

# **CADAN RESOURCES CORPORATION**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FOR THE YEAR ENDED DECEMBER 31, 2010**

This Management Discussion and Analysis of the financial condition and results of operations has been prepared as at April 29, 2011. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Except as otherwise disclosed, all dollar figures included therein, and in the following Management Discussion and Analysis ("MD&A"), are reported in Canadian dollars. Additional information relevant to the activities of the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

To assist shareholders and potential investors to learn more about Cadan Resources Corporation (the "Company", "Cadan", "CNF") and keep up-to-date with its exploration and developments, the Company's website provides maps and details of its Philippine gold-silver, gold stockworks and porphyry skarn copper-gold and gold projects. Readers are encouraged to visit the site at [www.cadanresources.com](http://www.cadanresources.com).

#### **1. Forward Looking Statements**

Certain information included in this discussion may constitute forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different than those expressed or implied. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

#### **2. Use of Mineral Reserve and Resource Terminology**

The mineral resources described in this MD&A are estimates and have been prepared in compliance with National Instrument 43-101 of the Canadian Securities Administrators. The definitions of the terms "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource" are defined in, and required to be disclosed by, National Instrument 43-101.

#### **3. Company Overview**

The Company is a mineral company engaged in the exploration and development of precious and base metal projects located in the Philippines. Its corporate objective is to advance the exploration of each project to the point where it can be developed economically, either by itself, or, in a development joint venture.

In the Philippines, the Company operates through its partially-owned affiliates, Philco Mining Corporation ("PMC"), Batoto Resources Corporation ("BRC"), TMC Tribal Mining Corporation ("TMC") and Sunbird Philippines Holding Inc, collectively, the "Philippine companies". The Company owns 40% of each of the Philippine companies. These companies have been consolidated as they meet the criteria for variable interest entities. CNF management and resources are focused on the systematic exploration of the Comval porphyry skarn copper-gold deposits and targets owned by the Philippine companies: the Tagpura, Maangob, Kapanawan and Kalamatan porphyry copper-gold deposits; the Cadan porphyry copper-gold prospect; the Batoto-Tarale gold prospect; and the T'Boli gold-silver deposit located in south-central Mindanao, Philippines.

On December 18, 2008, the Company announced the development of the T'Boli gold-silver mine and the advancement of its key "lateral development" program and the development of the Comval copper-gold and gold projects in the Philippines. The Company will close the Colombian operation, which has been on a care and maintenance basis. No material cost is anticipated.

As of the date of the MD&A, the Company has not earned any production revenue nor has found any proven reserves. Exploration and operating activities have been financed primarily by the issuance of common shares.

The Company is a reporting issuer in British Columbia and Alberta and is listed on the TSX Venture Exchange ("TSXV-CXD") and Frankfurt (with the symbol A0MZ25).

At a general meeting of shareholders on October 21, 2009, the shareholders of the Company approved a consolidation of share capital on a five old to one new basis. The Company began trading on a post consolidated basis on November 10, 2009, with a new symbol "CXD".

#### 4. Directors & Management

Mr. John D Anderson	Director and Chairman of the Board
Mr. Francois Marland	Director
Mr. Simon Solomonidis	Director
Mr. Bill Goode	Director, Director Technical Development
Mr. Robert Gordon Butchart	CEO, President, Director, Chief Operating Officer
Dr. Douglas Evans	Director
Mr. Derick Sinclair, CA	CFO
Ms. Monita Faris	Manager, Corporate Relations

#### 5. Direction

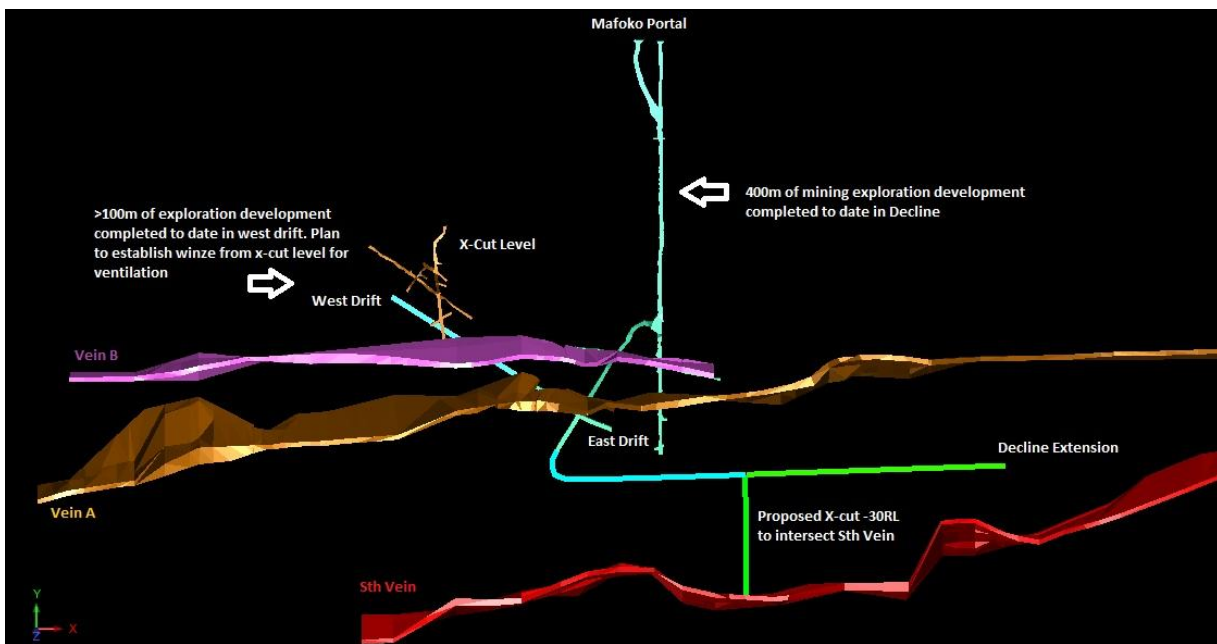
The Company continued its focus on its Comval porphyry copper-gold projects, its T'Boli epithermal gold-silver mine and the central corridor gold stockworks projects, highlighted to date by the Batoto-Tarale mineralized zones, in the Philippines.

