) plus 76 trenches (1,447 metres). The Silver Coin project includes 26 contiguous claims with a net area of 1247 hectares and is a joint venture with Mountain Boy Minerals Ltd. Jayden has a 70-per-cent interest and has an option to earn an additional 10 per cent.

The Silver Coin Property is located approximately 25 kilometres by road north of Stewart, British Columbia in the Skeena Mining Division of British Columbia. Silver Coin hosts a gold-silver-zinc resource containing a 43-101 resource of a 0.3 gram gold per tonne cut off grade of 24.13 million tonnes grading 1.08 g/t gold for a total of 842,416 ounces of gold, 4.45 million ounces of silver and 91.17 million pounds of zinc in the measured and indicated categories. The estimated inferred resources comprise an additional 813,273 ounces of gold, 6.69 million ounces of silver and 128 million lbs of zinc. The resource was estimated by Minarco MineConsult of Beijing, China in a technical report dated March 4, 2011 as follows:

0.3 gt AI Cut-off	Tonnes	Au (g/t)	Ag (g/t)	Zn (%)	Au (oz)	Ag (oz)	Zn (lbs)
Measured	4,372,225	1.55	6.53	0.26	218,410	918,417	25,531,741
Indicated	19,759,025	0.98	5.57	0.15	624,006	3,537,769	65,642,277
M&I	24,131,250	1.08	5.74	0.17	842,416	4,456,186	91,174,018
Inferred	32,443,840	0.78	6.41	0.18	813,273	6,691,185	128,006,920

This updated resource estimate represents an overall increase in the average gold grade of 10.9 per cent and an 11.1-per-cent increase in the number of resource ounces previously reported, from 191,300 measured ounces, 644,300 indicated ounces and 655,200 inferred ounces, to 218,410 measured ounces, 624,006 indicated ounces and 813,273 inferred ounces. The updated resource estimate incorporates a total of 732 drill holes (88,645 meters) plus 76 trenches (1,447 meters).

The Property includes 26 mineral claims with a net area of approximately 1,247 hectares (approximately 12.47 million sq.m), made up of the Core Claims and the INDI Claims. Jayden owns a 70% interest in the Core Claims and a beneficial interest of 28.05% in the INDI Claims. The four INDI Claims are peripheral to the majority of the currently delineated mineral resources, and the balance of the INDI claims are held by Mountain Boy Minerals Ltd. ("Mountain Boy") and 45% by Nanika Resources Inc. ("Nanika"). Jayden has an option to acquire an additional 10% interest in the Core Claims from Mountain Boy by increasing its contribution towards exploration and development expenses on the Silver Coin Property by C\$4,000,000 on or before 31 July 2014. The Company's recent drill program is a credit toward earning this additional interest.

In mid October, the Company drilled 18 diamond core holes, totalling approximately 2800 metres at Silver Coin, designed to aid in ongoing resource studies and confirmation of the grade and continuity of the mineralization. The Company also drilled several step-out holes to explore for continuation of the mineralization to the north.

The drill program was successful in drilling significant widths of good grade gold and silver mineralization. Highlights from the program to date include:

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Hole ID	From (metres)	To (metres)	Intercept (metres)	Length (metres)	Au (g/t)	Au (oz/t)	Ag (g/t)	Ag (oz/t)	Zn (ppm)
SC10-311	73.0	128.0	55.0		8.42	0.246	12.53	0.366	3967
including	76.0	83.0	7.0		32.89	0.960	45.36	1.32	11224
including	99.0	103.0	4.0		18.21	0.532	22.40	0.653	7498
including	110.0	116.0	6.0		11.64	0.340	10.40	0.304	4568

  

