

AM GOLD INC.
(formerly Acero-Martin Exploration Inc.)
Consolidated Financial Statements
December 31, 2010 and 2009

AM GOLD INC.
(formerly Acero-Martin Exploration Inc.)
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December 31, 2010 and 2009

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KEN LEE & COMPANY

Chartered Accountants

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Independent Auditor's Report

To the shareholders of AM Gold Inc.
(formerly Acero-Martin Exploration Inc.)

We have audited the accompanying consolidated financial statements of AM Gold Inc. (formerly Acero-Martin Exploration Inc.), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of loss, comprehensive loss, and deficit, shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

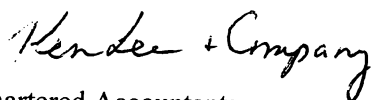
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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



Chartered Accountants

Vancouver, British Columbia

May 2, 2011

AM GOLD INC.
(formerly Acero-Martin Exploration Inc.)
Consolidated Balance Sheets
December 31, 2010 and 2009

	2010	2009
ASSETS		
Current:		
Cash and cash equivalents	\$ 2,132,754	\$ 431,879
Taxes recoverable	50,485	12,687
Share subscriptions receivable <i>(note 12)</i>	-	129,063
Prepaid expenses and deposit	54,222	3,256
	2,237,461	576,885
Property and equipment <i>(note 6)</i>	349,818	409,118
Resource properties <i>(note 7)</i>	6,070,301	5,874,301
	\$ 8,657,580	\$ 6,860,304
LIABILITIES		
Current:		
Accounts payable and accrued liabilities <i>(note 10)</i>	\$ 256,033	\$ 680,034
Note payable <i>(note 13)</i>	-	420,000
	256,033	1,100,034
SHAREHOLDERS' EQUITY		
Capital stock <i>(note 8)</i>	55,298,104	49,160,760
Contributed surplus	6,282,815	4,953,497
Deficit	(53,179,372)	(48,353,987)
	8,401,547	5,760,270
	\$ 8,657,580	\$ 6,860,304

Nature and basis of operations *(note 1)*
 Commitments *(note 9)*
 Subsequent events *(note 16)*

APPROVED ON BEHALF OF THE BOARD:

 "Mark Lawson" *Director*

 "John Fiorino" *Director*

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

AM GOLD INC.
(formerly Acero-Martin Exploration Inc.)
Consolidated Statements of Loss, Comprehensive Loss, and Deficit
Years ended December 31, 2010 and 2009

	<i>2010</i>	<i>2009</i>
Expenses		
Accounting and audit	\$ 77,834	\$ 99,930
Amortization	28,308	39,825
Administration	3,750	-
Bank charges and interest	6,163	6,538
Consulting fees <i>(note 10)</i>	206,308	17,150
Directors and management fees <i>(note 10)</i>	55,792	28,000
Interest expense	4,416	30,000
Legal <i>(note 10)</i>	97,935	76,180
Mineral property exploration (recovery) <i>(note 7)</i>	2,438,660	(81,006)
Office and miscellaneous <i>(note 10)</i>	142,310	273,822
Printing and shareholders' information	108,139	40,504
Rent	22,750	28,819
Stock-based compensation <i>(note 8)</i>	1,214,359	23,942
Stock exchange fees and filing fees	51,554	18,109
Telephone and utilities	15,998	21,854
Transfer agent fees	37,692	55,899
Travel and business development <i>(note 10)</i>	208,599	27,394
Wages	120,185	189,662
	<u>4,840,752</u>	<u>896,622</u>
Loss before the under-noted	(4,840,752)	(895,533)
Interest and sundry	6,698	1,089
Gain on disposal of equipment	-	9,836
Share purchase warrants modified <i>(note 8)</i>	-	(354,793)
Gain on settlement of debt	56,284	134,436
Foreign exchange gain (loss)	(47,615)	(170,372)
Net loss and comprehensive loss for the year	(4,825,385)	(1,276,426)
Deficit, beginning of year	(48,353,987)	(47,077,561)
Deficit, end of year	<u>\$ (53,179,372)</u>	<u>\$ (48,353,987)</u>
Basic and diluted loss per share	<u>\$ (0.12)</u>	<u>\$ (0.05)</u>
Weighted average number of shares	<u>40,348,482</u>	<u>25,467,714</u>

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

AM GOLD INC.
(formerly Acero-Martin Exploration Inc.)
Consolidated Statements of Shareholders' Equity
Years ended December 31, 2010 and 2009

	<i>Share Capital</i>		<i>Contributed Surplus</i>	<i>Deficit</i>	<i>Shareholders' Equity</i>
	<i>Number of Shares</i>	<i>Amount</i>			
Balance, December 31, 2008	24,347,524	\$48,022,134	\$ 4,574,762	\$(47,077,561)	\$5,519,335
Issued for cash	5,160,889	978,312	-	-	978,312
Issued and unpaid	584,111	129,063	-	-	129,063
Issued for debt	150,000	24,000	-	-	24,000
Issued for acquisition of resource properties	175,000	43,750	-	-	43,750
Share issuance costs	-	(36,499)	-	-	(36,499)
Stock based compensation	-	-	23,942	-	23,942
Warrant purchase term modification	-	-	354,793	-	354,793
Net loss for the year	-	-	-	(1,276,426)	(1,276,426)
Balance, December 31, 2009	30,417,524	49,160,760	4,953,497	(48,353,987)	5,760,270
Issued for cash	11,398,666	2,938,954	-	-	2,938,954
Issued for debt settlement agreement	571,428	200,000	-	-	200,000
Issued for debt	310,000	69,750	-	-	69,750
Issued for acquisition of resource property	200,000	96,000	-	-	96,000
Issued for flow through shares	5,500,214	1,730,075	-	-	1,730,075
Exercise of share purchase warrants	5,034,236	1,246,920	-	-	1,246,920
Warrants exercised for debt	128,125	29,125	-	-	29,125
Exercise of stock options	800,000	386,516	(106,516)	-	280,000
Share issuance costs	-	(559,996)	221,475	-	(338,521)
Stock based compensation	-	-	1,214,359	-	1,214,359
Net loss for the year	-	-	-	(4,825,385)	(4,825,385)
Balance, December 31, 2010	54,360,193	\$55,298,104	\$ 6,282,815	\$(53,179,372)	\$8,401,547