A contract has been signed for a helicopter borne geophysical survey of the Company's tenements at Comval and T'Boli which is scheduled to be completed in the second quarter. This survey is expected to provide valuable structural information. Any magnetic anomalies associated with as yet unknown porphyry copper-gold targets at Comval and T'Boli will be highlighted.

#### 6. Mine Development

##### T'Boli Gold-Silver Mine

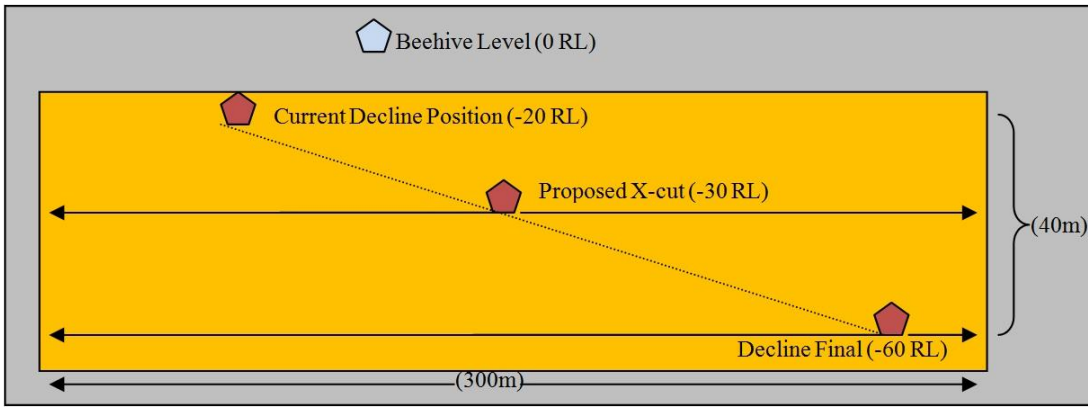
The T'Boli mining operation has focused on the decline and lateral development (398N & 418N lode structures). At the end of the quarter, the 398N had progressed approximately 100m west of the decline, having exploited a mineralized structure that is typically 1m in width and averages approximately 10-12g/t Au. The 418N has advanced approximately 100m in similar values. The decline has progressed approximately 235m from the turn-out in the Beehive Tunnel, and, at the current face, the decline is approximately 30m below the Beehive RL. A total of 540m of exploration decline and X-cut rehabilitation has now been completed from the Mafoko portal to the current decline face position (Figure 1).



**Figure 1** – Plan view showing the T'Boli mine plan layout and the position of the three main ore zones recognized to date.

The west drift has advanced to a position that will allow a ventilation connection to the X-cut level.

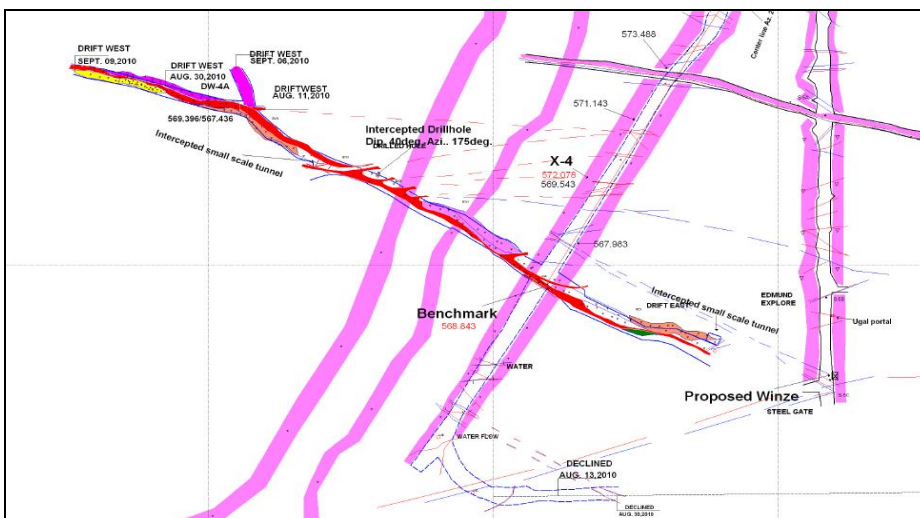
The decline will be continued approximately another 220m to be in a position about 60m below the Beehive RL, and, at this point, the decline will be turned south to intersect the South Vein. A crosscut has been advanced south at -30RL to intercept the South Vein system and provide multiple ore headings. A schematic long-section is presented in Figure 2 below.



**Figure 2** – Long section looking north, showing potential ore reserve panel, if two “veins” are exploited over a 300m strike length between the -20 and -60 RL’s. This would equate to 85,000 tonnes of ore, if the “veins” are 1.5m wide on average and have a bulk density of 2.35. This would supply the current processing plant for 12-14 months. Historic drilling results from TD008 intersected 4m @ 18.7 g/t in this zone.

Geological work focused on the mapping and sampling of the underground workings, with face sampling being undertaken every two meters in the west drift. Sampling has also been undertaken on both walls of the decline taking samples every one meter along the wall. Routine check sampling of the ore stockpiles has also been undertaken. All assays are now being done by McPhar Laboratories, with sample preparation in General Santos and analysis by fire-assay in Manila. Recently, the on-site fire assay has been commissioned and an AAS machine has been purchased and is now operational.

