



(An Exploration Stage Company)

INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED NOVEMBER 30, 2010

(Stated in Canadian Dollars)

(Unaudited – Prepared by Management)

Unaudited financial statements: In accordance with national Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the three months ended November 30, 2010

VMS VENTURES INC.
(An Exploration Stage Company)
INTERIM BALANCE SHEETS
As at November 30, 2010
(Unaudited - Prepared by Management)
(Stated in Canadian Dollars)

	November 30, 2010	August 31, 2010
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 8,297,601	\$ 8,261,938
Short-term investments (Note 6)	3,672,500	3,672,500
Amounts receivable (Note 7)	192,037	207,744
Marketable securities (Note 8)	1,170,400	1,090,310
Due from related parties (Note 12)	129,795	83,333
Prepaid expenses and deposits	19,535	2,301
	13,481,868	13,318,126
Long-term Investment (Note 9)	723,000	817,000
Exploration advances	3,749	3,749
Mineral property costs (Note 10)	15,397,998	14,417,659
Property and equipment (Note 11)	124,567	91,892
	\$ 29,731,182	\$ 28,648,426
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 296,029	\$ 134,612
Future income tax liability	852,048	413,000
	1,148,077	547,612
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 13)	31,625,916	31,527,840
CONTRIBUTED SURPLUS (Note 13)	6,445,238	6,200,471
DEFICIT	(9,488,049)	(9,627,497)
	28,583,105	28,100,814
	\$ 29,731,182	\$ 28,648,426

Nature of Operations (Note 1)

APPROVED BY THE DIRECTORS:

_____, Director
Rick Mark

_____, Director
Evan Sleeman

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

VMS VENTURES INC.
(An Exploration Stage Company)
INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
For the three months ended November 30, 2010
(Unaudited - Prepared by Management)
(Stated in Canadian Dollars)

	Three Month Period Ended	
	November 30,	
	2010	2009
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization	\$ 16,131	\$ 7,682
Consulting fees	70,562	58,666
Interest, foreign exchange and bank charges	2,670	1,824
Professional fees	20,594	23,860
Property investigation costs	1,423	1,837
Management fees	39,000	39,000
Marketing and corporate communications	15,500	19,750
Office and miscellaneous	35,217	28,594
Rent	4,495	4,603
Salaries and benefits	32,789	30,740
Shareholder communication	114,109	33,413
Stock-based compensation	212,011	44,158
Telephone, internet and facsimile	5,368	4,871
Transfer agent and regulatory fees	3,557	4,722
Travel and promotion	16,733	12,605
	<u>(590,159)</u>	<u>(316,325)</u>
LOSS BEFORE OTHER INCOME (EXPENSES)		
OTHER INCOME (EXPENSES)		
Interest and other income	19,893	34,419
Loss on sale of resource property	-	191,888
Gain on Marketable Securities	1,271,367	(123,000)
Write-off resource property costs	(28,605)	-
	<u>1,262,655</u>	<u>103,307</u>
GAIN/(LOSS) BEFORE INCOME TAXES		
	672,496	(213,018)
Future income taxes recovery (expense)	(439,048)	153,000
Share of loss of significantly influenced investment	(94,000)	-
	<u>(94,000)</u>	<u>-</u>
NET GAIN/(LOSS) AND COMPREHENSIVE GAIN/(LOSS) FOR THE PERIOD		
	<u>\$ 139,448</u>	<u>\$ (60,018)</u>
Basic and diluted gain/(loss) per share		
	<u>\$ 0.00</u>	<u>\$ (0.00)</u>
Weighted Average Number Of Shares Outstanding		
	<u>114,503,669</u>	<u>113,943,230</u>

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

VMS VENTURES INC.
(An Exploration Stage Company)
INTERIM STATEMENT OF SHAREHOLDERS' EQUITY
For The Three Months Ended November 30, 2010
(Unaudited - Prepared by Management)
(Stated in Canadian Dollars)

	SHARE CAPITAL		CONTRIBUTED	(DEFICIT)	TOTAL
	SHARES	AMOUNT	SURPLUS		SHAREHOLDERS'S EQUITY
Balance - August 31, 2009	113,967,955	\$ 31,397,840	\$ 6,010,661	\$ (6,074,507)	\$ 31,333,994
Shares issued for mineral properties - non-cash	450,000	130,000	-	-	130,000
Stock-based compensation	-	-	189,810	-	189,810
Net loss for the period	-	-	-	(3,552,990)	(3,552,990)
Balance - August 31, 2010	114,417,955	\$ 31,527,840	\$ 6,200,471	\$ (9,627,497)	\$ 28,100,814
Shares issued for stock option exercise	300,000	66,000	-	-	66,000
Stock-based compensation	-	32,076	244,767	-	276,843
Net gain for the period	-	-	-	139,448	139,448
Balance - November 30, 2010	<u>114,717,955</u>	<u>\$ 31,625,916</u>	<u>\$ 6,445,238</u>	<u>\$ (9,488,049)</u>	<u>\$ 28,583,105</u>

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

VMS VENTURES INC.
(An Exploration Stage Company)
INTERIM STATEMENTS OF CASH FLOWS
For The Three Months Ended November 30, 2010
(Unaudited - Prepared by Management)
(Stated in Canadian Dollars)

	November 30,	
	2010	2009
OPERATING ACTIVITIES		
Net (loss)/gain for the period	\$ 139,448	\$ (60,018)
Adjustments for items not affecting cash:		
Amortization	16,131	7,682
Stock-based compensation	212,011	44,158
Loss on sale of resource property	-	(191,888)
Gain on marketable securities	(980,276)	123,000
Write-off resource property expenditures	3,469	-
Share of loss of significantly influenced investee	94,000	-
Accrued interest receivable	(10,084)	(29,229)
Future income tax recovery	439,048	(153,000)
	(86,253)	(259,295)
Net changes in non-cash working capital items:		
Amounts receivable	26,353	(7,776)
Prepaid expenses and deposits	(17,234)	5,039
Accounts payable and accrued liabilities	161,416	32,578
	84,282	(229,454)
FINANCING ACTIVITIES		
Issuance of common shares	66,000	-
INVESTING ACTIVITIES		
Expenditures on mineral properties	(918,975)	(598,549)
Advances to related parties	(47,024)	(21,891)
Exploration advances	-	4,090
Net proceeds from redemption or (Purchase) of marketable securities	900,186	-
Purchase of equipment and property	(48,806)	-
	(114,619)	(616,350)
INCREASE/ (DECREASE) IN CASH	35,663	(845,804)
Cash and cash equivalents - beginning of period	8,261,938	3,230,584
CASH - END OF YEAR	\$ 8,297,601	\$ 2,384,780
Supplemental disclosure of cash flow information:		
Cash received (paid):		
Interest received	\$ -	\$ -
Income taxes	\$ -	\$ -

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

VMS Ventures Inc.

(An exploration stage company)

Notes to the Interim Financial Statements

For the three months ended November 30, 2010

1. NATURE OF OPERATIONS

VMS Ventures Inc. (the "Company") was incorporated under the Company Act of British Columbia on August 8, 1996. The Company is a public company listed on the Toronto Stock Venture Exchange (the "TSX.V"). During the fiscal year 2007, the Company changed its name from Rare Earth Metals Corp. to VMS Ventures Inc. and on January 18, 2007 commenced trading on the TSX.V under the "VMS" symbol.

The Company's principal business activity is the exploration and development of mineral properties in Canada. The Company has not yet determined whether these properties contain ore reserves that are economically recoverable.

The recoverability of amounts shown for mineral property costs is dependent upon a number of factors including environmental risk, legal and political risk, the existence of economically recoverable mineral reserves, confirmation of the Company's interests in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete exploration and development, and to attain sufficient net cash flow from future profitable production or disposition proceeds.