AM GOLD INC.
(formerly Acero-Martin Exploration Inc.)
Consolidated Statements of Cash Flows
Years ended December 31, 2010 and 2009

	2010	2009
Cash flows used in operating activities		
Net loss for the year	\$ (4,825,385)	\$ (1,276,426)
Item not involving cash		
Amortization	58,371	39,825
Stock-based compensation	1,214,359	23,942
Gain on disposal of equipment	-	(9,836)
Share purchase warrants modified	-	354,793
Gain from settlement of debt	(56,284)	(134,436)
Realized foreign exchange gain	-	170,372
Unrealized foreign exchange gain	-	(35,936)
	<u>(3,608,939)</u>	(867,702)
Changes in non-cash working capital		
Taxes recoverable	(37,798)	119,263
Prepaid expenses and deposit	(50,966)	36,842
Accounts payable and accrued liabilities	(68,842)	(488,125)
	<u>(3,766,545)</u>	(1,199,722)
Cash flow provided by (used in) investing activities		
Acquisition of resource properties	(100,000)	-
Disposal of equipment	929	70,160
	<u>(99,071)</u>	70,160
Cash flow provided by financing activities		
Repayment of note payable	(520,000)	-
Proceeds from notes payable	100,000	420,000
Share subscriptions receivable	129,063	-
Share issuance cost	(338,521)	-
Issuance of capital stock	6,195,949	941,813
	<u>5,566,491</u>	1,361,813
Increase in cash during the year	1,700,875	232,251
Cash and cash equivalents, beginning of year	431,879	199,628
Cash and cash equivalents, end of year	<u>\$ 2,132,754</u>	<u>\$ 431,879</u>
Cash and cash equivalents are comprised of:		
Cash	\$ 126,075	\$ 431,879
Short term investments	2,006,679	-
Short term investments	<u>\$ 2,132,754</u>	<u>\$ 431,879</u>
Supplementary information:		
Interest paid	<u>\$ 24,416</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
Non-cash transactions (<i>note 15</i>)		

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

AM GOLD INC.
(formerly Acero-Martin Exploration Inc.)
Notes to the Consolidated Financial Statements
December 31, 2010 and 2009

1. NATURE AND BASIS OF OPERATIONS

AM Gold Inc. (formerly Acero-Martin Exploration Inc.) (the "Company"), is a junior resource public company incorporated under the laws of the province of British Columbia, Canada. The Company's shares are listed on the Frankfurt Stock Exchange under the trading symbol of "AMX" and TSX Venture Exchange ("TSX.V") under the trading symbol "AMG".

On June 8, 2010, the Company changed its name from Acero-Martin Exploration Inc. to AM Gold Inc.

The Company is a mineral exploration and development company with mineral properties in Yukon Territory, Canada and in Peru, South America.

The Company is in the process of exploring its resource properties and has not yet determined whether the resource properties contain reserves that are economically recoverable. The recoverability of amounts shown for the resource properties are dependent upon the discovery of economically recoverable reserves, confirmation of the company's interest in the underlying mineral claims, the ability of the company to obtain necessary financing to complete the development and upon future profitable production or proceeds from the disposition thereof. The business of mining and exploring for resources involves a high degree of risk and there can be no assurance that planned exploration and development programs will result in profitable mining operations. Changes in future conditions could require material write-downs of the carrying values of resource properties.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the foreseeable future.

As the Company is a junior resource stage company, it does not generate any revenue and has been relying on equity-based financing to fund its operations. While the Company expects to meet its financial obligations in the near term, it will require additional financing to meet its administrative costs and to continue work on its mineral properties. There is no assurance that future funding will be available to sufficiently conduct further exploration of its mineral properties.

The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and maintain an adequate level of financial resources to discharge its on-going obligations. Management seeks to raise capital, when necessary, to meet its funding requirements and has undertaken available cost-cutting measures. There can be no assurance that management's plan will be successful as it is dependent on prevailing capital market conditions and the availability of other financing opportunities. The financial statements do not include any adjustments that would be necessary to the carrying value and classification of assets and liabilities and reported expenses if the going concern assumption were not appropriate.

	2010	2009
Working capital (deficit)	\$ 1,981,428	\$ (523,149)
Deficit	(53,179,372)	(48,353,987)

AM GOLD INC.
(formerly Acero-Martin Exploration Inc.)
Notes to the Consolidated Financial Statements
December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) as established by the Canadian Institute of Chartered Accountants (“CICA”).

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Canper Exploraciones, S.A.C. All significant inter-company balances and transactions have been eliminated.

Cash and cash equivalents

Cash equivalents are highly liquid investments, such as term deposits with major financial institutions which are redeemable at any time without penalty, that are readily convertible to specified amounts of cash.

Measurement Uncertainty

Management’s capitalization of mineral resource property acquisition costs and assumptions regarding the future recoverability of such costs are subject to significant measurement uncertainty. Management’s assessment of recoverability is based on, among other things, the Company’s estimate of current mineral reserves which are supported by geological estimates, estimated mineral prices, and the procurement of all necessary regulatory permits and approvals. These assumptions and estimates could change in the future and this could materially affect the carrying value and the ultimate recoverability of the amounts recorded for mineral resource properties. Other significant areas requiring management estimates include amortization of property plant and equipment, the variables used in calculation of stock based compensation, valuation allowances of future income taxes, and determination of asset retirement obligations and environmental obligations.