Hole ID	From (metres)	To (metres)	Intercept (metres)	Length (metres)	Au (g/t)	Au (oz/t)	Ag (g/t)	Ag (oz/t)	Zn (%)
SC10-312	70.0	105.2	35.2		3.12	0.091	24.07	0.703	1.26
	145.5	170.5	25.0		1.73	0.051	6.02	0.176	0.29
SC10-313	77.5	80.5	3.0		23.6	0.689	5.85	0.171	0.10
	143.0	153.0	10.0		4.07	0.119	8.29	0.242	1.06
SC10-315	11.4	43.0	31.6		2.19	0.064	13.19	0.385	1.36
	83.5	88.0	4.5		2.53	0.074	5.13	0.150	0.11
SC10-316	3.1	43.6	40.6		3.12	0.091	9.19	0.268	0.28
	46.6	71.0	24.4		1.71	0.050	13.23	0.386	0.95

The Core Claims held between the Company and Mountain Boy are the subject of a joint venture agreement that was signed in June of 2006. On 6 July 2009, the Company entered into a further agreement with Mountain Boy to acquire an additional 19% interest in the Core Claims, bringing its ownership in the Core Claims to 70% and converting Mountain Boy's interest to a carried interest. Mountain Boy was granted a first right to negotiate contracts to provide services in connection with exploration and development work on the Silver Coin Property. Since June 2006, the Company has been the operator of the Silver Coin Property, with Mountain Boy serving in advisory and contractor capacities only.

Extensive exploration and drilling has been completed on the Silver Coin Property site. Initial environmental studies and basic metallurgical and processing test work completed on the project reveal no major obstacles to advance the project to development stage.

In 2010, the Company contracted AMEC Earth and Environmental to continue the environmental studies started by Cambria Gordon Ltd. in 2009. AMEC has expanded the water sampling and hydrology program and importantly, confirmed Cambria Gordon's conclusion that No Name Lake is non-fish-bearing. To RIC standards, No Name Lake, a potential site for tailings placement, is devoid of fish and thus remains a potentially viable option for design and operation of the project. AMEC is focusing on surface hydrology studies to characterize flow rates in several critical streams on the property, surface water quality of these streams and confirmation studies of the fish-bearing status of No Name Lake. AMEC has also installed a continuously monitoring weather station on the property to establish baseline air quality and climate data for the project. To date, hydrology studies are continuing. In 2009, Cambria Gordon completed a preliminary vegetation inventory looking for rare and/or endangered plant species and ecological communities. They determined that such species were not present within the representative plots sampled. They also completed a preliminary wildlife and wildlife habitat assessment. Rare and/or endangered wildlife species were not observed within the representative sites assessed. Grizzly bear foraging habitat was present but was not identified as critical habitat within the representative sites assessed. Cambria Gordon also addressed the permitting and environmental implications of using cyanide in a closed circuit to recover gold from the Silver Coin mineralized material. They concluded that beyond normal permitting issues, there are no prohibitions to the use of cyanide on the site and indeed the nearby Silbak Premier Mine was a historical user of cyanide.

Metallurgical testing was conducted on selected drill core from the Silver Coin during the period of 2005 to 2009. Several different process routes were investigated for the recovery of the contained gold, including:

- Flotation
- Whole-ore cyanidation
- Cyanidation of flotation concentrates

Rougher flotation results show the gold is very amenable to recovery into a bulk sulfide concentrate, and that gold recovery from the low-sulfur composite was about 94%.

Selected flotation concentrates produced from the composites were reground and subjected to CIL cyanidation for 96 hours. Gold extractions ranged between 90-96%.

In summary, metallurgical testing shows flotation recoveries of 95% of the gold and 88% of the silver. The total metal recovery after cyanidation is 88% for gold and 60% for silver.

The Silver Coin property covers an area of Lower-Jurassic age, intensely altered intermediate volcanic rocks. Detailed regional and property scale geologic mapping conducted by government and company-contracted geologists indicates that the area was a regional paleotopographic high with a stratovolcano centered on the nearby Mount Dilworth. The rocks are cut by a variety of intrusive rocks of both Early Jurassic and Eocene age. In 1991, 102,539 tonnes at an average grade of 8.9 g/t Au and 55.50 g/t Ag was produced from the property from the high-grade Facecut Zone, located on the Big Missouri claim. This ore was mined from underground drifts and processed at the nearby Silbak Premier Mill.