2. BASIS OF PRESENTATION

The unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the Company's most recent annual financial statements for the year ended August 31, 2010.

These interim financial statements do not include all note disclosures required by Canadian generally accepted accounting principles for annual financial statements, and therefore should be read in conjunction with the annual financial statements for the year ended August 31, 2010. In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the three-month period ended November 30, 2010 are not necessarily indicative of the results that may be expected for the year ending August 31, 2011.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") as prescribed by The Canadian Institute of Chartered Accountants ("CICA") and reflect consideration of the following significant accounting policies:

a) Use of Estimates and Measurement Uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates based on assumptions that affect the amounts reported in the financial statements and related notes. Significant areas that required the use of management judgment relate to the identification and capitalization of deferred exploration expenditures, determination of impairment in the carrying values of long-lived assets, amounts recorded for related party transactions and balances, financial instrument valuations, future income tax valuation reserves, and the existence of asset retirement obligations or contingent assets and liabilities. Actual results could differ from these estimates. Management reviews significant estimates on a periodic basis, including capitalized mineral property costs that are subject to significant measurement uncertainty. It is reasonably possible, based on existing knowledge, that changes in future conditions could require a material change in estimates and the recorded amounts.

VMS Ventures Inc.

(An exploration stage company)

Notes to the Interim Financial Statements

For the three months ended November 30, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Foreign Currency Translation

The Company's reporting currency is the Canadian dollar. Transactions in foreign currencies have been translated into Canadian dollars using the temporal method as follows:

- i) Monetary items at the rate prevailing at the balance sheet date;
- ii) Non-monetary items at the historical exchange rate;
- iii) Revenues and expenses at the average rate in effect during the applicable accounting period; and
- iv) Gains or losses arising on foreign currency translation are included in the statements of operations.

c) Variable Interest Entities

The CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", to provide accounting guidance related to variable interest entities ("VIE"). A VIE is an entity in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. When a VIE is determined to exist, the guidance requires the VIE to be consolidated by the primary beneficiary. The Company has determined that it does not have a primary beneficiary interest in a VIE.

d) Investments

Investments in which the Company has a significant influence are accounted for by the equity method, whereby the Company initially records the investment at cost and the carrying value is adjusted by the proportionate share of the investee's income or loss.

e) Cash and Cash Equivalents

Cash includes cash on hand, cash held in trust and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to insignificant risk of change and have maturities of ninety days or less from the date of acquisition, held for the purpose of meeting short-term cash commitments rather than for investing or other purposes.

f) Short-Term Investments

Short-term investments are comprised of highly liquid Canadian dollar denominated bankers' acceptances, guaranteed investment certificates ("GIC") and bonds with terms to maturity of greater than 90 days, but no more than one year and are classified as held-to-maturity investments, except where the Company does not intend to, or cannot reasonably expect to hold the investment to maturity, in which case the investment is designated as held-for-trading. Held-to-maturity investments are measured at amortized cost using the effective interest rate method, while held-for-trading investments are measured at fair value and the resulting gain or loss is recognized in the statements of operations and comprehensive income.

g) Marketable Securities

Marketable securities are comprised of publicly traded common shares and income funds. They are classed as held-for-trading investments which are measured at fair value and the resulting gain or loss is recognized in the statements of operations and comprehensive loss.

VMS Ventures Inc.

(An exploration stage company)

Notes to the Interim Financial Statements

For the three months ended November 30, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Financial Instruments

The Company's financial instruments comprised cash and cash equivalents, short-term investments, marketable securities, amounts receivable, deposits, exploration advances, and accounts payable and accrued liabilities.

Effective September 1, 2007, the Company classified its cash and cash equivalents, marketable securities and investment in related company as held-for-trading, which are measured at fair value with changes in fair value recognized in earnings. Short-term investments are classified as held-to-term maturity and are measured at amortized cost. Amounts receivable, deposits and exploration advances are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost.

i) Mineral Property Costs

The Company capitalizes all costs, net of any recoveries, related to the acquisition, exploration and development of mineral properties. Deferred exploration and development costs are amortized using the units-of-production method over the useful lives of the mineral reserves upon commencement of commercial production or are written off if the properties are sold, abandoned or the claims are allowed to lapse. The amounts shown for mineral property costs represent costs incurred to date and do not necessarily reflect present or future fair values.

From time to time, the Company may acquire additional interests in a property or may dispose of a portion of its mineral property interests pursuant to the terms of an option agreement that is exercisable entirely at the discretion of the optionee and accordingly, are accounted for on a cash basis or when receipt or payment is reasonably assured. Option payments made are added to the carrying cost of the property and option receipts reduce the carrying cost until all costs are recovered, at which time excess receipts are recognized as revenue.

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of permits and the potential for problems arising from government conveyance accuracy, prior unregistered agreements or transfers, indigenous land claims, confirmation of physical boundaries, and title may be affected by undetected defects. The Company does not carry title insurance. The Company has evaluated title to all of its mineral properties and believes, to the best of its knowledge, that evidence of title is adequate and acceptable given the current stage of exploration.

Management evaluates each mineral interest on a reporting period basis or as changes in events and circumstances warrant, and makes a determination based on exploration activity and results, estimated future cash flows and availability of funding as to whether costs are capitalized or charged to operations. Mineral property interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded.

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Notes to the Interim Financial Statements

For the three months ended November 30, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Equipment

Equipment is recorded at cost less accumulated amortization. Amortization of equipment is calculated and recorded when equipment is put in use over the estimated useful life, on a straight-line basis at the following annual rates:

Building	4%
Computer equipment	30%
Computer software	50%
Exploration equipment	20%
Office equipment	20%
Vehicles	25%

Amortization is recorded at one-half of the annual rate in the year of acquisition.

k) Impairment of Long-Lived Assets

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. Long-lived assets include mineral properties and property and equipment. 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.

A mining enterprise in the exploration stage is not obliged to conclude that capitalized costs have been impaired due to the absence of a projected estimated future net cash flow from the mining enterprise.

Mineral properties in the exploration stage do not have established mineral reserves and a basis for the preparation of a projection of the estimated future net cash flow from the properties does not exist. However, a mining enterprise is required to consider the conditions for impairment write-down. The conditions include significant unfavourable economic, legal, regulatory, environmental, political and other factors. In addition management's development activities towards its planned principal operations are a key factor considered as part of the ongoing assessment of the recoverability of the carrying amount of mineral properties. Whenever events or changes in circumstances indicate that the carrying amount of a mineral property in the exploration stage may be impaired the capitalized costs is written down to the estimated recoverable amount.

l) Income Taxes

The Company uses the asset and liability method for accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on the temporary differences between the financial statement and income tax carrying values. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect of a change in income tax rates is included in operations in the period in which the change is substantively enacted. Future income tax benefits related to temporary differences and non-capital losses carried forward are recognized to the extent that realization of such benefits is considered to be more likely than not. A valuation allowance is provided when expected realization of future income tax benefits is estimated to be not more likely than not.

m) Equity Instruments Issued For Other Than Cash

Agent's warrants, stock options and other equity instruments issued as purchase consideration in non-cash transactions 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 is based on the trading price of those shares on the

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Notes to the Interim Financial Statements

For the three months ended November 30, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Equity Instruments Issued For Other Than Cash (Continued)

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.

n) Asset Retirement Obligations

The Company applies CICA accounting standard 3110 – “Asset Retirement Obligations” to account for the obligations of environmental remediation, including future removal, site restoration, reclamation and remediation of the mineral 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 November 30, 2010, the Company had determined that there were no significant legal obligations for environmental 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 environment remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period estimates are revised.