Financial Instruments and Risk Management

Under CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, financial instruments are designated into one of the six categories: held-for-trading investments, held-to-maturity investments, loans and receivables, available-for-sale assets, held-for-trading liabilities, or other financial liabilities. Financial instruments, included on the balance sheet are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial investments and liabilities are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, de-recognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financing are expensed in the period incurred.

The Company has designated its financial instruments as follows: cash and cash equivalents as held-for-trading investments, accounts receivable as loans and other receivables, accounts payable and accrued liabilities, notes payable, and due to related party as other financial liabilities. The Company does not engage in any form of derivative or hedging instruments.

AM GOLD INC.
(formerly Acero-Martin Exploration Inc.)
Notes to the Consolidated Financial Statements
December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Financial Instruments and Risk Management, continued

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

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 carrying amounts of the Company's financial instruments are a reasonable approximation of fair value and did not require fair value measurement.

Foreign Currency Translation

The Company's functional currency is the Canadian dollar. The accounts recorded in U.S. dollar and Peruvian Nueva Soles have been translated into Canadian dollars on the following basis:

- monetary assets and liabilities at the rate of exchange in effect at the balance sheet date;
- non-monetary assets and liabilities at the rates of exchange in effect on the respective dates of transactions;
- revenues and expenses at rates of exchange for at the date of the transaction; and
- recognize foreign currency transaction gains and losses and translation adjustments by a charge to operations in the period incurred.

Mineral Property Acquisition and Deferred Exploration Expenses

Mineral property acquisition costs relating to acquiring mineral use rights are capitalized.

Expenditures are expensed as incurred on mineral properties not sufficiently advanced as to identify their development potential. At the point in time that a mineral property is considered to be sufficiently advanced and development potential is identified, all further expenditures for the current year and subsequent years are capitalized as incurred. These costs will include further exploration, costs of maintaining the site until commercial production, costs to initially delineate the ore body, costs for shaft sinking and access, lateral development, drift development and infrastructure development. Such costs represent the net expenditures incurred and capitalized as at the balance sheet date and do not necessarily reflect present or future values.

Once a development mineral property goes into commercial production, the property is classified as "Producing" and the accumulated costs will be amortized based on a method relating recoverable reserves to production. Commercial production occurs when a property is substantially complete and ready for its intended use. Mineral properties no longer classified as "Producing" such that the Company abandons its interest in are written-off in the years of abandonment.

The recoverability of amounts recorded for mineral properties is reviewed on a regular basis and written down to the net recoverable amount if the long term expectation is that the net carrying amount will not be recovered.

Property and equipment

Property and equipment are stated at cost and the Company provides for amortization computed under the straight-line method for office equipment, camp equipment and computer at 25% per annum.

AM GOLD INC.
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Notes to the Consolidated Financial Statements
December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Impairment of Long-Lived Assets

Long-lived assets include mineral properties. The Company periodically evaluates the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when estimated future cash flows resulting from the use of an asset and its eventual disposition is less than its carrying amount.

Whenever events or changes in circumstances indicate that the carrying amount of a resource property in the exploration stage may be impaired, the capitalized costs are written down to the estimated recoverable amount

Asset Retirement Obligations

The Company applies CICA accounting standard 3110 – “Asset Retirement Obligations” to account for the obligations to reclaim and remediate the resource properties. Under the standard, the estimated fair value of the legal obligations are recognized in the period incurred, at the net present value of the cash flows required to settle the future obligations. A corresponding amount is capitalized to the related asset. Asset retirement obligations are subject to accretion over time for increases in the fair value of the liabilities.

As of December 31, 2010, the Company had determined that there were no significant legal obligations for reclamation and remediation costs. The Company’s estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period estimates are revised

Share Capital and Contributed Surplus

- i) Share consideration - Agent’s warrants, stock options and other equity instruments issued as purchase consideration in non-cash transactions, other than as consideration for mineral properties, are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued as purchase consideration for mineral properties is based upon the trading price of those shares on the TSX.V on the date of the agreement to issue shares as determined by the Board of Directors. Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value using the residual method.

AM GOLD INC.
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Notes to the Consolidated Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES, continued

Share Capital and Contributed Surplus, continued

- ii) Stock based compensation - The Company measures the cost of the service received for all stock options made to consultants, employees and directors based on an estimate of fair value at the date of grant. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant. Stock options which vest immediately are recorded at the date of grant. Stock options that vest over time are recorded over the vesting period using the straight line method. Stock options issued to outside consultants that vest over time are valued at the grant date and subsequently revalued on each vesting date as services are rendered. Stock based compensation is recognized as expense or, if applicable, capitalized to mineral property costs with a corresponding increase in contributed surplus. On exercise of the stock option, consideration received and the estimated fair value previously recorded in contributed surplus is recorded as share capital.
- iii) Share issuance costs - Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issuance costs related to uncompleted share subscriptions are charged to operations.
- iv) Flow-through shares – The Company has financed a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related exploration expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the benefits renounced to shareholders.

The Company follows the recommendations of the Emerging Issues Committee (“EIC”) of the CICA with respect to flow-through shares, as outlined in EIC-146. The application of EIC-146 requires the recognition of the foregone tax benefit on the date the Company renounces the tax credits associated with the exploration expenditures, provided there is reasonable assurance that the expenditures will be made.

Income Taxes

Company accounts for and measures future tax assets and liabilities in accordance with the liability method.