Underground mapping has shown that the west drift is exploiting a mineralized structure that has a consistent strike of between 290° and 310° and can be interpreted to be north-west in its geometry. This structure is oblique to the interpreted east-west striking Vein A and Vein B. The following survey pick-up and geological map clearly shows this relationship, indicating that the original geological model presented in early reports is overly simplified, and additional veins are likely to exist.



**Figure 3** – Plan view showing geological mapping of the decline and west drift. Note that the west drift is exploiting a north-west trending mineralized structure.

## Gold Resource Table

Vein	INDICATED*			INFERRED*		
	Tonnes <sup>1</sup>	g/t <sup>2</sup>	Kg	Tonnes <sup>3</sup>	g/t <sup>4</sup>	kg
South	343,700	9.4	3,230	170,000	9.4	1,600
North-A	371,100	7.1	2,630	189,000	7.0	1,320
North-B	151,200	10.5	1,590	75,000	10.5	790
<b>Totals<sup>5</sup></b>	<b>866,000<sup>3</sup></b>	<b>8.6</b>	<b>7,450<sup>5</sup></b>	<b>434,000<sup>5</sup></b>	<b>8.5</b>	<b>3,710<sup>5</sup></b>

\* Estimates are as of November 28, 2009, and are for gold only. The NI 43-101 Inferred Resource reported by Cooper (2002) established silver/gold ratios ranging from 2:1 to 6:1 and averaging approximately 4:1.

### Notes:

1 – estimated from polygons constructed on longitudinal sections around the veins in (a) underground tunnel workings surveyed and sampled by Eastern, (b) Cadan's current underground workings and (c) diamond drill intersections - with nominal 1m vein widths except where drill intersections indicate otherwise, and assumed SG of 2.5.

2 – assignment of grades to polygons based on perusal of assay results for (a) tunnel samples (diluted to 1m width with the wall rock assigned a grade of 0.5g/t Au and 40g/t Au top cut), (b) Cadan's sampling results from current underground workings and (c) vein intersection assay results in drill holes within the polygons – acceptable practice in operating narrow vein gold mines.

3 – projection of "Indicated" polygons nominally 50m down dip and along strike into areas with obvious potential but no data.

4 – grades assigned at the average grade of polygons making up the "Data Supported" estimates.

5 – includes 25% mining dilution at 0.5g/t Au.

The NI 43-101 Technical Report was prepared by Mr. Kevin Shultz, FAusIMM(CP), a consulting mining engineer and geologist and Fellow of the Australasian Institute of Mining & Metallurgy (Chartered Professional) with more than 35 years experience in Australia, Western USA, Canada, Papua New Guinea, Tanzania, and other African countries.

## Tagpura Porphyry Copper-Gold

Resource definition drilling at the Tagpura porphyry skarn copper-gold project located in Comval, East Mindanao, Philippines, is now completed. Final results will be announced when received from the certified laboratory. The program started in early September 2010, using the 100% owned company LY 24 drill rig. Diamond Hole TGD 108 was drilled to 139.10m and was cored from the surface. Preliminary XRF results have now been received for this hole, averaging 0.65% Cu from 0m to 106m. The high grade skarn zone was intersected from 33m to 64m and this intersection returned an average grade of 1.21% Cu over the 31 meters.

Visual inspection of the high grade skarn zone, from the core, shows magnetite and garnet skarn hosting chalcopyrite and chalcocite mineralization (See Figure 1 below).



**Figure 4** – TGD 108 - copper mineralization in porphyry skarn

The Tagapura porphyry skarn zone has an indicated “*conceptual or order of magnitude*” potential tonnage range of 10 million to 15 million tonnes, with a potential grade range of 0.50% copper and 0.20 g/t gold to 0.70% copper and 0.31 g/t gold. (See News Release, dated Tuesday, August 5, 2008).

Sufficient drilling has now been completed to allow the calculation of a NI 43-101 compliant resource.

Near term production and early positive cash flow is possible from the Tagapura porphyry skarn, which demonstrates an additional style of mineralization that may be particularly suitable for “bacterial heap leaching”. An initial metallurgical test has indicated heap leach amenability. Further analysis of this is underway. A bacterial heap leach operation, with a start up capacity of 2 Mt per year is being reviewed, with an initial supporting potential tonnage range of some 10Mt to 20Mt.

An initial five to 10 year plus mine life is thus envisaged, from the Tagapura porphyry skarn alone, with low cost metal production.

The Tagapura porphyry skarn high grade zone is located within an existing open pit. This enables the “box cut” mining method to be considered the most appropriate approach, particularly as there is no overburden to remove, and thus mining costs are optimized.

## **7. Exploration**

On June 1, 2010, the Company announced that the NI 43-101 compliant Technical Report, released on May 11, 2010, on its Comval Projects, located in the Eastern Mindanao mineral belt of the Philippines, has highlighted a mineralized corridor some 14 km long by 2.5 km wide, within which lies a group of six regionally significant gold prospects and which has the potential for a regionally significant gold discovery.

Highlights:

- ❖ The NI 43-101 Qualified Person, Mr. Kevin Shultz FAusIMM (CP), has reviewed Cadan’s potential for large tonnage stockwork gold deposits at the Company’s Batoto and Tarale gold stockworks, and four other large areas of partly defined gold stockworks.