The Company’s policy relating to environmental protection and land reclamation programs is to charge expenditures to income during the period any costs incurred for environmental protection and land reclamation. At November 30, 2010, the Company did not foresee the necessity to make any material expenditures in this area.

o) Comprehensive Income

Handbook Section 1530 establishes standards for the reporting and display of comprehensive income and its components in the financial statements. Comprehensive income includes net earnings and other comprehensive income. Other comprehensive income includes holding gains on available for sale investments, gains and losses on certain derivative instruments and currency gains and losses relating to the translation of self-sustaining foreign operations financial statements. As there were no other comprehensive income items, comprehensive income for the year was equal to the net income for the year.

p) Flow-Through Shares

Resource expenditures deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The Company adopted CICA EIC-146 – “Flow-Through Shares” requiring that share capital be reduced and future income tax liability be increased by the estimated tax benefit renounced, when the expenditures are renounced. Tax benefits of any available future tax assets may be recognized to the extent of future income tax liabilities are incurred from flow-through share renunciations.

q) Share Issue 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.

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Notes to the Interim Financial Statements

For the three months ended November 30, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) 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 consultants that vest over time are valued at 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.

s) Earnings (Loss) Per Share

Earnings (loss) per share are calculated based on the weighted average number of common shares issued and outstanding during the reporting period. In periods when the Company reports a net loss, the effect of potential issuances of shares under options and warrants would be anti-dilutive and, therefore, basic and diluted losses per share are the same.

t) Future Changes in Accounting Policies

i) Business Combinations

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "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 IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These Sections are applicable for interim and annual consolidated financial statements for fiscal years beginning January 1, 2011. Early adoption of these Sections is permitted and all these Sections must be adopted concurrently.

ii) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of September 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ending August 31, 2011. The Company is in the process of developing a plan for the implementation of IFRS, and it is expected that this plan will take into consideration, amongst other things:

- (a) Identification of differences in Canadian GAAP and IFRS accounting policies and choices and their impacts on the Company's financial statements.
- (b) Selection of the Company's continuing IFRS policies.
- (c) Changes in note disclosures.
- (d) Information technology and data system requirements.
- (e) Disclosure controls and procedures, including investor relations and external communications plans related to the IFRS conversion.

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Notes to the Interim Financial Statements

For the three months ended November 30, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

t) Future Changes in Accounting Policies (continued)

ii) International Financial Reporting Standards ("IFRS") (continued)

(f) Identification of impacts of IFRS conversion on Internal Controls over Financial Reporting.

It is not practically possible at this time to quantify the impact of these differences. The Company expects to make changes to processes and systems in time to enable the Company to record transactions under IFRS for the fiscal year ending August 31, 2011 and ensure that they may be presented for comparative purposes in all fiscal 2012 financial reporting.

u) Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation.

4. CAPITAL MANAGEMENT

The Company's capital comprises cash and cash equivalents, short-term investments, marketable securities and share capital. When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition and exploration of mineral properties. The Company relies on the expertise of the Company's Board of Directors and management team to manage its capital.

The properties in which the Company currently has an interest are in the exploration stage. As such, 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 financial resources to do so.

Management considers its approach to capital management to be appropriate given the relative size of the Company. There were no changes in the Company's approach to capital management during the period.

5. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

Financial assets and financial liabilities are measured on an ongoing basis at fair value or carrying value. The disclosures in the notes to these financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

Financial instruments measured at fair value on the balance sheet were made using inputs within the following fair value hierarchy that reflect their significance:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;

Level 3 - Inputs that are not based on observable market data.

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Notes to the Interim Financial Statements**For the three months ended November 30, 2010****5. FINANCIAL INSTRUMENT AND RISK MANAGEMENT (continued)**

As at November 30, 2010, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

	LEVEL	HELD-FOR-TRADING	HELD-TO-MATURITY	LOANS AND RECEIVABLES/ AMORTIZED COST	TOTAL CARRYING VALUE	FAIR VALUE
Financial assets						
Cash and cash equivalents	1	\$ 8,297,601	\$ -	\$ -	\$ 8,297,601	\$ 8,297,601
Short-term investments	1	-	3,672,500	-	3,672,500	3,672,500
Amounts receivable	2	-	-	192,037	192,037	192,037
Marketable securities	1	1,170,400	-	-	1,170,400	1,170,400
Deposits	2	-	-	19,535	19,535	19,535
Due from related parties	3	-	-	129,795	129,795	129,795
Exploration advances	2	-	-	3,749	3,749	3,749
		<u>\$9,468,001</u>	<u>\$ 3,672,500</u>	<u>\$ 345,116</u>	<u>\$ 13,485,617</u>	<u>\$ 13,485,617</u>

	LEVEL	OTHER FINANCIAL LIABILITIES	TOTAL CARRYING VALUE	FAIR VALUE
Financial liabilities				
Accounts payable and accrued liabilities	3	<u>\$ (296,029)</u>	<u>\$ (296,029)</u>	<u>\$ (296,029)</u>

The Company had determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop certain of these estimates. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

The carrying values of the Company's financial instruments were a reasonable approximation of fair value.

Risk management is carried out by the Company's management team with guidance from the Board of Directors. The Company's risk exposures and their impact on the Company's financial instruments are summarized below:

a) Credit Risk

The Company's credit risk is primarily attributable to cash and cash equivalents, short-term investments and amounts receivable. Cash and cash equivalents, and short-term investments are held with one reputable Canadian chartered bank which is closely monitored by management. Financial instruments included in amounts receivable consist primarily of HST/GST recoverable from the Canadian government and interest earned on investments. Management believes that the credit risk concentration with respect to financial instruments included in cash and cash equivalents, short-term investments and amounts receivable is minimal.

b) Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at November 30, 2010, the Company held cash and cash equivalents of \$8,297,601 (August 31, 2010 - \$3,261,938), and short-term investments of \$3,672,500 (August 31, 2010 - \$3,672,500) and had current liabilities of

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Notes to the Interim Financial Statements**For the three months ended November 30, 2010****5. FINANCIAL INSTRUMENT AND RISK MANAGEMENT (Continued)**

b) Liquidity Risk (continued)

\$296,029 (August 31, 2010 - \$134,612). All of the Company's liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

c) Market Risk

i) Interest Rate Risk

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

ii) Foreign Currency Risk

The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

iii) 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. To mitigate price risk, the Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

6. SHORT-TERM INVESTMENTS

Short-term investments have effective interest rates of 0.4% to 1.2%. Included in short term investments is a \$172,500 GIC held as collateral for corporate credit cards.

7. AMOUNTS RECEIVABLE

Amounts receivable as at November 30, 2010 comprised of:

	For the period ended: November 30, 2010	For the year ended: August 31, 2010
GST/HST receivable	\$ 83,910	\$ 110,042
Interest receivable	35,197	25,113
Other receivable	72,930	72,588
	<u>\$ 192,037</u>	<u>\$ 207,743</u>

VMS Ventures Inc.

(An exploration stage company)

Notes to the Interim Financial Statements**For the three months ended November 30, 2010****8. MARKETABLE SECURITIES**

Company:	Period ending November 30, 2010		
	Shares	Market Value	Original Cost
Rare Element Resources Ltd.	100,000	\$ 1,018,000	\$ 404,000
Jazz Air Income Fund	10,000	50,500	47,450
Prophecy Resource Corp.	50,000	50,500	23,500
Rogers Sugar	10,000	51,400	50,151
	<u>170,000</u>	<u>\$ 1,170,400</u>	<u>\$ 525,101</u>

Company:	August 31, 2010		
	Shares	Market Value	Original Cost
Rare Element Resources Ltd.	185,000	\$ 851,000	\$ 747,400
Jazz Air Income Fund	5,000	\$ 21,750	\$ 21,300
Prophecy Resource Corp.	444,000	217,560	140,700
	<u>634,000</u>	<u>\$ 1,090,310</u>	<u>\$ 909,400</u>

During the three month period ended November 30, 2010, the Company recognized a fair value gain of \$1,271,367 recorded in Other Income and the Company sold 85,000 units of Rare Element Resources Ltd. for net proceeds of \$781,376 and 394,000 units of Prophecy Resource Corp. for net proceeds of \$680,817. The Company purchased 10,000 units of Rogers Sugar for \$50,151 which is paying a dividend.