Under the asset and liability method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Loss Per Share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares issued and outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. Basic and diluted loss per share is equal for the years ended December 31, 2010, and 2009 as outstanding stock options and warrants were all anti-dilutive.

AM GOLD INC.
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Notes to the Consolidated Financial Statements
December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Comprehensive Income (Loss)

Handbook Section 1530 establishes standards for the reporting and display of comprehensive income and its components in the financial statements. Comprehensive income (loss) includes net income (loss) and other comprehensive income. Other comprehensive income (loss) includes holding gains on available for sale investments, gains and losses on certain derivative instruments and currency gains and losses relating to the translating financial statements of self-sustaining foreign operations. The Company has no other comprehensive income (loss) and as a result other comprehensive loss is equal to the net loss for the year.

3. FUTURE ACCOUNTING CHANGES

(a) Business combinations

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements and 1602 – Non-controlling Interests which replaces CICA Handbook Sections 1591 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 is applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning June 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these sections, the other two sections must also be adopted at the same time.

(b) International financial reporting standards (“IFRS”)

In 2006, the 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 apply IFRS. The changeover is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement of comparative amounts reported by the Company for the period ending December 31, 2010. The conversion to IFRS will impact the Company’s policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency activities, certain contractual arrangements, capital requirements and compensation arrangements. The Company continues to monitor the future impact of IFRS on its financial statements and will continue to invest in training and additional resources to ensure a timely conversion.

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4. FINANCIAL RISK FACTORS

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

Credit Risk

The Company's credit risk is primarily attributable to cash and cash equivalents. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents are held with reputable financial institutions, from which management believes the risk of loss to be remote.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At December 31, 2010, the Company had cash balances of \$2,132,754 (2009 - \$431,879) to settle current liabilities of \$256,033 (2009 - \$1,100,034). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market Risk

Market risk is the risk of loss that may arise from changes in market factor such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term certificates of deposits issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

The annualized effect of a 1% increase in interest rate at the balance sheet date would, all other variables held constant, have resulted in a decrease of post-tax losses by \$20,000. The annualized effect of a 1% decrease in interest rate at the balance sheet date would, all other variables held constant, have resulted in an increase of post-tax losses by \$20,000.

(b) Foreign currency risk

The Company's main areas of operations are Peru and Canada. The local Peruvian currency is in Soles and therefore, the Company is subject to currency risk with respect to its foreign exploration expenditures and mineral properties. At December 31, 2010, the Company had no significant monetary assets or liabilities denominated in foreign currencies.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of natural resources, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

AM GOLD INC.
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4. FINANCIAL RISK FACTORS, continued

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by interest rate risk and price risk. The Company may hold significant balances in foreign currencies which give rise to exposure to foreign exchange risk. Commodity price risk could affect the Company. In particular, the Company's future profitability and viability of development depends upon world market of natural resources. As of December 31, 2010, the Company was not a producing entity. As a result, commodity price risk could affect the completion of future equity transaction such as equity offerings and the exercise of stock options and warrants. The Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action be taken by the Company.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, subscriptions receivable, accounts payable and accrued liabilities, due to related parties and notes payable.

The Company has made the following designations of its financial instruments:

Cash and cash equivalents	Held for trading
Subscriptions receivable	Loans and other receivables
Accounts payable and accrued liabilities	Other financial liabilities
Notes payable	Other financial liabilities

Accounts payable and accrued liabilities and share subscriptions receivable were measured at amortized cost. Amounts due to related parties cannot be fair valued as there are no specific terms for repayment. At December 31, 2010, the Company's only financial assets or liabilities measured at fair value were cash and cash equivalents. Cash and cash equivalents are measured based on level 1 of the fair value hierarchy.

5. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate, available or committed financial resources to complete such acquisitions.

The Company's primary source of funds has been obtained through the issuance of capital stock. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2010. The Company is not subject to externally imposed capital requirements.

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6. PROPERTY & EQUIPMENT

As at December 31, 2010

	<i>Cost</i>	<i>Accumulated Amortization</i>	<i>Net Book Value</i>
Office equipment	\$ 75,071	\$ 39,889	\$ 35,182
Computers	99,522	58,516	41,006
Camp and equipment	427,852	154,222	273,630
	<u>\$ 602,445</u>	<u>\$ 252,627</u>	<u>\$ 349,818</u>

As at December 31, 2009

	<i>Cost</i>	<i>Accumulated Amortization</i>	<i>Net Book Value</i>
Office equipment	\$ 75,071	\$ 28,783	\$ 46,288
Computers	99,522	40,056	59,466
Camp and equipment	428,781	125,417	303,364
	<u>\$ 603,374</u>	<u>\$ 194,256</u>	<u>\$ 409,118</u>

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7. RESOURCE PROPERTIES

The Company's capitalized acquisition costs as at December 31, 2010 and 2009 were as follows:

	Red Mountain	Pinaya	Total
Balance as of December 31, 2008	\$ 1	\$ 5,830,550	\$ 5,830,551
Cost incurred	43,750	-	43,750
Balance as of December 31, 2009	43,751	5,830,550	5,874,301
Cost incurred	196,000	-	196,000
Balance as of December 31, 2010	\$ 239,751	\$ 5,830,550	\$ 6,070,301

a) Yukon Territory, Canada

Red Mountain Property

In prior years, the Company had earned a 75% interest in the 52 mineral property claims located in the Yukon Territory Canada, known as the Red Mountain Property. During the year ended December 31, 2009, the Company entered into an amended agreement to increase its interest to 80% of the property subject to a 2% Net Smelter Royalty to be paid to the vendor following commencement of commercial production. In consideration, the Company has issued 175,000 post consolidated common shares of the Company to the vendor. The fair value per share on the date the shares were issued was \$0.25 per share.