- ❖ Mr. Schultz describes the basic data for the compilation of the Batoto historical non NI 43-101 compliant resource of 39 million tonnes at 1.8g/t, for 2.1 million ounces.
- ❖ He states that the mineralization may extend another one kilometer to the southwest from Batoto and link with the large Santa Fe gold stockwork. He further states that, since 2003, Cadan has exposed 80 gold bearing veins in an area 2.5km by 3.0km at Batoto, and that, in 1981, 80,000 tonnes was mined and processed at Batoto at a grade of 4-5g/t Au.
- ❖ Selective mining at Tarale in 2004/5 of 3,275 tonnes returned an average of 5.9g/t Au at 90% recoveries. The Tarale system is 700m south of Batoto and samples as high as 780g/t have been recorded.
- ❖ Two bulk samples from the Santa Fe stockwork (11.6 tonnes and 50 tonnes) have averaged 3.9g/t Au and 3.17g/t Au respectively.
- ❖ The Surigaonon stockwork was assigned a historical non NI 43-101 compliant resource of 2.85 million tonnes at 2.1g/t Au.
- ❖ Mr. Schultz states that exploration is far from complete and the ComVal projects offer the potential for the discovery of regionally significant epithermal gold systems.
- ❖ Reconnaissance exploration some 3km north of the main gold stockworks has defined an area 6km by 2km with widespread gold occurrence in drainage systems, intense red clay alteration, an interpreted collapse structure some 500m in diameter and anomalous bulk leach extractable gold samples. This area remains virtually unexplored.

### **The Batoto Gold Prospect**

The results for the six holes sent for analysis in the previous quarter have now been received and the significant intercepts include:

<b>Hole Number</b>	<b>From</b>	<b>To</b>	<b>Width</b>	<b>Au g/t</b>
BDDH-07	110	120	10	0.68
BDDH-08	60	79	19	0.43
BDDH-08	88	111.4	23.4	0.52
BDDH-09	104	111	7	0.88
BDDH-10E	30	31	1	12.3
BDDH-10E	121	122	1	15.3
BDDH-11	108	127	19	0.65
BDDH-12	82	102	20	0.43

BDDH holes 14 and 15 are now complete. Data compilation and results will be announced in the second quarter.

The Batoto gold prospect, 150m by 400m, is a stockwork of quartz veins associated with locally intense quartz pyrite-sericite argillic alteration cropping out around the spur of a mountain ridge between elevations 400m and 800m above sea level. Gold mineralization occurs within a west-southwest trending zone known as the Clark Mineralized Zone (“CMZ”). Workings of local indigenous people within the CMZ are exposed over about 1 kilometer in a west-southwesterly direction from the northeastern point of the spur but the mineralization may extend at least another kilometer to the west-southwest and link with the Santa Fe gold prospect.

Identified in 1980 by Sabena Mining Corporation, it was explored by 787 rock chip samples from some 7,000m of road cuts, systematic trenches and 400m of adits, drifts and cross cuts, reportedly averaging 1.6g/t Au and giving rise to a number of historic “ore reserve” estimates. In 1981, one estimate by geological consultants amounted to 39 million tonnes at 1.8g/t Au, for 2.1 million ounces of gold. It should be noted that the foregoing historic “ore reserve” estimate was not prepared in accordance with CIM standards. Further, a qualified person has not done sufficient work to classify the historical estimate as current mineral resources or mineral reserves. The Company is not treating the historical estimate as current mineral resources or mineral reserves as defined in sections 1.2 and 1.3 of NI 43-101, and the historical estimate should not be relied upon. The foregoing historical resource is non compliant and should only be considered as indicative of mineralization potential.

In 1981, Sabena Mining Corporation constructed a 500t/d gold processing plant and mined and processed approximately 80,000t from a small open cut on the Batoto prospect. The ore was reported to have a grade of 4-5g/t Au, with the material between the main veins appearing to be pervasively mineralized and averaging about 1.4g/t Au.

## 8. Outlook

The exploration program of the Comval project is designed to expand the size of the potential bulk tonnage and open pit resources.

The Company is implementing a “validation work program” over a large gold-silver stockwork system, now covering some 15 km x 3km, within which lies the Batoto gold target, with a historic Philippine resource of some **39Mt @ 1.8g/t gold, for some two million ounces of gold.** (See section on Batoto-Tarale gold).

Of the copper-gold styles of mineralization, the porphyry breccia and the skarn zones have the potential for bulk tonnage deposits. The total extent of the mineralization is currently unknown, beyond the potential for the porphyry copper-gold mineralization to host between 1 and 1.7Bt and the skarn copper-gold mineralization to host between 10Mt and 20Mt.

Drill targeting will be multi disciplinary, with the highest priority given to targets where geological, geochemical and geophysical parameters are coincident.

## 9. Qualifications

Technical aspects of this MD&A were prepared and verified by William Donald Goode, a member of the AusIMM and Technical Director of Cadan Resources. He is the qualified person, as required by National Instrument 43-101, and is the technical person responsible for this news release. The qualified person has verified the data disclosed in this news release.

Mr. Goode is a graduate of the West Australian School of Mines in Mining Geology and Mine Surveying and holds a current Underground Supervisor’s Certificate of Competency. He has more than 45 years’ experience in geology, mining and mineral exploration, including resource calculations. His experience covers gold, silver, base metals and uranium exploration and mining in Australia and Asia.

He previously held the position of Chief Geologist at Lake View and Star’s Fimiston underground gold mine and was assistant Chief Geologist for Great Boulder Mine’s three underground nickel mines, where he gained extensive experience in nickel exploration. He was Chief Mine Geologist for Metals Exploration in the Philippines (1974-76) and Australia.

Since 1981, he has worked as a consulting geologist and owned and operated underground gold mines. During this period, he conducted resource calculations for several major international mining companies. Mr. Goode also has industry experience in financing and prospect identification, ranging from the development to the pre-mining feasibility stage.

## 10. Financial Data

The following selected financial information is derived from the audited annual consolidated financial statements of the Company prepared in accordance with Canadian GAAP.