The location of Silver Coin is ideal for the construction of a potential open pit mining operation. The Granduc Road passes through the property, linking Silver Coin with the deep water port at Stewart, B.C. The deposit is 5 kilometers north of the Silbak-Premier mine, which produced approximately 1.8-2.0M ounces of gold.

Prior to the Company's participation in the Silver Coin Property, a total of 422 holes were drilled with an aggregate depth of approximately 37,401 meters. This historic drilling included 293 underground drill holes with an aggregate depth of approximately 17,500 meters during the period from 1988 to 1994.

In 2004, Mountain Boy resumed active exploration on the Silver Coin Property. The Company became involved in the project in 2005 and during the period from 2004 to 2008, the Company and Mountain Boy drilled a total of 324 surface core holes with an aggregate depth of approximately 50,305 meters. There was no drilling completed on the Silver Coin Property during 2009.

Management is currently developing a proposal for an aggressive exploration and evaluation program for 2011 for board of director's consideration. The proposal will include:

- Extension drilling for resource expansion
- Exploration drilling on outlying targets
- Infill drilling for grade and resource model verification, geologic modeling, metallurgy, and engineering studies.

The proposal will also include continuation of environmental work, hydrology and pit-slope stability studies, metallurgical testing and numerous other field, laboratory and engineering studies in support of completing a prefeasibility study.

### **3.1.2 Surprise Creek Property**

Located 32 km northeast of Stewart, BC, in the Bear River pass near Surprise Creek, the Company acquired 24 claims in 2003 and subsequently staked more claims adjacent to the property. The property has had very little exploration in the last 30 years and only sporadic work efforts since the early 1900s. The Company evaluated and dropped some of its claims and presently has 19 claims covering roughly 7,500 hectares. The property follows the contact zone between the Mt. Dilworth rhyolite and overlying Salmon River sedimentary formations, the same stratigraphic sequence that is host to numerous gold deposits including Eskay Creek, Snip and Premier and Big Missouri Mines. The rhyolite horizon was traced along the entire north-south length of the Surprise Creek claim group.

In July of 2006 some surface reconnaissance was carried out on the property by Company geologists. Two drill holes were planned to confirm the rock types at depth. Unfortunately, before the holes were drilled, the weather turned and further work at the site was not possible. The drill program was rescheduled for 2007.

In July 2007 the Company completed a four-hole drilling program of approximately 2000 meters. The results helped the Company to understand the general geology and serve as a guide to future drilling. No work was carried out on the Surprise Creek Property in 2008 or 2009.

In May 2010, the Company optioned the Surprise Creek Property to Great Bear Resources Ltd. for consideration of \$150,000 and 700,000 shares (200,000 shares received) to be issued over 2 years. The Company has reserved a 1.0% net smelter returns royalty of the claims.

### **3.1.3 Oaxaca State Properties**

In September 2006, the Company announced that it had reached an agreement with Chesapeake Gold Corp. ("Chesapeake") to purchase up to a 70% interest in its wholly-owned La Calavera and Rio Minas copper-silver-gold properties in Oaxaca, Mexico. Both the La Calavera and Rio Minas properties occur within a hundred kilometre long NW trending structural belt which host several skarn prospects and other advanced exploration projects.

The Company commenced work on the La Calavera property in the Sierra Madre Sur, 52 kilometres southeast of Oaxaca City near the community of San Baltazar Guelavila.

By the end of February 2008 the Company had completed an IP survey and drilled five core holes before the program was halted due to disappointing assay results. The combination of poor drill results and legal/social complications on the property led the Company to cease work and return the property to Chesapeake and focus on Rio Minas.

The Company commenced work on the Rio Minas property in late 2007 which is located approximately 37 km southeast of the La Calavera property. The target was a silver-rich, polymetallic skarn adjacent to a granodiorite intrusive.

A geochemical survey was conducted covering an area that measures approximately 4 kilometres by 2.5 kilometres.

In 2009, no work was carried out in the field in Mexico. By late 2009, the Company made the decision to stop its operations in Mexico.