On August 17, 2010, the Company entered into a Purchase Agreement for the remaining 20% interest of the Red Mountain Property. The Company has agreed to pay the following:

- a) \$50,000 upon execution of the agreement (paid).
- b) \$50,000 (paid) and 200,000 common shares (issued) within 7 days upon approval by regulatory authorities.
- c) \$25,000 and 175,000 common shares on or before August 17, 2011.
- d) \$25,000 and 175,000 common shares or \$175,000, at the Company's discretion, will be paid on or before August 17, 2012.
- e) \$50,000 and 450,000 common shares or \$450,000, at the Company's discretion, will be paid on or before August 17, 2013.
- f) A bonus will be paid of \$250,000 in cash or common shares, at the Company's discretion, if a resource of 2 million ounces of gold is defined through an NI 43-101 compliant report.

The NSR payable is reduced from 2% to 0.5% by the Company agreeing to pay \$1,000,000 for the first 1% of the NSR and \$750,000 for the second 0.5% of the NSR at any time, at the Company's discretion.

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7. RESOURCE PROPERTIES, continued

b) Peru, South America

Peru Pinaya Property

During 2004 the Company acquired a 100% interest in Canper Exploraciones S.A.C. Canper Exploraciones, S.A.C. owns an option to acquire the mineral rights for the Pinaya Property in Southern Peru. The option agreement requires the Company to pay to the owners of the mineral rights the following amounts on the following times:

- i) U.S. \$200,000 when the public deed is executed on the transfer of the option agreement (May 26, 2004) (paid).
- ii) U.S. \$100,000 payable six month from May 26, 2004 (paid)
- iii) U.S. \$240,000 payable 12 month from May 26, 2004 (paid)
- iv) U.S. \$860,000 payable 24 month from May 26, 2004 (paid)
- v) U.S. \$1,100,000 payable 36 month from May 26, 2004 (paid)

In addition the Company acquired some surface rights during the year for part of the Pinaya Property. The amount expended for surface rights total U.S. \$15,000.

Minas Lucho properties

The Company holds four contiguous mineral concessions which comprise the Minas Lucho property in Peru.

La Mamita

The Company purchased mining rights in the La Mamita Concession in Peru. The Company paid \$25,000 and issued 25,000 common shares.

Don Pedro 2000 and Panchito

The Company purchased by way of option the rights to the property called the Don Pedro 2000 concession in Peru. The Company paid U.S. \$40,000 (2005 U.S. \$70,000) with additional payments of the option of U.S. \$140,000 as follows:

\$U.S.	Due Date
20,000	January 9, 2007 (paid)
20,000	May 9, 2007 (paid)
30,000	September 9, 2007 (paid)
30,000	January 9, 2008 (paid)
40,000	May 9, 2008 (paid)

The Company purchased an undivided 100% interest to certain Peruvian mining rights called the Panchito property. The Company has paid U.S. \$11,000 cash and issued 100,000 shares.

Peruvian Properties

	2010	2009
Acquisition costs	\$ 5,830,550	\$ 5,830,550

In addition to the five main concessions above, the Peruvian properties consist of other numerous concessions in one contiguous area in Peru of which detail breakdown is not shown.

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7. RESOURCE PROPERTIES, continued

Mineral property exploration expenses for the year ended December 31, 2010

	Red Mountain	Pinaya	Total
Incurred during the period:			
Drilling and assaying	\$ 968,555	\$ -	\$ 968,555
Camp and equipment	206,461	26,137	232,598
Travel and transportation	38,544	28,753	67,297
Consulting and wages	168,404	122,638	291,042
Project management	294,239	-	294,239
Permitting	10,650	78,850	89,500
Geological and geophysical	272,374	133,632	406,006
Amortization of exploration equipment	-	30,063	30,063
Supplies and miscellaneous	34,475	24,885	59,360
Total exploration expenses	\$ 1,993,702	\$ 444,958	\$ 2,438,660

8. CAPITAL STOCK

Authorized:

Share capital consists of an unlimited number of common shares without par value.

On October 7, 2009, the Company, effected a consolidation of its common shares on a consolidated basis of one (1) post-consolidated common shares for every four (4) pre-consolidated common shares held. All shares and per share amounts in the financial statements have been adjusted to reflect the one for four share consolidation.

Issued:

Year ended December 31, 2010:

Issued for private placements

On January 14, 2010, the Company issued 1,000,000 Units at \$0.225 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Every two share purchase warrants are exercisable into one common share at a price of \$0.275 per share until July 14, 2011.

On February 11, 2010, the Company issued 385,000 Units at \$0.225 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Every two share purchase warrants are exercisable into one common share at a price of \$0.275 per share until August 11, 2011. Finder's fees of \$473 were paid in relation to the private placement. Included in this placement were 310,000 units issued to offset amounts due to related parties.

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8. CAPITAL STOCK, continued

On April 28, 2010, the Company issued 4,000,000 Units at \$0.20 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Each share purchase warrant is exercisable into one common share at a price of \$0.20 per share until April 29, 2012. Finder's fees of \$67,506 were paid in relation to the private placement.

On May 17, 2010, the Company issued 1,500,000 flow through Units at \$0.22 per Unit by way of private placement. Each unit consists of one flow through common share of the Company and one flow through warrant. Each flow through warrant is exercisable into one flow through common share at \$0.30 per share until May 17, 2012. Finder's fees of \$16,500 were paid in relation to the private placement.