All amounts in Cdn\$,000, except per share data	Years ended December 31,			
	2010 \$	2009 \$	2008 \$	2007 \$
Operations:				
Revenues	-	-	-	-
Income (loss)	(1,944)	(1,498)	(820)	(1,828)
Income (Loss) per share	(0.05)	(0.05)	(0.03)	(0.10)
Dividends per share	-	-	-	-
Balance Sheet:				
Working capital/(deficit)	5,711	529	368	3,197
Total assets	32,601	20,102	16,223	14,740
Total Long-term liabilities	-	-	-	-

The following selected financial information is derived from the unaudited consolidated interim financial statements of the Company prepared in accordance with Canadian GAAP.

	2010				2009			
Quarters ended	Dec 31 \$	Sept 30 \$	Jun 30 \$	Mar 31 \$	Dec 31 \$	Sept 30 \$	Jun 30 \$	Mar 31 \$
Operations:								
Revenues	-	-	-	-	-	-	-	-
Net income (loss)	(906)	(337)	(289)	(412)	30	(728)	(631)	(169)
Income (loss) per share	(0.02)	(0.01)	(0.01)	(0.01)	0.005	(0.025)	(0.023)	(0.007)
Dividends		-	-	-	-	-	-	-
Balance Sheet:								
Working capital	5,711	1,053	944	2,430	529	849	(382)	(60)
Total assets	32,601	25,204	23,265	23,591	20,102	18,807	16,938	16,460
Total long-term liabilities	-	-	-	-	-	-	-	-

For the quarter ended December 31, 2010, Cadan reported a consolidated operating loss of \$906,000 in Q4 2010 compared to net income of \$29,000 in 2009. In 2009 the Q4 results were impacted by a \$217,000 year-end adjustment to stock based compensation and \$27,000 year-end adjustments to regulatory and shareholder costs reducing the \$215,000 net loss for the quarter to the \$29,000 net income. Expenses for the fourth quarters 2010 to 2009 were \$686,000 higher in 2010 after giving effect to the year-end adjustments and are a result of:

- Consulting fees were \$705,000, \$562,000 higher than 2009 primarily due to a one-time consulting contract to identify and negotiate a management contract for the management of Cadan's interests in the Philippine Companies, consulting agreements related to investor relations activities, and increases in consulting fees to existing consultants.
- Travel and entertainment \$80,000, \$63,000 higher than 2009 primarily due to increased travel to deal with administrative issues in the Philippines.
- Foreign exchange losses \$44,000, \$46,000 higher than 2009 due to strengthening of the Philippine peso against the Canadian dollar.
- Professional fees \$44,000, \$16,000 higher than 2009 primarily due to legal fees related to a restructuring of Cadan's ownership in the Philippine companies, eliminating the Australian subsidiaries and creation of Canadian subsidiaries to hold Cadan's interests in the Philippine affiliates.

Partially offset by:

- Office rent, web site and other miscellaneous expenses \$31,000, were \$2,400 lower in 2010.

### Liquidity and Capital Resources

At December 31, 2010, the Company had cash of \$6,481,045 (2009 - \$906,796), amounts and advances receivable of \$51,437 (2009 - \$20,552), accounts payable and accrued liabilities of \$656,648 (2009 - \$244,309), and amounts due to related parties of \$196,932 (2009 - \$183,495). The accounts payable are all due within three months of the year-end,

and amounts due to related parties are without specific terms of repayments; however, amounts are expected to be repaid within one year. The Company will require significant cash funding to conduct its exploration programs, meet its administrative overhead costs and maintain its resource interests in 2011. This will require the Company to obtain additional financing in 2011. The Company invests surplus cash in guaranteed investment certificates with Bank of Montreal and faces no known liquidity issues.

Historically the Company's main source of funding has been through equity issuances and the Company expects that sale of equity will continue to provide the majority of its funding. However, the Company will continue to consider all sources of finance reasonably available to it including sale of assets in whole or in part, including mineral property sales. There can be no assurance of continued access to finance in the future, and an inability to secure financing may require the Company to reduce or defer exploration and development activities.

### **Use of Financial Instruments**

The Majority of the Company's cash at December 31, 2010 was held in the form of demand deposits with Canadian banks. The Company's only other financial instruments were other accounts receivable (excluding HST receivable) and its accounts payable and accrued liabilities.

The carrying amounts of the Company's cash, accounts receivable (excluding HST receivable) and accounts payable and accrued liabilities are estimated to reasonably approximate their fair values. The Company holds no derivative instruments, and has not employed any hedging activities. The fair values of all of the Company's financial instruments measured at December 31, 2010 conform to Canadian GAAP.

When the Company's invests excess cash, it invests in demand deposits and term deposits with major financial institutions in Canada, and management believes the exposure to credit risk with respect to such institutions is not significant. Those financial assets that potentially subject the Company to credit risk are primarily receivables (excluding HST receivable), and the Company's maximum credit risk exposure in respect of its receivables is not significant and is represented by their carrying amount of \$1,204.

The Company currently has only limited exposure through its financial instruments to fluctuations in exchange rates between the Canadian dollar and the Philippine Peso with respect to cash, accounts payable and accrued liabilities, and amounts due to related parties as a portion of these amounts are denominated in Philippine pesos.

### **Results of Operations**

During the year ended December 31, 2010, the Company recorded a loss of \$1,943,504 compared with a loss of \$1,498,523 for December 2009, an increase of \$444,981 over last year.