#### 4. Liquidity and Capital Resources

The following table summarizes the Company's cash on hand, working capital and cash flow

<b>As at December 31,</b>	<u>2010</u>		<u>2009</u>
Cash and equivalents	\$	424,549	\$ 814,228
Working capital		585,506	765,629
<b>Period ended December 31,</b>	<u>2010</u>		<u>2009</u>
Cash used in operating activities		(3,432,999)	(1,004,280)
Cash used in investing activities		(1,300,495)	(577,255)
Cash provided by financing activities		4,343,815	-
Change in cash	\$	(389,679)	\$ (1,581,535)

The Company is dependent on the sale of treasury shares to finance its exploration activities, property acquisition payments and general and administrative costs. The Company required additional funds in 2010 to continue its exploration program and in May 2010 completed its rights offering raising gross proceeds of \$4,578,807 meeting the Company's current requirements.

To maintain the Silver Coin Property in good standing no work or payments are required until 2017 with the exception of the Kansas claim which requires an annual payment of \$24. The Silver Coin, likewise, is in good standing until September 2011.

Jayden's future plans include reducing drillhole spacing, preliminary metallurgical testwork, initiating mine planning and baseline environmental studies, continued surface geologic mapping, and securing adequate supplies of water and power. These items are required for the project to proceed toward feasibility. The total overall budget for this work is estimated at approximately \$2,500,000.

At December 31, 2010, the Company had no loans payable.

As noted above the Company raised additional funds during 2010 by way equity financing. The Company has a commitment to explore Silver Coin but has decided to withdraw from its Mexican properties. During the second quarter ended June 30, 2010, the Company optioned its Surprise Creek property reducing its draw on capital resources. The Company will need to raise additional funds in order to carry out its Silver Coin future plans.

##### **4.1.1. Share Capital**

The Company has an authorized share capital of an unlimited number of common shares of which 183,152,268 shares were issued and outstanding at the end of December 31, 2010.

In May 2010, the Company completed a rights offering in which one right was issued for each share held, where each right entitled the holder to acquire an additional common share for \$0.05. A total of 91,576,134 shares were issued raising gross proceeds of \$4,578,807. Share issue costs of \$2,619,774 were incurred. Progress Advanced Holdings Ltd. ("Progress Advanced") agreed to provide a standby commitment under which it would purchase any common shares that were not otherwise subscribed for under the rights offering prior to the expiry time. In consideration, Progress Advanced was granted 22,894,033 warrants where each warrant entitled the company to purchase an additional common share at \$0.05 for a period of six months from the closing. Subsequent to September 30, 2010, the Company was granted permission to extend the term of the warrants. The fair value of these warrants was \$2,387,782 which was accounted for as part of the total share issue costs.

The Company has outstanding a total of 67,894,033 full share equivalent warrants outstanding as of September 30, 2010 (December 31, 2009 – 45,000,000) of which 45,000,000 will expire on December 18, 2010 and the remaining 22,894,033 will expire on December 31, 2010. The expiry date on all these warrants has been extended to April 30, 2011.

The Company has no shares remaining in escrow at March 31, 2010.

The Company has a stock option plan in place and on June 2, 2010, the Company granted 12,250,000 stock options to certain directors, officers and consultants of the Company. The options are exercisable for 5 years at an exercise price of \$0.20 per share.

At the end of the year dated December 31, 2010, a total of 13,075,000 options were outstanding and exercisable at prices ranging from \$0.15 to \$0.40 per share. The weighted average exercise price is \$0.20 per share. The maximum number of shares subject to the plan, in the aggregate may not exceed 10% of the Company's issued shares. The Company uses the Black-Sholes option pricing model to estimate the fair value of the options.

During the year ended December 31, 2010 the Company recognized \$1,631,018 (2009 - \$64,757) of stock-based compensation expense. The Company used the Black-Scholes option pricing model to estimate the fair value of the options at the grant date using the following weighted average assumptions:

	<u>2010</u>	<u>2009</u>
Risk-free interest rate	2.65%	1.28%
Dividend yield	Nil	Nil
Expected volatility	111%	182%
Expected option life	5.0 years	2.0 years

Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a realistic measure of fair value of the Company's stock options and warrants at the date of the grant or thereafter

#### **4.1.2. Contractual commitments**

- (a) During 2005, the Company entered into a Cooperation Agreement with Gold Mountain (H.K.) International Mining Co. Ltd. ("Gold Mountain") a Hong Kong based subsidiary of Zijin Mining Group Co. Ltd. ("Zijin"), a gold and copper producer in China. This Cooperation Agreement was entered as part of Gold Mountain's 2005 investment of \$1,950,000 in the Company.