On August 12, 2010 and September 13, 2010, the Company issued 4,000,214 flow through Units at \$0.35 per Unit by way of private placement. Each unit consists of one flow through common share of the Company and one flow through share purchase warrant. Every two flow through share purchase warrants are exercisable into one flow through common share at \$0.40 per share. 1,885,714 flow through warrants will expire August 12, 2011 and 2,114,500 flow through warrants will expire September 13, 2011. Finder's fees of \$64,333 were paid and 183,523 Brokers share purchase warrants were issued in relation to the private placement. Every two Brokers share purchase warrants are exercisable into one flow through common share at \$0.40 per share until September 13, 2011.

On September 13, 2010, the Company issued 6,323,666 Units at \$0.30 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Each share purchase warrant is exercisable into one common share at \$0.35 per share until September 13, 2012. Finder's fees of \$189,709.80 were paid and 632,366 Brokers share purchase warrants were issued in relation to the private placement. Each Brokers share purchase warrants is exercisable into one common share at \$0.35 per share until September 13, 2012.

Issued for debt settlement

On September 16, 2010, the Company issued 571,428 common shares at \$0.35 per share for total of \$200,000 to settlement debt with Solitaire Minerals Corp.

Issued for acquisition of resource property

On September 22, 2010, the Company issued 200,000 common shares at \$0.48 per share for total of \$96,000 in relation to acquisition of the remaining 20% interest of Red Mountain Property.

Year ended December 31, 2009:

On December 31, 2009, the Company issued 2,895,000 Units at \$0.225 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Every two share purchase warrants are exercisable into one common share at a price of \$0.275 per share until June 30, 2011. Finder's fees of \$32,459 were paid in relation to the private placement.

On November 4, 2009, the Company issued 175,000 common shares of the Company at a deemed value of \$0.25 per share pursuant to the amended agreement dated August 31, 2009 with respect to the Red Mountain Property.

On August 21, 2009, the Company issued 3,000,000 Units at \$0.16 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Every two share purchase warrants are exercisable into one common share at a price of \$0.20 per share until August 21, 2010. Finder's fees of \$1,540 were paid in relation to the private placement.

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8. CAPITAL STOCK, continued

Stock Options:

The Company has a stock option plan (the "Plan") for directors, senior officers, employees, consultants, and management. The Plan provides for the issuance of stock options to acquire up to a maximum of 10% of the issued and outstanding common shares of the Company. The Plan provides that the vested terms of the options and the option price may be fixed by the directors subject to the price restrictions and other requirements of the TSX Venture Exchange. Options are granted for a term not exceeding five years and the exercise price must be paid in full upon exercise price of the option.

Options to purchase 1,950,000 common shares at \$0.35 per share, expiring April 29, 2015
Options to purchase 500,000 common shares at \$0.35 per share, expiring August 31, 2015
Options to purchase 500,000 common shares at \$0.47 per share, expiring September 21, 2015
Options to purchase 350,000 common shares at \$0.35 per share, expiring June 29 2015
Options to purchase 50,000 common shares at \$0.35 per share expires February 29, 2011

A summary of the status of the Company's stock options as at December 31, 2010 and 2009, and changes during those years is presented below:

	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2009	51,250	\$2.96
Options issued	4,150,000	\$0.36
Exercised	(800,000)	\$0.35
Expired	(51,250)	\$2.96
Balance, December 31, 2010	3,350,000	\$0.37

The weighted average remaining life of outstanding options at December 31, 2010 is 4.40 (2009 – 1.15) years.

	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2008	1,593,750	\$1.84
Options issued	-	-
Cancelled/Expired	(1,542,500)	\$1.80
Balance, December 31, 2009	51,250	\$2.96

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8. CAPITAL STOCK, continued

Stock Options, continued

During the year ended December 31, 2010, the compensation expense recorded for options fully vested was \$1,214,359 (December 31, 2009 – \$23,942). The breakdown of stock based compensation is as follows;

	2010	2009
Directors	927,795	23,942
Consulting and officers	262,249	-
Investor relations	24,315	-
Total stock based compensation	1,214,359	23,942

The fair value of the options granted was estimated on the date of grant using the Black-Scholes options-pricing model with the following assumptions:

	2010	2009
Risk-free interest rate	2.02%	-
Expected life of options	4.02 years	-
Annualized volatility	153%	-
Dividend rate	0%	-

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

Share Purchase Warrants:

As at December 31, 2010, the Company had share purchase warrants outstanding enabling holders to acquire the following:

1,451,111 share purchase warrants at an exercise price of \$0.275 per share until June 30, 2011. Two share purchase warrants entitle the holder thereof to acquire one common share of the Company

1,000,000 share purchase warrants at an exercise price of \$0.275 per share until July 14, 2011. Two share purchase warrants entitle the holder thereof to acquire one common share of the Company

190,000 share purchase warrants at an exercise price of \$0.275 per share until August 11, 2011. Two share purchase warrants entitle the holder thereof to acquire one common share of the Company

1,885,714 flow through share purchase warrants at an exercise price of \$0.40 per share until August 12, 2011. Two flow through share purchase warrants entitle the holder thereof to acquire one flow through common share of the Company. The warrants are subject to an acceleration clause if the Company's shares trade above \$0.55 for 10 consecutive trading days.

2,114,500 flow through share purchase warrants at an exercise price of \$0.40 per share until September 13, 2011. Two flow through share purchase warrants entitle the holder thereof to acquire one flow through common share of the Company. The warrants are subject to an acceleration clause if the Company's shares trade above \$0.55 for 10 consecutive trading days.

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8. CAPITAL STOCK, continued

Share Purchase Warrants, continued

183,523 broker share purchase warrants at an exercise price of \$0.40 per share until September 13, 2011. Two share purchase warrants entitle the holder thereof to acquire one common share of the Company. The warrants are subject to an acceleration clause if the Company's shares trade above \$0.55 for 10 consecutive trading days.