This variance consisted of:

- Consulting fees were \$753,534 higher primarily due to a one-time consulting contract to identify and negotiate a management contract for the management of Cadan's interests in the Philippine Companies, consulting agreements related to investor relations activities, and increases in consulting fees to existing consultants.
- Travel was \$94,548 higher primarily due to a combination of increased investor related travel and increased travel to deal with administrative issues in the Philippines.
- Foreign exchange was \$83,880 higher due to strengthening of the Philippine peso against the Canadian dollar in 2010.
- Professional fees were \$40,708 higher in 2010 higher primarily due to legal fees related to a restructuring of Cadan's ownership in the Philippine companies, eliminating the Australian subsidiaries and creation of Canadian subsidiaries to hold Cadan's interests in the Philippine affiliates.
- Office rent, web site and other miscellaneous expenses were \$51,153 higher in 2010.

Partially offset by:

- Stock based compensation was \$102,630, \$578,842 lower than 2009. The Company issued 150,000 options in 2010 compared to 1,040,000 options issued in 2009. Options are issued as incentives to various directors and consultants of the Company. Options are valued using the Black-Scholes pricing model.

## **10.1. Financial Condition and Capital Resources**

During 2010 Cadan raised \$14.3 million to continue to provide financial support to the Philippine companies, in particular its partially-owned affiliates, PMC, BRC, TMC, for these affiliates to continue the exploration and development of their projects in the Comval in northern Mindanao and in T'Boli in southern Mindanao.

At December 31, 2010, the Company had working capital of approximately \$5,711,191 (December 31, 2009, \$529,179).

Financial resources were provided to all affiliates to progress their projects but particular focus was placed on exploration and development of the T'Boli gold-silver deposit. In total \$6.7 million was spent on the projects in 2010 with \$5.5 million spent on exploration and development and \$1.1 million on property plant and equipment. Approximately 50%, \$3.3 million of the exploration and development in 2010 was spent on the T'Boli Gold project and almost 90%, \$900,000 of the property plant and equipment funding was used in for the T'Boli gold project with approximately \$700,000 used towards building the gold processing plant and \$200,000 for equipment used to develop the T'Boli mine. The remainder of the \$6.6 million was used for exploration of the Tagpura, Maangob, Kapanawan, Kalamatan and Cadan porphyry copper-gold prospect \$1.8 million and the Batoto-Tarale gold prospect \$600,000.

During the year ending December 31, 2010, the Company invested \$5,497,514 (2009 - \$2,985,376) on the exploration of its Philippine properties (see detailed schedule below), invested \$1,117,912 (2009 - \$889,332) to purchase capital assets, primarily in the Philippines, and used \$1,772,719 (2009 - \$708,187) for operating activities.

The Company is continuing to progress all three of its projects in the Philippines: developing its T'Boli gold-silver mine, including: completing the construction of the processing facility and continuing the underground development of the mine, as we progress towards full-scale production; advancing its Tagpura porphyry copper-gold project; and drilling at its Batoto gold prospect.

## Exploration and Development Costs Capitalized throughout 2010 and 2009

Through its subsidiaries and the Philippine affiliates, the Company has interests in certain permits and licenses to explore and develop mineral properties located in the Philippines (see table below).

	Panag, Suriganon and Tagpura	Batoto	T'Boli	2010 Total	2009 Total
Incurring during period					
Assaying	2,211	-	56,639	58,850	5,622
Community development	75,495	57,710	125,914	259,119	157,729
Consultants	275,279	103,193	1,020,889	1,399,361	263,873
Depreciation and amortization	38,577	10,881	61,473	110,931	35,545
Drilling costs	282,231	35,514	-	317,745	356,608
Exploration and mineral processing	682,711	118,551	892,392	1,693,654	894,778
Field supplies and miscellaneous	196,145	251,016	911,125	1,358,286	756,345
Taxes, licenses and fees	15,425	7,089	57,589	80,103	24,714
Geological	138,867	19,410	-	158,277	132,833
Transportation and travel	159,334	50,199	238,310	447,843	348,945
Deferred exploration costs					
Total for period	1,866,275	653,563	3,364,331	5,884,169	2,976,992

### 10.2. Related Party Transactions and Balances

During the 12 months ended December 31, 2010, the Company incurred consulting fees totaling \$800,536 (2009 - \$543,895), which include consulting fees capitalized as part of deferred exploration costs from individuals who are officers and/or directors and/or shareholders of the Company or an affiliated company in the Philippines. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. At December 31, 2010, the Company owed \$185,440 (December 31, 2009 - \$174,495) to the individuals.

The Company also incurred \$11,797 (2009 - \$35,894) in rent payable to a company with common directors and owed \$11,492 (2009 - \$9,000) at the end of the year.

Amounts due to related parties are non-interest bearing, unsecured and without specific terms of repayment. Amounts are expected to be repaid within one year.

### 11. Significant Accounting Policies and Estimates

The preparation of our financial statements, in conformity with Canadian Generally Accepted Accounting Principles ("GAAP"), requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of expenditures during the reporting period.

### **11.1. Investments in and Expenditures on Resource Properties**

The Company records deferred exploration costs, which consist of costs attributable to the investment in and exploration of resource property interests, at cost. All direct and indirect costs relating to the acquisition and exploration of the resource interests are capitalized on the basis of specific claim blocks until the resource interests to which they relate are placed into production, the resource interests are disposed of through sale, or, management has determined there to be an impairment. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or if a resource interest is abandoned or the permit licenses are allowed to lapse, the resource interests and deferred exploration costs will be written off to operations.

On an ongoing basis, the capitalized costs are reviewed on a property-by-property basis to consider whether there are any conditions that indicate impairment on the subject property. When such conditions are identified, an impairment loss is recognized for the difference between the fair value and carrying value.