9. LONG-TERM INVESTMENT

Investment in companies subject to significant influence:	Period Ending	Year Ending
	November 30, 2010	August 31, 2010
North American Nickel Inc.	\$ 723,000	\$ 817,000

On June 28, 2010, the Company purchased into a private placement of North American Nickel Inc. ("NAN") which has common directors, and made a payment of \$500,000 for 10,000,000 shares of NAN at \$0.05 per share.

By agreement dated April 5, 2010, the Company sold 100% of South Bay, Thompson North and Cedar Lake to NAN. The purchase price for the claims was the sum of \$361,000 payable as to a \$1,000 cash deposit and by the issuance of 6,000,000 post consolidation common shares of North American Nickel Inc. at a price of \$0.06 per share for a value of \$360,000. The shares were issued on July 23, 2010.

On June 7, 2010, the Company purchased 800,000 common shares of NAN, which has common directors, at \$0.025 per share, for a total of \$20,000.

The Company does not have coterminous quarter-ends with NAN and these financial statements reflect the Company's share of NAN's results for the three months ended September 30, 2010.

As of November 30, 2010, the Company recorded a \$94,000 (November 30, 2009 - \$Nil) equity loss on this investment.

VMS Ventures Inc.

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Notes to the Interim Financial Statements

For the three months ended November 30, 2010

10. MINERAL PROPERTY COSTS

For a continuity of the Company's mineral properties and deferred exploration expenditures refer to the *Schedule of Mineral Property Costs*.

a) Reed Lake Property

On June 20, 2007, the Company was granted an option to acquire, subject to a 2% net smelter royalty, a 100% interest in a property referred to as the HudBay Option, in Manitoba.

Under the agreement, the Company will pay the aggregate sum of \$55,000 and make expenditures of \$300,000 over three years, following which the Company shall be deemed to have exercised the option.

The optionor has a right to re-acquire a 50% interest (the "Buy-Back Interest") by incurring expenditures equivalent to two and a half times the total expenditures incurred by the Company. If the optionor exercises its Buy-Back Interest right, a joint venture shall be formed between the optionor and the Company with each initially having a 50% undivided participating interest in the property.

The optionor shall have a further right to acquire an additional 20% interest (the "Additional Buy-Back Interest") in the property by completing the following:

- i) Make a one time cash payment to the Company in the amount of \$1,500,000;
- ii) Bring the property to commencement of commercial production within 2 years following the Additional Buy-Back Notice Period; and
- iii) Finance the Company's portion, being for greater certainty, 30% of the development costs to bring the property to commencement of commercial production, with such costs being reimbursed by the Company to
- iv) the optionor from the Company's share of the net annual profits from production on the property, until the Company's share of such costs is repaid in full to the optionor.

In 2008, the Company staked two claims in Manitoba's Flin Flon Greenstone Belt referred to as the Reed Lake property, that are adjacent to the HudBay Option property.

On July 5, 2010, the Company entered into a joint venture agreement (The Reed Lake Project) with a subsidiary of HudBay Minerals Inc. ("HudBay") respecting its copper-rich Reed Lake Discovery Zone properties held by the Company in Manitoba's Flin Flon Greenstone Belt.

Pursuant to the agreement, HudBay has a 70% interest and the Company has a 30% interest in a joint venture respecting the Reed Lake property and the two claims immediately to the south. HudBay will act as operator of the joint venture with authority and discretion as to the exploration and potential development of the property and will have exclusive rights to purchase and market the ore produced from the property.

HudBay will also provide full financing for the Company's proportionate share of the costs to explore and develop the property, which will be repayable solely from the Company's share of cash flow generated by the project. As at November 30, 2010, VMS's proportionate share of the costs amount to \$604,649.

HudBay made a cash payment to the Company of \$2.62 million, as consideration for the Company transferring the claims to the joint venture and in lieu of HudBay's obligation to earn back into the property under the initial option agreement between the parties. Although called a joint venture in the agreement, management has determined that a joint venture by accounting standards does not exist. CICA Handbook Section 3055 requires that the

VMS Ventures Inc.

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Notes to the Interim Financial Statements**For the three months ended November 30, 2010****10. MINERAL PROPERTY COSTS (Continued)****a) Reed Lake Property (Continued)**

venturers have joint control over the strategic operating, investing and financing decisions of the venture. In this agreement VMS does not have joint control.

As at November 30, 2010, the Company has incurred net exploration costs (excluding capitalized stock-based compensation of \$833,173) totaling \$5,701,393 and the following acquisition costs on the Reed Lake Project.

	Cash	Shares		Total
		Number of shares	Value	
Balance, August 31, 2010	\$ 55,000	-	\$ -	\$ 55,000
Incurred during the period	-	-	-	-
Balance, November 30, 2010	\$ 55,000	-	\$ -	\$ 55,000

b) Reed Option Properties

On August 1, 2006, the Company entered into a property option agreement (the "Agreement") with W. Bruce Dunlop Ltd. ("BDL") to option the Reed Lake Copper-Zinc property. The property is located 50 kilometers southwest of the mining community of Snow Lake, Manitoba, and is situated within the southern part of the Flin Flon-Snow Lake greenstone belt. The property consists of a contiguous claim block covering 1,014 hectares in six claims. The Agreement outlines terms whereby the Company would earn a 50% ownership in the claims through fulfillment of a schedule of property payments totaling \$35,000 (paid), share issuances totaling 50,000 (25,000 issued) and expenditures of \$100,000 (met) by May 1, 2007. This interest may be increased to 65% following expenditures on the property of \$300,000 within a period of 24 months of achieving the 50% interest. An 80% ownership may be acquired following completion of the above schedule and of an industry standard feasibility study.

On November 1, 2007, the Agreement was amended. The Company shall have the option to acquire a further 15% interest by making further expenditures of \$300,000 and earn the remaining 15% interest by delivering a bankable feasibility study. As consideration for the restatement, the Company issued 200,000 common shares.

On December 1, 2008 the Company signed a property purchase agreement (the "new Agreement") to acquire 100% interest in the Dunlop Reed Lake claims from BDL. The new Agreement outlined the following terms and conditions being, pay to the vendor the sum of \$390,000 (paid), issue to the vendor 3,000,000 shares (issued). This agreement negated the requirement to issue the last 25,000 shares due by May 2009 per the original agreement.

The agreement also requires the Company to pay the vendor the further sum of \$225,000, payable as to \$125,000 on the first anniversary of the closing and the remaining \$100,000 on the second anniversary of the closing only in the event that the Company enters into an agreement with a third party on or before one year from the closing date which contemplates the Property being placed into commercial production. It is also conditional upon the commencement of commercial production and payment of a production bonus of \$600,000 to the vendor, said monies to be payable solely from proceeds received by the Company from commercial production in amounts equal to 20% of payments received by the Company.

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Notes to the Interim Financial Statements**For the three months ended November 30, 2010****10. MINERAL PROPERTY COSTS (Continued)****b) Reed Option Properties (Continued)**

On July 5, 2010, the Company entered into four separate option agreements with a subsidiary of HudBay Minerals Inc. ("HudBay") respecting its Reed Option properties held by the Company in Manitoba's Flin Flon Greenstone Belt.