3,860,000 share purchase warrants at an exercise price of \$0.20 per share until April 29, 2012. Each share purchase warrant entitles the holder thereof to acquire one common share of the Company.

1,450,000 flow through share purchase warrants at an exercise price of \$0.30 per share until May 17, 2012. Each flow through share purchase warrant entitles the holder thereof to acquire one flow through common share of the Company.

6,323,666 share purchase warrants at an exercise price of \$0.35 per share until September 13, 2012. Each warrant entitles the holder thereof to acquire one common share of the Company.

632,366 broker share purchase warrants at an exercise price of \$0.35 per share until September 13, 2012. One share purchase warrants entitle the holder thereof to acquire one common share of the Company.

A summary of the Company's issued and outstanding share purchase warrants as at December 31, 2010 and 2009 and changes during those years is presented below:

	2010	2009
Balance, beginning of year	10,545,848	4,650,847
Issued	17,221,380	9,667,348
Expired	(2,010,429)	(3,772,347)
Exercised	(7,481,807)	-
Balance, end of year	18,2749,92	10,545,848

The weighted average remaining life of outstanding options at December 31, 2010 is 0.52 (2009 - 0.87) years.

Fair values of warrants issued to brokers in relation to private placement and for fair values of warrants which were re-priced and had their expiry date extended have been estimated using the Black-Scholes option-pricing model using the following assumptions:

	2010	2009
Risk-free interest rate	1.43%	0.56%
Expected life of options	1.87 years	1 year
Annualized volatility	205%	156%
Dividend rate	-	0%

The value of brokers warrants issued during the year was \$221,475 (2009 - \$Nil).

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8. CAPITAL STOCK, continued

Brokers warrants:

A summary of the Company's issued and outstanding brokers warrants as at December 31, 2010 and 2009 and the changes during the years is presented below:

	2010	2009
Balance, beginning of year	-	-
Issued	815,889	-
Expired	-	-
Exercised	-	-
Balance, end of year	815,889	-

9. COMMITMENTS

On June 7, 2010, the Company entered into a Investor Relations Service Agreement. The Company agreed to pay monthly fees of \$7,500 for services provided. The term of this agreement is for six months commencing July 10, 2010 with a option to extend the agreement for an additional six months at the same terms if both parties agree. On August 31, 2010, the Company granted the consultant stock options to acquire 150,000 common shares of the Company at an exercise price of \$0.35 per share expiring August 31, 2015. The agreement expired on January 9, 2011.

Office space is rented for \$1,750 per month. Rent of office space is on a month to month basis with no lease or other commitment.

The Company has a commitment to issue 125,000 common shares upon indication of probable gold reserves on the Pinaya property in excess of 750,000 oz. The Company has an additional commitment to issue 125,000 more common shares upon indication of probable gold reserves on the Pinaya property in excess of 2,500,000 oz.

Subsequent to December 31, 2010, the Company entered into a drilling agreement for work to be performed on the Red Mountain property which requires a commitment of \$150,000. See note 16.

Subsequent to December 31, 2010, the Company entered into surveying agreements for work to be performed on the Pinaya property in Peru. The total commitment required is estimated to be \$425,600. See note 16.

10. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010:

Compensation granted to officers and directors of the company were as follows:

- a) the Company incurred directors and management fees of \$55,792 (2009 - \$28,000) with directors and companies owned by directors.
- b) the Company incurred consulting fees of \$51,558 (2009 - \$Nil) with directors, officers, and companies owned by directors of the Company.

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10. RELATED PARTY TRANSACTIONS, continued

Services provided by officers and directors of the company (other than compensation paid for service as a director) were as follows:

- a) the Company incurred exploration expenditures and geological consulting fees of \$146,048 (2009 - \$120,994) as follows:
 - 369 Terminal Holdings Ltd. (controlled by Michael Scholz) - \$38,400;
 - Ralph Stricklen - \$37,404 (2009 - \$120,994);
 - Stewart Jackson - \$1,300 (2009 - \$Nil);
 - Donald Wedman - \$10,650 (2009 - \$Nil);
 - Jerikodie Inc. (controlled by Gerald Aberle) - \$58,294 (2009 - \$Nil);
- b) the Company incurred office and rental fees of \$119,016 (2009 - \$7,000) as follows:
 - 369 Terminal Holdings Ltd. (controlled by Michael Scholz) - \$117,526 (2009 - \$7,000);
 - John Fiorino - \$1,490 (2009 - \$Nil);
- c) the Company incurred legal fees of \$Nil (2009 - \$42,790) with an officer who is a principal of a law firm (Lang Michener Lawrence & Shaw).
- d) the Company incurred interest expense is \$4,416 (2009 - \$30,000) accrued to 369 Terminal Holdings Ltd. and 333 Terminal Holdings Ltd. (both controlled by Michael Scholz).

Related party transactions other than for services were as follows:

- a) the Company issued 115,000 Units at 0.225 per Unit to a director of the Company (Ralph Stricklen) to offset amounts payable as part of the February 11, 2010 private placement.
- b) the Company issued a total of 128,125 common shares for exercise of share purchase warrants. The proceeds of \$29,125 for exercising these warrants were applied against outstanding amounts payable to directors of the Company for directors' fees as follows:
 - Michael Scholz - \$17,500;
 - Stewart Jackson - \$8,500;
 - Winston Wong - \$3,125;

As at December 31, 2010:

- a) accounts payables and accrued liabilities includes \$49,846 (2009 - \$125,121) owing to officers, directors and companies controlled by common directors and officers of the Company.
 - Michael Scholz - \$1,445;
 - 369 Terminal Holdings Ltd. (controlled by Michael Scholz) - \$9,069;
 - Jack Bal - \$4,000;
 - Jerikodie Inc. (controlled by Gerald Aberle) - \$23,627;
 - Kelly Hyslop - \$505;
 - John Fiorino - \$11,200;
 - Lang Michener Lawrence & Shaw - \$Nil (2009 - \$62,101)
 - Ralph Stricklen - \$Nil (2009 - \$63,020)
- b) notes payable includes \$Nil (2009 - \$420,000) owing to 369 Terminal Holdings Ltd. (controlled by Michael Scholz).