### **11.2. Asset retirement obligations (“ARO”)**

The Company’s proposed and incurred mining and exploration activities are subject to various laws and regulations for federal and regional jurisdictions, in which it operates, governing the protection of the environment. These laws are continually changing. The Company believes its operations are in compliance with all applicable laws and regulations. The Company expects to make, in the future, expenditures that comply with such laws and regulations but cannot predict the full amount or timing of such future expenditures. Estimated future reclamation costs are based principally on legal and regulatory requirements. Reclamation and remediation obligations arise from the acquisition, development, construction and normal operations of mining properties, plant and equipment.

The Company recognizes an estimate of the liability associated with an ARO in the consolidated financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material ARO’s to record in these consolidated financial statements.

### **11.3. Consolidation of Variable Interest Entities**

The Company follows the Canadian Institute of Chartered Accountants (“CICA”) Accounting Guideline 15 (“AcG-15”), “Consolidation of Variable Interest Entities”. AcG-15 requires the Company to consider whether it holds interests in other entities that expose the Company to the majority of the financial risk of those entities. In cases where the Company determines itself to be the “primary beneficiary” of another entity, the other entities financial statements are consolidated into the Company’s consolidated financial statements.

### **11.4. Stock-based Compensation**

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of, the date at which the counterparty performance is completed or the date the performance commitment is reached, or, the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or resource properties, with the offset credit to contributed surplus. For directors and employees, the options are recognized over the vesting period, and, for non-employees, the options are recognized over the related service period. If, and when, the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

### **11.5. International Financial Reporting Standards (“IFRS”)**

A decision of the CICA Accounting Standards Board (the “AcSB”) will require the Company to report under IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2010, will require the restatement for comparative purposes of amounts reported

by the Company for interim periods and for the year ended December 31, 2010. The first reporting period impacting the Company will be March 31, 2011.

The Company reviewed its Investments and Expenditures on Resource Properties, Property Plant and Equipment records and consolidation processes and determined that there will not be a material impact under IFRS and the Company is prepared to file the March 2011 quarterly financial statements in compliance with IFRS reporting requirements.

## **12. Risks and Uncertainties**

Mining and exploration involves a high degree of risk, and there can be no assurance that current exploration programs will result in profitable mining operations. The Company has no source of revenue and has significant cash requirements to conduct its planned explorations, meet its administrative overhead and maintain its resource interests. The Company's ability to continue in operation is dependent on its ability to secure additional financing to fund planned exploration and its ongoing administrative expenditures, and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

The recoverability of the Company's investment in, and expenditures on, resource properties is dependent on several factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of resource interests.

The Company is in compliance with all material regulations applicable to its exploration activities. Existing and possible future environmental legislation, regulations, and actions, could cause additional expense, capital expenditures, restrictions, and delays in the activities of the Company, the extent of which cannot be predicted. Before production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

The Company's resource properties are located in the Philippines and consequently, are subject to certain risks, including currency fluctuations and possible political and economic instability which may result in the impairment or loss of mining title or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and governmental regulations to the mining industry.

## **13. Shareholder information**

### **13.1. Common Shares**

The Company has authorized an unlimited number of common shares without par value and at December 31, 2010 and April 29, 2011, there were 57,179,608 (December 31, 2009, 34,750,053) common shares outstanding.

On February 24, 2010, the Company completed a non-brokered private placement consisting of 5,144,523 units priced at \$0.85 per unit, for gross proceeds of \$4,372,845. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each whole warrant is exercisable to acquire one common share of the Company at a price of \$1.25 until August 23, 2011. The Company paid finders' fees to finders in connection with the financing of cash \$73,666, issued 123,080 finders units with a fair value of \$116,926, issued non-transferable finders' warrants with a fair value of \$185,346 entitling the holders to purchase up to 448,453 common shares, at a price of \$0.95 per share until August 23, 2011. Other cash share issuance costs in the amount of \$21,934 were incurred by the Company related to this placement. The fair value of warrants issued to finders has been estimated using the Black-Scholes option pricing model with the following assumptions: risk-free rate of 1.19%; volatility of 98.6%; expected life of eighteen months; and dividend yield of nil.

On April 14, 2010, option holders exercised options and purchased 100,000 common shares at \$0.50 per share for gross proceeds of \$50,000.

On September 15, 2010, the Company completed the first tranche of a non-brokered private placement consisting of 1,953,846 units priced at \$0.65 per unit, for gross proceeds of \$1,270,000. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is

exercisable to acquire one common share of the Company at a price of \$1.00 for the first two years from the Closing date and at a price of \$1.25 for the following three years.

The Company paid finders' fees in connection with the financing in cash of \$72,800, issued 7,000 finders' units with a fair value of \$4,550, issued non-transferable finders' warrants with a fair value of \$60,416 entitling the holders to purchase up to 119,000 common shares at a price of \$1.00 per warrant until September 15, 2012, and a price of \$1.25 per warrant until September 15, 2015. Other cash share issuance costs in the amount of \$26,178 were incurred by the Company related to this placement. The fair value of warrants issued to finders has been estimated using the Black-Scholes option pricing model with the following assumptions: risk-free rate of 2.25%; volatility of 87.38%; expected life of 5 years; and dividend yield of nil.

On October 18, 2010, the Company completed the second and final tranche of a non-brokered private placement consisting of 2,746,171 units priced at \$0.65 per unit, for gross proceeds of \$1,785,011. When combined with the first tranche, the Company issued a total of 4,700,017 units for gross proceeds of \$3,055,011. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire one common share of the Company at a price of \$1.00 for the first two years and at a price of \$1.25 for the subsequent three years. In connection with the second tranche, the Company paid finders' fees in cash of \$75,496, issued 58,935 finders units with a fair value of \$38,307, issued non-transferable finders' warrants with a fair value of \$80,695 entitling the holders to purchase up to 175,082 common shares at a price of \$1.00 per warrant share until September 15, 2012, and a price of \$1.25 per warrant share until September 15, 2015. Other cash share issuance costs in the amount of \$9,996 were incurred by the Company related to this placement. The fair value of warrants issued to finders has been estimated using the Black-Scholes option pricing model with the following assumptions: risk-free rate of 1.91%; volatility of 83.44%; expected life of 5 years; and dividend yield of nil.