The option agreements grant HudBay the right to earn a 70% interest in these properties held by the Company, including the Tower Zone and Super Zone properties. Upon making cash payments of \$255,000 (received) upon signing, \$255,000 by the end of year 1, \$425,000 by the end of year 2 and \$185,000 by the end of year 3, and meeting work commitments of \$750,000 by end of year 1, an additional \$950,000 by end of year 2, and an additional \$900,000 by the end of year 3, HudBay will earn a 70% interest in the applicable properties and a new joint venture will be formed between HudBay and the Company which will have substantially the same terms as the Reed Lake joint venture. Any failure to make the required cash payments and work commitments with respect to a particular property will cause that property to revert to the Company but will not affect HudBay's option over the other properties.

As at November 30, 2010, the Company has incurred net exploration costs totaling \$696,238 and the following acquisition costs on the Reed Option Properties.

	Cash	Shares		Total
		Number of shares	Value	
Balance, August 31, 2010	\$ 425,000	3,225,000	\$ 1,078,750	\$ 1,503,750
Incurred during the period	-	-	-	-
Balance, November 30, 2010	\$ 425,000	3,225,000	\$ 1,078,750	\$ 1,503,750

c) Copperman Property

During October 2007, the Company was granted an option to acquire, subject to a 3% net smelter royalty, a 100% interest in Mineral Lease 28 located in the Snow Lake area of Manitoba. In order to earn a 100% interest, the Company must make annual lease payments of \$2,800 (included in exploration costs) and issue 1,100,000 shares over a four year period.

As at November 30, 2010, the Company incurred exploration costs (excluding capitalized stock-based compensation of \$100,490) totaling \$760,422 and the following acquisition costs on the Copperman Property:

	Cash	Shares		Total
		Number of shares	Value	
Balance, August 31, 2010	\$ -	700,000	\$ 279,000	\$ 279,000
Incurred during the period	-	-	-	-
Balance, November 30, 2010	\$ -	700,000	\$ 279,000	\$ 279,000

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(An exploration stage company)

Notes to the Interim Financial Statements**For the three months ended November 30, 2010****10. MINERAL PROPERTY COSTS (Continued)****d) Sails Lake Property**

The Company entered into a Letter of Intent ("LOI") dated August 21, 2006 to acquire a copper-zinc volcanogenic massive sulphide property option in the Snow Lake area of Manitoba. The Sails Lake property covers an area of 18.88 square kilometers. The LOI includes 1 claim and the staking of seven additional claims surrounding the core claim covering a total of 18.88 square kilometers. The LOI outlines terms for an option agreement whereby the Company can earn an 80% ownership in the claims through fulfillment of a schedule of property payments totaling \$32,500, issuing 300,000 shares of the Company and incurring cumulative expenditures of \$750,000 over a five year period. The Company may acquire the remaining 20% to hold a 100% ownership in the property for a further payment of \$1 million. The property is subject to a 3% net smelter return, which may be purchased down to a 1.5% net smelter return for \$1.5 million.

As at November 30, 2010, the Company has incurred exploration costs (excluding capitalized stock-based compensation of \$337,337) totaling \$1,219,493 and the following acquisition costs on the Sails Lake Property:

	Cash	Shares		Total
		Number of	Value	
Balance, August 31, 2010	\$ 27,500	200,000	\$ 74,500	\$ 102,000
Incurred during the period	-	-	-	-
Balance, November 30, 2010	\$ 27,500	200,000	\$ 74,500	\$ 102,000

e) Puella Bay Project

By a Letter of Intent ("LOI") dated with an effective closing date of July 1, 2007, the Company was granted an option to acquire, subject to a 2% net smelter royalty, a 100% interest in a claim comprising approximately 200 hectares, situated on the southeastern shore of Herb Lake, near the town of Snow Lake, Manitoba.

The LOI outlines terms for an option agreement whereby VMS will earn an 80% ownership in the claims through fulfillment of a schedule of cash payments totaling \$27,500, issue 50,000 shares of the Company and incur expenditures of \$500,000 over a four-year period. The Company may acquire the remaining 20% to hold a 100% ownership in the property for a further payment of \$1 million.

The Company has staked an additional seven claims along the strike projection on the Puella Bay strata, as well as the remains of the felsic volcanic complex. The area covered by these claims is approximately 17 square kilometres.

As at November 30, 2010, the Company has incurred exploration costs (excluding capitalized stock-based compensation of \$136,170) totaling \$1,110,792 and the following acquisition costs on the Puella Bay Property:

	Cash	Shares		Total
		Number of shares	Value	
Balance, August 31, 2010	\$ 22,500	50,000	\$ 11,000	\$ 33,500
Incurred during the period	-	-	-	-
Balance, November 30, 2010	\$ 22,500	50,000	\$ 11,000	\$ 33,500

VMS Ventures Inc.

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Notes to the Interim Financial Statements**For the three months ended November 30, 2010****10. MINERAL PROPERTY COSTS (Continued)****f) Morton Property**

On June 24, 2008, the Company entered into a property purchase agreement to earn, subject to a 2% net smelter royalty, a 100% interest in the Morton claims situated approximately 50 kilometres due west of Snow Lake, in Manitoba. The Company paid a one-time payment of \$25,000 and issued 150,000 shares. The net smelter royalty may be purchased for \$500,000.

As at November 30, 2010, the Company has incurred exploration costs (excluding capitalized stock-based compensation of \$5,805) totaling \$390,685 and the following cash acquisition costs on the Morton Property:

	Cash	Shares		Total
		Number of shares	Value	
Balance, August 31, 2010	\$ 25,000	150,000	\$ 60,000	\$ 85,000
Incurred during the period	-	-	-	-
Balance, November 30, 2010	\$ 25,000	150,000	\$ 60,000	\$ 85,000

g) Other Properties**Terra Incognita Property**

By an option agreement on April 6, 2010, the Company was granted the option to acquire the Terra Incognita Option by making payments over three years of \$90,000 and issuing shares over three years of 150,000 and committing to \$49,200 in three years of expenditures. Upon signing the agreement the Company made a payment of \$10,000 and issued 37,500 shares at a deemed price of \$0.34 per share.

As of November 30, 2010 the Company incurred exploration costs (excluding capitalized stock-based compensation of \$nil) of \$465 and the following cash acquisition costs on the Terra Incognita Property:

	Cash	Shares		Total
		Number of shares	Value	
Balance, August 31, 2010	\$ 10,000	37,500	\$ 12,750	\$ 22,750
Incurred during the period	-	-	-	-
Balance, November 30, 2010	\$ 10,000	37,500	\$ 12,750	\$ 22,750

VMS Ventures Inc.

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Notes to the Interim Financial Statements**For the three months ended November 30, 2010****10. MINERAL PROPERTY COSTS (Continued)****g) Other Properties (Continued)****Black Creek Property**

By an option agreement on April 6, 2010, the Company was granted the option to acquire the Black Creek Option by making payments over three years of \$100,000 and issuing shares over three years of 250,000 and committing to \$112,800 in three years of expenditures. Upon signing the agreement the Company made a payment of \$15,000 and issued 62,500 shares at a deemed price of \$0.34 per share.

As of November 30, 2010 the Company incurred exploration costs (excluding capitalized stock-based compensation of \$nil) of \$465 and the following cash acquisition costs on the Black Creek Property:

	Cash	Shares		Total
		Number of shares	Value	
Balance, August 31, 2010	\$ 15,000	62,500	\$ 21,250	\$ 36,250
Incurred during the period	-	-	-	-
Balance, November 30, 2010	\$ 15,000	62,500	\$ 21,250	\$ 36,250

Golden Pine Property

By an option agreement on April 6, 2010, the Company was granted the option to acquire the Golden Pine Option by making payments over three years of \$150,000 and issuing shares over three years of 200,000 and committing to \$20,400 in three years of expenditures. Upon signing the agreement the Company made a payment of \$20,000 and issued 50,000 shares at a deemed price of \$0.34 per share.