Under the Cooperation Agreement, Gold Mountain and Zijin agree to offer and select as yet undetermined projects in China to the Company for joint venture. Also under the Cooperation Agreement, the Company agrees to offer Zijin a right of first refusal to participate in any projects located in China held at the time of the Cooperation Agreement. Zijin may also arrange to have suitable professionals join the Company's project team at the Company's cost.

- (b) In August 2009, the Company entered into a service agreement with the former president, whereby the Company agreed to pay a monthly fee of \$6,125 for a term of 2 years in return for transitional consulting.

(c) The Company entered into consulting contracts providing the following services:

	Monthly Fee	Service Provided
	\$	
Baron Global Financial Canada Ltd. (June 2010)	10,000	Corporate advisor
James Andrew & Company (June 2010)	6,000	Consultant
Lacroix & Associates (June 2010)	10,000	Geotechnical services
Lawrence A. Dick Consulting Ltd. (June 2010)	3,000	Consultant
Robert Felder (September 2010)	US\$13,000	Management
Robert Perry Consulting LLP (June 2010)	US\$10,000	Geological services
TransMax Investing (June 2010)	10,000	Management

## 5. Related Parties

The Company incurred the following expenses with these companies controlled by directors for management consulting services and geological consulting services. During the year ended December 31, 2009, renewed June 2010, pursuant to a management and advisory agreement with Baron Global Financial Canada Ltd. ("Baron"), Baron agreed to act as corporate advisor and one of Baron's employees would act as Chief Financial Officer in return for a monthly fee of \$10,000. The Company has recorded in the year ended December 31, 2009 \$90,000 in consulting fees, \$19,500 in management fees, \$9,000 in rent and \$1,500 in office expense to Baron. The Company recorded for the year ended December 31, 2010 \$78,000 in management fees, \$36,000 in rent and \$6,000 in office expense.

Related party expenses for the year ended December 31, 2010	Management Services	Consulting and Advisory Services	Capitalized Technical Services Fees	Share-based Payments
	\$	\$	\$	\$
Lawrence A. Dick Consulting Ltd. (1)	18,000	18,000	24,000	-
TransMax Investing (2)	70,000	-	-	-
Robert Perry Consulting LLC (3)	-	-	111,962	-
Robert Felder (4)	51,505	-	-	-
Baron Global Financial Canada Ltd. (5)	78,000	42,000	-	239,506
Baron Capital Ltd.	-	720,339	-	-
Progress Advanced Holdings Ltd. (6)	-	-	-	2,384,782
Letty Wan	-	-	-	239,506
David Eaton	-	-	-	239,506
Ringo Hui	-	-	-	239,506
Herrick Lau	-	-	-	66,530
Robert Perry	-	-	-	66,530
William Ng	-	-	-	33,265
Andrew Cheng	-	-	-	33,265
Robert Wolfe	-	-	-	33,265
Baron Asia Limited	-	52,817	-	-
<hr/>				
Year ended December 31, 2009				
Lawrence A. Dick Consulting Ltd. (1)	5,980	3,450	49,565	-
Baron Global Financial Canada Ltd. (5)	19,500	100,500	-	-
Bromley Resources Ltd. (7)	46,667	-	-	-

- (1) Lawrence A. Dick Consulting Ltd., a private company controlled by Lawrence Dick, a former CEO and director of the Company
- (2) TransMax Investing, a private company controlled by David Eaton, CEO and director of the Company
- (3) Robert Perry Consulting LLC, a private company controlled by Robert Perry, an officer and director of the Company
- (4) Robert Felder, president of the Company
- (5) Baron Global Financial Canada Ltd. employs the CFO of the Company
- (6) Progress Advanced Holdings Ltd. is controlled by the Chairman and director of the Company
- (7) Bromley Resources Ltd., a private company controlled by Paul Saxton, a former CEO and director of the Company.