Related party transactions are measured at negotiated at the amount agreed upon by the parties.

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11. SEGMENTED FINANCIAL INFORMATION

The Company's business is considered as operating in one segment, mineral exploration and development. The geographical division of the Company's capital assets are as follows:

Assets	2010	2009
Canada	603,328	553,874
Peru	5,816,790	6,306,430
	<u>6,420,118</u>	<u>6,860,304</u>

12. SUBSCRIPTION RECEIVABLE

Included in subscriptions receivable are \$Nil (2009 - \$129,063). Shares had been issued by December 31, 2009 with funds not being received. During the year ended December 31, 2010 the funds were received.

13. NOTE PAYABLE

Notes payable consisted of a note in the amount of \$400,000 bearing interest at an annual rate of 24% with no specific terms for repayment. Included in notes payable at December 31, 2009 was \$20,000 accrued interest. The note was repaid during the 2010 year.

14. INCOME TAXES

Details of the components of income taxes are as follows:

	2010		
	Canada	Peru	Consolidation
Loss before income taxes	\$ (4,291,703)	\$ (533,682)	\$ (4,825,385)
Expected income tax recovery at statutory rates of 28.5% (Canada) and ½ of 30% (Peru)	(1,223,136)	(80,052)	(1,303,188)
Items not deductible and (deductible) for tax purposes	249,519	(72,562)	176,957
Change in statutory tax rate	59,232	-	59,232
Valuation allowance	914,385	152,614	1,066,999
Total income taxes (recovery)	<u>-</u>	<u>-</u>	<u>-</u>

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14. INCOME TAXES, continued

	2009		
	Canada	Peru	Consolidation
Loss before income taxes	\$ (886,976)	\$ (389,450)	\$ (1,276,426)
Expected income tax recovery at statutory rates of 30% (Canada) and ½ of 30% (Peru)	(266,092)	(58,418)	(324,510)
Items not deductible and (deductible) for tax purposes	84,534	30,300	114,834
Change in statutory tax rate	85,183	-	85,183
Valuation allowance	96,375	28,118	124,493
Total income taxes (recovery)	-	-	-

Peru's statutory tax rate for a corporation is basically at 30% of its taxable income. For a company with Peruvian-source losses, these losses can either be carried forward against its taxable income in future four years or to be carried forward indefinitely against 50% of its future taxable income. Since the Company's subsidiary in Peru is still in its exploration stages, it will apply the second method and offset its Peruvian-source losses against its 50% of future taxable income and will carry forward the losses indefinitely. As at December 31, 2010, Peruvian's operation has an approximately \$8,980,941 (Soles 24,911,402) non-capital losses carry forward indefinitely.

The Company's Canadian operation has non-capital losses of \$8,672,324 available to offset future taxable income, expiring from 2011 to 2030. These losses expire as follows:

2014	1,537,798
2015	830,773
2026	1,320,315
2027	1,466,888
2028	1,245,599
2029	848,454
2030	1,422,497
	\$ 8,672,324

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14. INCOME TAXES, continued

Future income taxes:

Future income taxes result primarily from differences in the recognition of certain revenue and expense items for financial and income tax reporting purposes. The temporary differences that give rise to future tax assets and liabilities at December 31, 2010 and 2009 for its Canadian and Peruvian operations are as follows:

Future income tax assets	2010		
	Canada	Peru	Consolidation
Net operating tax loss carry-forwards	\$ 2,168,081	\$ 1,347,141	\$ 3,515,222
Cumulative exploration and development expenditures	851,858	-	851,858
Share issuance costs	169,688	-	169,688
VAT tax credit recovery against 50% of future income	-	242,943	242,943
Valuation allowance for future tax assets	(3,189,627)	(1,590,084)	(4,779,711)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Future income tax assets	2009		
	Canada	Peru	Consolidation
Net operating tax loss carry-forwards	\$ 1,771,849	\$ 1,160,599	\$ 2,932,448
Cumulative exploration and development expenditures	348,234	-	348,234
Capital assets temporary differences	9,715	-	9,715
Share issuance cost	114,403	-	114,403
VAT tax credit recovery against 50% of future income	-	248,457	248,457
Valuation allowance for future tax assets	(2,244,201)	(1,409,056)	(3,653,257)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

15. SUPPLEMENTARY CASH FLOW INFORMATION

Non-cash transactions are as follows:

	<u>2010</u>	<u>2009</u>
Acquisition of resource properties	\$ 96,000	\$ 43,750
Issuance of common shares through share subscription receivable	\$ -	\$ 129,063
Issuance of common shares through reduction loans and interest	\$ 200,000	\$ -
Issuance of common shares through reduction of amounts owed	\$ 98,875	\$ 24,000
Warrants issued to brokers as finders fees	\$ 221,475	\$ -
Share capital recognized upon exercise of options	\$ 106,516	\$ -

16. SUBSEQUENT EVENTS

Subsequent to December 31, 2010, the Company:

- a) issued 122,377 shares and received proceeds of \$35,810 for exercise of warrants.
- b) issued 75,000 shares and received proceeds of \$26,250 for exercise of options.
- c) entered into an agreement for drilling for work to be performed on the Red Mountain property and paid a deposit of \$150,000.
- d) entered into agreements for surveying work to be performed on the Pinaya property with estimated total costs to completion of \$425,600.