As of November 30, 2010 the Company incurred exploration costs (excluding capitalized stock-based compensation of \$nil) of \$1,374 and the following cash acquisition costs on the Golden Pine Property:

	Cash	Shares		Total
		Number of shares	Value	
Balance, August 31, 2010	\$ 20,000	50,000	\$ 17,000	\$ 37,000
Incurred during the period	-	-	-	-
Balance, November 30, 2010	\$ 20,000	50,000	\$ 17,000	\$ 37,000

As of November 30, 2010, the Company incurred exploration costs (excluding capitalized stock-based compensation of \$55,138), primarily survey costs, on the following properties in Manitoba: Cover (comprising 9-7, McClarty, Farwell, Copper) Project - \$1,603,885, and Fox - \$39,955. Other ongoing property projects in Manitoba include Ruttan (Darrol), and Leak Lake Projects - \$250,013. These properties are 100% owned by the Company with no third party

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Notes to the Interim Financial Statements**For the three months ended November 30, 2010****11. PROPERTY AND EQUIPMENT**

	<u>For the period ended November 30, 2010</u>		
	Cost	Accumulated amortization	Net book value
Office Equipment	\$ 22,510	\$ (17,425)	\$ 5,085
Exploration equipment	10,137	(5,854)	4,283
Computer hardware	30,003	(24,759)	5,244
Computer software	79,637	(44,175)	35,462
Building	22,500	(1,125)	21,375
Vehicles	62,299	(11,681)	50,618
Property and land	2,500	-	2,500
	<u>\$ 229,586</u>	<u>\$ (105,019)</u>	<u>\$ 124,567</u>

	<u>For the year ended August 31, 2010</u>		
	Cost	Accumulated amortization	Net book value
Office Equipment	\$ 22,510	\$ (16,299)	\$ 6,211
Exploration equipment	10,137	(5,347)	4,790
Computer hardware	24,333	(24,333)	-
Computer software	36,500	(34,221)	2,279
Building	22,500	(900)	21,600
Vehicles	62,299	(7,787)	54,512
Property and land	2,500	-	2,500
	<u>\$ 180,779</u>	<u>\$ (88,887)</u>	<u>\$ 91,892</u>

12. RELATED PARTY TRANSACTIONS**a) Due from related companies**

Amounts due from related parties represent intercompany advances for shared administration costs from and to companies related through common shareholders and directors. These amounts are non-interest-bearing and have no fixed terms of repayment and all parties have waived the right to demand payment for more than one year.

Amounts due from related parties as at November 30, 2010 are as follows:

	<u>For the period ended: November 30, 2010</u>	<u>For the year ended: August 31, 2010</u>
Due from Harvest Gold Corp.	\$ 89,223	\$ 73,870
Due from Pancontinental Uranium Corp.	2,957	1,859
Due from North American Nickel Inc.	37,615	7,145
	<u>\$ 129,795</u>	<u>\$ 82,874</u>

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Notes to the Interim Financial Statements**For the three months ended November 30, 2010****12. RELATED PARTY TRANSACTIONS (Continued)****b) Transactions with related parties**

Related party 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. The Company incurred expenditures for various services provided by corporations controlled by directors and officers of the Company during the period ended November 30, 2010 and 2009 which are as follows:

3 month period ended November 30, 2010

	Cash Payments	Stock-based Compensation	Total
Geological consulting - expensed	\$ 20,875	\$ -	\$ 20,875
Geological consulting - capitalized	58,218	64,832	123,050
Management - expensed	61,500	97,248	158,748
	<u>\$ 140,593</u>	<u>\$ 162,080</u>	<u>\$ 302,673</u>

3 month period ended November 30, 2009

	Cash Payments	Stock-based Compensation	Total
Geological consulting - expensed	\$ 15,899	\$ -	\$ 15,899
Geological consulting - capitalized	88,023	28,088	116,111
Management - expensed	61,500	28,088	89,588
	<u>\$ 165,422</u>	<u>\$ 56,176</u>	<u>\$ 221,598</u>

As of November 30, 2010, accounts payable and accrued liabilities included \$Nil (November 30, 2009 - \$1,325) owing to directors for general expenses incurred.

13. SHARE CAPITAL**a) Authorized shares**

Unlimited authorized common shares with no par value.

b) Issued and outstanding

A continuity of the number of common shares issued and outstanding and the balances of share capital and contributed surplus are as follows:

	SHARE CAPITAL		CONTRIBUTED
	SHARES	AMOUNT	SURPLUS
Balance - August 31, 2009	113,967,955	\$ 31,397,840	\$ 6,010,661
Shares issued for mineral properties - non-cash	450,000	130,000	
Stock-based compensation	-	-	189,810
Balance - August 31, 2010	114,417,955	\$ 31,527,840	\$ 6,200,471
Shares issued for stock option exercise	300,000	66,000	
Stock-based compensation		32,076	244,767
Balance - November 30, 2010	<u>114,717,955</u>	<u>\$ 31,625,916</u>	<u>\$ 6,445,238</u>

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For the three months ended November 30, 2010

13. SHARE CAPITAL (Continued)

c) Escrow shares

On September 11, 2003, the Company acquired all of the issued and outstanding shares of Golden Crown Resources Corporation and, as consideration, issued 1,500,000 escrow shares of the Company, 1,300,000 of which were issued to directors and officers of the Company who were also shareholders of Golden Crown. The shares held in escrow are to be released every six months commencing March 15, 2004. As at August 31, 2010, the balance of shares held in escrow was nil with the last release of 150,000 escrow shares taking place on September 15, 2009.

d) Share Purchase Warrants

At November 30, 2010, the Company had no outstanding share purchase warrants exercisable to acquire shares.

e) Stock Options

A summary of the status of stock options granted as of November 30, 2010 and the change for the period then ended are as follows:

	Three Months Ended November 30, 2010			Year Ended August 31, 2010	
	Number Outstanding	Weighted Average Exercise Price		Number Outstanding	Weighted Average Exercise Price
Balance, August 31, 2010	11,178,800	\$ 0.65	Balance, August 31, 2009	10,963,800	\$ 0.68
Granted	1,275,000	0.25	Granted	750,000	0.36
Cancelled/ Expired	(665,000)	0.84	Cancelled/ Expired	(535,000)	0.82
Exercised	(300,000)	0.22	Exercised	-	-
Balance, August 31, 2010	<u>11,488,800</u>	<u>\$ 0.61</u>	Balance, August 31, 2010	<u>11,178,800</u>	<u>\$ 0.65</u>

The following summarizes information about stock options outstanding and exercisable at November 30, 2010:

For the period ending November 30, 2010

Options Outstanding	Options Exercisable	Expiry Date	Exercise Price	Weighted Average remaining contractual life (in years)
-	-	Dec-23-2010	\$ 0.12	0.06
50,000	50,000	Mar-20-2012	\$ 0.17	1.30
3,129,000	3,129,000	Jul-16-2012	\$ 0.22	1.63
5,319,800	5,319,800	Jan-09-2013	\$ 1.00	2.11
865,000	865,000	Oct-31-2013	\$ 0.35	2.92
100,000	100,000	Jan-15-2011	\$ 0.35	0.13
430,000	430,000	Nov-25-2014	\$ 0.40	3.99
320,000	320,000	Jun-07-2015	\$ 0.30	4.52
1,275,000	1,257,995	Oct-07-2015	\$ 0.35	4.85
<u>11,488,800</u>	<u>11,471,795</u>			<u>1.92</u>

VMS Ventures Inc.
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Notes to the Interim Financial Statements
For the three months ended November 30, 2010

13. SHARE CAPITAL (Continued)

e) Stock Options (Continued)