All related party transactions have been recorded at the exchange amount, which is the amount of consideration established and agreed to between the related parties.

## **6. Adoption of Accounting Standards and Pronouncements under IFRS**

The Canadian Accounting Standards Board ("AcSB") confirmed in February 2008 that IFRS will replace Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises for financial periods beginning on or after January 1, 2011, with the option available to early adopt IFRS from periods beginning on or after January 1, 2009 upon receipt of approval from the Canadian Securities regulatory authorities.

These consolidated financial statements have been prepared in accordance with accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with GAAP.

### ***6.1 Significant differences between IFRS and Canadian GAAP in the Company's financial statements***

The consolidated financial information prepared under IFRS and that prepared under Canadian GAAP for periods beginning on January 1, 2007 have the following major differences:

- (i) As disclosed in Note 12 of the condensed consolidated financial statements the Company purchased Tenajon's wholly-owned subsidiary, Jayden Canada which holds an undivided 40% ownership in the Kansas Property and a 100% ownership interest in the Summit Lake property. Under IFRS, the deferred income tax liability that arose from this transaction, which was not a business combination, should not be recognized. Canadian GAAP requires the recognition of the deferred income tax liability and an adjustment to the carrying value of the asset purchased by the same amount.
- (ii) Under IFRS, all financial instruments categorized as available for sale are re-valued to fair value. Canadian GAAP implemented a requirement of fair valuation which was only effective for the financial years beginning after October 1, 2006.
- (iii) Under IFRS, share-based payment transactions which are subject to graded vesting should have the separate tranches valued and amortized over the respective vesting periods separately as if each tranche was a separate award. Canadian GAAP allows the entire award to be valued together and to be amortized on a straight-line basis over the vesting time of the entire award.

- (iv) Under IFRS, flow-through instruments are accounted for as combined instruments comprising a liability component and an equity instrument upon issuance of the flow-through instruments. Upon renunciation of the expenditures for Canadian income tax purposes, the liability is reversed and a taxable temporary difference is recorded. Under Canadian GAAP flow-through instruments are accounted for as equity instruments only. Upon renunciation of the expenditures for Canadian tax purposes, a taxable temporary difference effected at the issuer's applicable tax rate is recorded and charged to equity as cost of issuance of flow-through instruments.

*Future accounting standards and interpretations*

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 2010 reporting period. The following standards are assessed not to have any impact on the Company's financial statements:

- IAS 24, *Related Party Disclosure*: effective for accounting periods commencing on or after January 1, 2011;
- IFRS 9, *Financial Instruments*: effective for accounting periods commencing on or after January 1, 2013; and

**7. Financial instruments**

**(a) Categories of financial instruments**

The Company's financial instruments are classified as follows:

	At December 31,	
	2010	2009
	\$	\$
<b>Financial assets</b>		
Available-for-sale investments	119,156	37,622
At amortized cost		
- Other receivables	2,883	-
- Amount due from a related company	-	-
Cash and cash equivalents	424,549	814,228
	<u>546,588</u>	<u>851,850</u>
<b>Financial liabilities</b>		
At amortized costs		
- Payables and accruals	(433,413)	(122,743)
- Amount due to related companies	(36,043)	-
- Amount due to a director	(130)	(220)
	<u>(469,586)</u>	<u>(122,963)</u>

**(b) Fair value**

Except for available-for-sale financial assets, the fair value of all the financial instruments of the Company approximates their carrying value because of the demand nature or short-term maturity of these instruments.

The fair value of available-for-sale financial assets is determined by prices from observable current market transactions.

### (c) Financial risk management objectives and policies

The Company's financial instruments include cash, investments, trade and other receivables, and payables and accruals. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### (i) Currency risk

Cash held in foreign currencies other than the Canadian dollar is subject to currency risk. The Company's operations in Mexico exposed the Company to exchange rate fluctuations. The Company has withdrawn from its operations in Mexico. The Company does not enter into derivative financial instruments to mitigate this risk but the Company does not believe its net exposure to foreign exchange risk is significant.