On December 8, 2010, the Company completed a non-brokered private placement consisting of 11,000,000 units priced at \$0.65 per unit, for gross proceeds of \$7,150,000. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire one common share of the Company at a price of \$1.10 for two years from the closing date. In connection with the private placement the Company has issued 1,100,000 finders' units with a value of \$715,000 representing 10% of gross proceeds. Other cash share issuance costs in the amount of \$32,879 were also incurred by the Company related to this placement.

During the year ended December 31, 2010, warrant holders exercised warrants and purchased 50,000 common shares at \$0.75 per share for gross proceeds of \$37,500, 20,000 common shares at \$0.80 per share for gross proceeds of \$16,000, and 126,000 common shares at \$0.50 per share for gross proceeds of \$63,000.

### **13.2. Stock Options**

The Company has a stock option plan whereby the Board of Directors is authorized to grant options to a rolling ceiling of 10% of the issued and outstanding common shares of the Company. Options to purchase common shares have been granted to directors, employees and consultants at exercise prices determined by reference to the market value on the date of the grant. The terms of the option and the option price are fixed by the directors at the time of grant subject to restrictions imposed by the TSX Venture Exchange. Stock options awarded have a maximum term of ten years. The vesting terms of the option are determined by the directors, however, options granted to investor relations consultants are subject to a minimum twelve-month vesting schedule whereby no more than 25% vest in any three-month period.

At December 31, 2010, there were 3,237,000 (December 31, 2009, 3,187,000) incentive stock options to purchase common shares between \$0.50 and \$0.95 that expire between July 20, 2014, and April 15, 2018.

During the year ended December 31, 2010, the Company granted 150,000 incentive stock options to a consultant of the Company. The exercise price of the options is \$0.95 each and they are exercisable until March 1, 2015. The fair value of stock options granted was \$102,630 (\$0.68 each) as estimated at the date of grant using the Black-Scholes option pricing model.

During the quarter ending June 30, 2010, a former consultant exercised options to purchase 100,000 common shares at \$0.50 per share for gross proceeds of \$50,000.

As of the date of this report, there were a total of 3,687,000 stock options outstanding with exercise prices of between \$0.50 and \$0.95 per share.

### **13.3. Warrants**

At December 31, 2010, there were 34,906,090 (December 31, 2009, 12,191,660) warrants to purchase common shares outstanding, with exercise prices between \$0.75 per share and \$1.50 per share, that expire between August 10, 2011, and October 18, 2015.

On February 24, 2010, the Company completed a non-brokered private placement consisting of 5,144,523 units priced at \$0.85 per Unit, for gross proceeds of \$4,372,845. Each Unit is comprised of one common share of the Company and one common share purchase warrant. Each Warrant is exercisable to acquire one common share of the Company at a price of \$1.25 until July 24, 2011.

On March 17, 2010, the Company amended the terms of warrants issued on October 13, 2009, increasing them to full warrants to acquire 1,000,000 common shares, reduced the exercise price from \$1.50 to \$1.25 per share and extended the expiry date by approximately ten months to August 23, 2011.

On September 15, 2010, the Company completed the first tranche of a non-brokered private placement consisting of 1,953,846 units priced at \$0.65 per unit, for gross proceeds of \$1,270,000. Each Unit is comprised of one common share of the Company and one common share purchase warrant. Each Warrant is exercisable to acquire one common share of the Company at a price of \$1.00 until September 15, 2012, and then exercisable at \$1.25 until September 15, 2015. The Company also issued 7,000 Finder Units and 112,000 finder's warrants with the same terms as the warrants attached to the Units.

On October 18, 2010, the Company subsequently completed the second tranche of the non-brokered private placement consisting of 2,746,171 Units priced at \$0.65 per unit for gross proceeds of \$1,785,011.15. Each Unit is comprised of one common share of the Company and one common share purchase warrant. Each Warrant is exercisable to acquire one common share of the Company at a price of \$1.00 until October 18, 2012, and then exercisable at \$1.25 until October 18, 2015. The Company also issued 58,935 Finder Units and 175,082 finder's warrants with the same terms as the warrants attached to the Units.

On December 8, 2011, the Company completed a non-brokered private placement consisting of 11,000,000 units priced at \$0.65, for gross proceeds of \$7,150,000. Each Unit is comprised of one common share and one common share purchase warrant. Each whole warrant is exercisable to acquire one common share of the Company at a price of \$1.10 per share for two years from the closing date. The Company also paid finders' units equal to 10% of the units sold in connection with the financing for a total of 1,100,000 common shares and 1,100,000 non-transferable finders' warrants for a period of two years at a purchase price of \$1.10 per warrant share.

As of the date of this report, there are a total of 34,906,090 warrants outstanding with exercise prices of between \$0.75 and \$1.50 per share that expire between August 10, 2011, and October 18, 2015.

### **13.4. Amended the terms of outstanding share purchase warrants.**

On March 17, 2010, the Company amended the terms of 500,000 warrants increasing them to full warrants to acquire 1,000,000 common shares, reduced the exercise price from \$1.50 to \$1.25 per share and extended the expiry date by approximately ten months to August 23, 2011. The value of the amendments to these warrants was accounted for using the Black-Scholes pricing model which assigned a value of \$473,337 to the amendments. In accordance with Generally Accepted Accounting Principles (GAAP), the Company charged these costs directly to retained earnings.