For the period ending August 31, 2010

Options Outstanding	Options Exercisable	Expiry Date	Exercise Price	Weighted Average remaining contractual life (in years)
50,000	50,000	Mar-20-2012	\$ 0.17	1.55
3,429,000	3,429,000	Jul-16-2012	\$ 0.22	1.88
5,819,800	5,819,800	Jan-09-2013	\$ 1.00	2.36
930,000	930,000	Oct-31-2013	\$ 0.35	3.17
200,000	200,000	Jan-15-2011	\$ 0.35	0.38
430,000	430,000	Nov-25-2014	\$ 0.40	4.24
320,000	320,000	Jun-07-2015	\$ 0.30	4.77
<u>11,178,800</u>	<u>11,178,800</u>			<u>2.38</u>

f) Stock-based Compensation

The Company has an incentive stock option plan (the "Plan") for employees, officers, directors and consultants. The essential elements of the Plan provide that the aggregate number of shares of the Company exercisable pursuant to options granted under the Plan may not exceed 10% of the issued and outstanding capital stock of the Company at the grant date. Options granted under the Plan may have a maximum term of five years. The exercise price of options granted under the Plan will not be less than the discounted market price of the shares (defined as the last closing market price of the Company's shares immediately preceding the grant date, less the maximum discount permitted by TSX.V policy), or such other price as may be agreed to by the Company and accepted by the TSX.V. Options vest on terms determined by the directors and may be vested immediately on the grant date. Stock options granted to consultants providing investor relations activities under the Plan are subject to minimum vesting restrictions such that one-quarter of the option shall vest on each of the grant date and three, six and twelve months thereafter.

The Company granted 925,000 stock options to directors, an employee and consultants with the maximum term of five years and granted 350,000 stock options to Launch IR Capital Inc. with a two year term.

The fair value of stock options is determined using the Black-Scholes option-pricing model. The Company granted 1,275,000 options (November 30, 2009 – 430,000), with an exercise price of \$0.35 on 925,000 and an exercise price of \$0.445 on 350,000 (November 30, 2009 - \$.40), to the directors, officers, employees and consultants, and recognized \$276,844 (November 30, 2009 - \$128,422) as stock-based compensation of which \$64,832 (November 30, 2009 - \$84,263), was capitalized to mineral property costs.

The fair value of employee and non-employee stock options granted in the period ended November 30, 2010 was calculated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Period ending November 30, 2010	Period ending November 30, 2009
Expected dividend yield	0%	0%
Expected share price volatility	93.70%	93.70%
Risk-free interest rate	1.99%	2.59%
Expected life of options	5 & 2 years	5 years

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(An exploration stage company)

Notes to the Interim Financial Statements**For the three months ended November 30, 2010****13. SHARE CAPITAL** (Continued)**g) Shareholder Rights Plan**

On May 26, 2008, the Board of Directors approved the adoption of a shareholder rights plan (the "rights plan"), authorizing the issuance of rights in respect of common shares outstanding. The rights entitle the holders to purchase additional securities of the Company. It has a term which expires no later than the date of the annual general meeting of the shareholders of the Company to be held in 2011.

The rights plan has been implemented by way of a rights plan agreement which has been designed to protect shareholders from unfair, abusive or coercive take-over strategies, including the acquisition of control of the Company by a bidder in a transaction, or series of transactions, that may not treat all shareholders fairly, nor afford all shareholders an equal opportunity to share in the premium paid upon acquisition of control. The rights plan was also adopted to provide the Board with sufficient time, in the event of a take-over bid or tender offering for voting shares of the Company, to pursue alternatives which could enhance shareholder value.

14. COMMITMENTS

The Company has a lease agreement which will expire on April 30, 2014 for the North Vancouver, BC office space, and a second lease agreement which will expire on December 31, 2012 for the Snow Lake, MB office space. According to the agreements, the rental obligations are as follow:

2011	Rental obligations	\$	27,348
2012	Rental obligations		32,373
2013	Rental obligations		28,320
2014	Rental obligations		18,880
		\$	<u>106,921</u>

15. SEGMENTED INFORMATION

As at November 30, 2010 the Company operated in one reportable operating segment being the exploration of base metals and in one geographic segment being Canada.

16. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents as at November 30, 2010 comprised of:

	Period ended	
	November 30, 2010	Year ended August 31, 2010
Cash	\$ 2,117,131	\$ 3,338,965
Demand deposits	6,180,470	4,672,971
	<u>\$ 8,297,601</u>	<u>\$ 8,011,936</u>

VMS Ventures Inc.

(An exploration stage company)

Notes to the Interim Financial Statements**For the three months ended November 30, 2010****16. SUPPLEMENTAL CASH FLOW INFORMATION (Continued)**

The Company incurred non-cash financing and investing activities during the period ended November 30, 2010 as follows:

	For the three months ended	
	<u>November 30, 2010</u>	<u>November 30, 2009</u>
Stock-based compensation expense capitalized to resource properties	\$ 64,832	\$ 84,263
Sale of resource property	\$ -	\$ (1,020,112)

17. SUBSEQUENT EVENTS

Subsequent to November 30, 2010, a total of 1,284,000 common shares of the Company were issued as the result of certain directors and consultants exercising stock options. The Company received proceeds of \$312,380.

VMS VENTURES INC.

An Exploration Stage Company

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2010

SCHEDULE OF MINERAL PROPERTY COSTS

	Reed Lake Project	Reed Option	Copperman	Sails Lake	Puella Bay	Morton	Others	Total
Acquisition								
Balance, August 31, 2010	\$ 55,000	\$ 1,503,750	\$ 279,000	\$ 102,000	\$ 33,500	\$ 85,000	\$ 96,000	\$ 2,154,250
Acquisition costs - cash	-	-	-	-	-	-	-	-
Acquisition costs - Options	-	-	-	-	-	-	-	-
Sale of resource property	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-
Balance, November 30, 2010	<u>55,000</u>	<u>1,503,750</u>	<u>279,000</u>	<u>102,000</u>	<u>33,500</u>	<u>85,000</u>	<u>96,000</u>	<u>2,154,250</u>
Expenditures (recoveries)								
Balance, August 31, 2010	6,534,518	696,238	858,243	692,510	1,246,669	334,899	1,900,333	12,263,410
Assay and sampling	-	-	-	28,523	-	12,344	18,661	59,527
Administration	-	-	-	-	-	-	-	-
Automobile costs	-	-	-	8,732	-	3,307	4,851	16,890
Camp costs	-	-	-	1,498	-	-	-	1,498
Claim costs/ Assessment fees	48	-	-	-	140	-	18,056	18,245
Consulting services	-	-	2,650	122,111	2,210	24,562	52,862	204,396
Drilling	-	-	-	481,887	-	-	-	481,887
Equipment and supplies	-	-	-	12,247	-	2,305	1,558	16,110
Equipment rental	-	-	-	8,075	-	7,775	3,900	19,750
Geological	-	-	-	-	-	-	-	-
Licenses, permits, taxes	-	-	-	-	-	-	276	276
Linecutting	-	-	-	20,058	-	-	-	20,058
Printing and shipping	-	-	19	2,142	43	210	74	2,488
Rent	-	-	-	-	-	-	-	-
Staking costs	-	-	-	19,600	-	-	-	19,600
Survey costs	-	-	-	69,559	-	-	-	69,559
Stock-based compensation	-	-	-	55,756	-	-	9,077	64,832
Telephone	-	-	-	1,100	-	284	-	1,384
Travel and transportation	-	-	-	33,032	-	10,804	11,842	55,677
Recoveries	-	-	-	-	(2,100)	-	(69,738)	(71,838)
	<u>48</u>	<u>-</u>	<u>2,669</u>	<u>864,320</u>	<u>293</u>	<u>61,591</u>	<u>51,418</u>	<u>980,339</u>
Sale of resource property	-	-	-	-	-	-	-	-
JV Reimbursement	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-
Balance, November 30, 2010	<u>6,534,566</u>	<u>696,238</u>	<u>860,912</u>	<u>1,556,830</u>	<u>1,246,962</u>	<u>396,490</u>	<u>1,951,751</u>	<u>13,243,749</u>
Total, Balance November 30, 2010	<u>\$ 6,589,566</u>	<u>\$ 2,199,988</u>	<u>\$ 1,139,912</u>	<u>\$ 1,658,830</u>	<u>\$ 1,280,462</u>	<u>\$ 481,490</u>	<u>\$ 2,047,751</u>	<u>\$ 15,397,998</u>