The following table details the Company's sensitivity to a 10% increase or decrease in the Canadian dollar against the foreign currency denominated monetary items above. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. A positive number indicates a decrease in loss for the year where the foreign currencies strengthen against the Canadian dollar. The opposite number will result if the foreign currencies depreciated against the Canadian dollar.

Year Ended December 31,	
2010	2009
\$	\$
12,928	1,029

#### (ii) Credit risk

The Company's cash is held in large Canadian and Hong Kong financial institutions. The Company does not have any asset-backed commercial paper. At December 31, 2010 the Company's receivables consist mainly of GST/HST receivable due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to its financial instruments is minimal.

#### (iii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is a very limited interest rate risk as the Company holds no interest bearing financial obligations or assets.

#### (iv) Liquidity risk

The Company has net current assets amounted to \$585,506 at December 31, 2010 and is exposed to liquidity risk of being able to raise sufficient funds to meet its financial obligations when they fall due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

(v) Price risk

The ability of the Company to explore its mineral properties and the future profitability of the Company are directly related to the market price of precious metals. The Company monitors precious metal prices to determine the appropriate course of action to be taken by the Company.

The Company's investments are subject to ongoing fair value fluctuations from changes in equity and commodity markets.

IFRS 7 establishes a fair value hierarchy that prioritizes the input 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
	\$	\$	\$	\$
<b>Assets:</b>				
Cash and cash equivalents	424,549	-	-	424,549
Available-for-sale investments	119,156			119,156
	543,705	-	-	543,705

## 8. Internal Control over Financial Reporting

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the Company, together with the Company's management, are responsible for the information disclosed in this MD&A and in the Company's other external disclosure documents. For the years ended December 31, 2010 and 2009, the CEO and the CFO have designed, or caused to be designed under their supervision, the Company's disclosure controls and procedures ("DCP") to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries has been disclosed in accordance with regulatory requirements and good business practices and that the Company's DCP will enable the Company to meet its ongoing disclosure requirements.

The CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and procedures and have concluded that the design and operation of the Company's DCP were effective as of December 31, 2010 and that the Company has the appropriate DCP to ensure that information used internally by management and disclosed externally is, in all material respects, complete and reliable.

The CEO and the CFO are also responsible for the design of the internal controls over financial reporting ("ICFR") within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS"). During 2010, the Company engaged an international business advisory firm to assess the effectiveness of the Company's ICFR.

During the design and evaluation of the Company's ICFR, management identified certain non-material deficiencies, a number of which have been addressed or are in the process of being addressed in order to enhance the Company's processes and controls. The Company employs entity level and compensating controls to mitigate any deficiencies that may exist in its process controls. Management intends to continue to further enhance the Company's ICFR.

The Company's management, including its CEO and CFO, believe that any DCP and ICFR, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override to the future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

There have been no changes in the Company's ICFR during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

## **9. Cautionary Statement on Forward-Looking Information**

This MD&A, which contains certain forward-looking statements, are intended to provide readers with a reasonable basis for assessing the financial performance of the Company. All statements, other than statements of historical fact, are forward-looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "estimate", "may", "will", "schedule" and similar expressions identify forward looking statements. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies.

Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to, fluctuations in the currency markets such as Canadian dollar, and U.S. dollar, fluctuations in the prices of commodities, changes in government legislation, taxation, controls, regulations and political or economic developments in Canada, the United States, or other countries in which the Company carries or may carry on business in the future, risks associated with mining or development activities, the speculative nature of exploration and development, including the risk of obtaining necessary licenses and permits, and quantities or grades of reserves. Many of these uncertainties and contingencies can affect the Company's actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Company.

Readers are cautioned that forward-looking statements are not guarantees of future performance. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those acknowledged in such statements. Specific reference is made to the Company's most recent Annual Information Form on file with Canadian provincial securities regulatory authorities for a discussion of some of the factors underlying forward-looking statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except to the extent required by applicable laws.