VMS VENTURES INC.
An Exploration Stage Company
FOR THE YEAR ENDED AUGUST 31, 2010
SCHEDULE OF MINERAL PROPERTY COSTS

	Reed Lake Project	Reed Option	Copperman	Sails Lake	Puella Bay	Lynn Gabbros	South Bay	Morton	Eden Lake	Wekusko (Hood)	Others	Total
Acquisition												
Balance, August 31, 2009	\$ 30,000	\$ 1,503,750	\$ 216,500	\$ 80,500	\$ 28,500	\$ 347,250	\$ 420,200	\$ 85,000	\$ 286,500	\$ 60,000	\$ -	\$ 3,058,200
Acquisition costs - cash	25,000	-	-	5,000	5,000	20,000	-	-	60,000	40,000	45,000	200,000
Acquisition costs - Options	-	-	62,500	16,500	-	-	-	-	-	-	51,000	130,000
Sale of resource property	-	-	-	-	-	(367,250)	(420,200)	-	(346,500)	-	-	(1,133,950)
Impairment	-	-	-	-	-	-	-	-	-	(100,000)	-	(100,000)
Balance, August 31, 2010	<u>55,000</u>	<u>1,503,750</u>	<u>279,000</u>	<u>102,000</u>	<u>33,500</u>	<u>-</u>	<u>-</u>	<u>85,000</u>	<u>-</u>	<u>-</u>	<u>96,000</u>	<u>2,154,250</u>
Expenditures (recoveries)												
Balance, August 31, 2009	8,811,683	193,629	821,430	606,516	968,701	666,948	1,103,320	14,421	673,612	151,106	3,136,550	17,147,916
Assay and sampling	3,989	41,010	-	10,386	10,399	-	-	-	-	21,282	80,534	167,600
Administration	-	20	-	55	63	-	-	63	-	22	173	396
Automobile costs	14,251	16,768	1,190	4,425	478	-	-	5,458	-	979	27,004	70,553
Camp costs	4,494	-	-	2,996	-	-	-	-	-	-	2,247	9,737
Claim costs/ Assessment fees	8,231	-	3,240	96	228	110	1,206	29,119	-	39,494	34,890	116,613
Consulting services	117,201	121,724	32,198	79,911	80,783	110	723	74,303	-	21,463	266,000	794,415
Drilling	97,000	414,354	-	-	-	-	-	-	-	-	281,349	792,704
Equipment and supplies	1,109	12,923	139	1,240	1,372	-	-	4,695	-	98	12,747	34,323
Equipment rental	-	-	-	-	300	-	-	3,952	-	-	6,700	10,952
Licenses, permits, taxes	1	-	-	-	-	247	-	-	-	-	105,562	105,810
Linecutting	-	-	-	-	-	-	-	-	-	-	6,270	6,270
Printing and shipping	187	756	46	602	123	-	739	38	-	38	1,478	4,006
Staking costs	1,019	12,958	-	-	-	-	-	23,100	-	-	8,196	45,273
Survey costs	30,217	135,219	-	-	183,236	-	-	164,752	-	91,499	150,602	755,524
Stock-based compensation	102,507	-	-	9,951	-	-	-	5,805	-	-	10,781	129,044
Telephone	257	716	-	-	-	-	-	1,617	-	-	851	3,441
Travel and transportation	196	1,161	-	12,673	986	-	-	7,576	-	6	54,907	77,505
Recoveries	(37,824)	-	-	(36,341)	-	-	(73,875)	-	-	-	(135,936)	(283,976)
	<u>342,835</u>	<u>757,609</u>	<u>36,813</u>	<u>85,994</u>	<u>277,968</u>	<u>467</u>	<u>(71,208)</u>	<u>320,478</u>	<u>-</u>	<u>174,880</u>	<u>914,356</u>	<u>2,840,192</u>
Sale of resource property						(667,415)	(1,032,112)	-	(673,612)		(2,129,066)	(4,502,205)
JV Reimbursement	(2,620,000)	(255,000)										(2,875,000)
Impairment										(325,986)	(21,508)	(347,494)
Balance, August 31, 2010	<u>6,534,518</u>	<u>696,239</u>	<u>858,243</u>	<u>692,510</u>	<u>1,246,669</u>	<u>-</u>	<u>-</u>	<u>334,899</u>	<u>-</u>	<u>-</u>	<u>1,900,332</u>	<u>12,263,409</u>
Total, Balance August 31, 2010	<u>\$ 6,589,518</u>	<u>\$ 2,199,989</u>	<u>\$ 1,137,243</u>	<u>\$ 794,510</u>	<u>\$ 1,280,169</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 419,899</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,996,332</u>	<u>\$ 14,417,659</u>



Form 51-102F1

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTH PERIOD ENDED NOVEMBER 30, 2010**

INTRODUCTION

This MD&A contains information up to and including January 25, 2011.

Management's discussion and analysis ("MD&A") focuses on events and activities that affected VMS Ventures Inc., ("VMS" or the "Company") during the three months ended November 30, 2010 and to the date of this report. The MD&A, supplements but does not form part of, the audited financial statements of the Company and the notes thereto for the year ended August 31, 2010. Consequently, the following discussion and analysis should be read in conjunction with the audited financial statements for the year ended August 31, 2010 and the notes thereto. All amounts presented in this MD&A are in Canadian dollars unless otherwise indicated.

Additional information related to VMS is available on SEDAR at www.sedar.com and on the Company's website at www.vmsventures.com.

FORWARD LOOKING STATEMENTS

Except for historical information contained in this discussion and analysis, disclosure statements contained herein are forward-looking. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those in such forward-looking statements. Forward-looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change. Investors are cautioned against attributing undue certainty to forward-looking statements. For more information, please refer to the Risk and Uncertainties section of this MD&A.

DESCRIPTION OF BUSINESS

The Company is a junior mineral exploration company engaged in the business of acquiring, exploring and evaluating mineral properties, and either joint venturing, developing or disposing of the properties, when the evaluation is complete. The Company is currently focusing its resources in conducting exploration programs on its Snow Lake Copper-Zinc Properties being the Reed, Hubday, Cover (9-7, McClarty, Farwell, Copper), Sails, Puella, Copperman and Morton, along with the Fox Property near Lynn Lake and the Ruttan (Darrol), Project near Leaf Rapids. As well, the Company is conducting exploration programs on its Nickel Properties being the Leak Lake Project, Terra Incognita, Golden Pine, and Black Creek. All the Copper-Zinc and Nickel Projects are situated in Manitoba and Ontario, Canada.

As at the date of this MD&A, the Company has not earned any production revenue, nor has it found any proven reserves on any of its properties and is deemed to be a "an exploration stage Company".

COMPANY HISTORY

VMS Ventures Inc. was incorporated under the provisions of the Company Act (British Columbia) on August 8, 1996 and became a reporting Company in British Columbia, Alberta and Manitoba upon the issuance of a receipt for an initial offering prospectus on May 29, 2002. On January 18, 2007 the Company changed its name from Rare Earth Metals Corp. ("REM") and the Company was listed on the TSX Venture Exchange (the "Exchange") as a Tier 2 mining issuer under the trading symbol - **VMS**.

In 2005, REM (VMS) decided to separate its gold and silver assets and create a new corporation. The November 30, 2005 final court order approved the Plan of Arrangement between Harvest Gold Corporation ("Harvest Gold") and VMS. Shareholders approved the Plan of Arrangement under the *Business Corporations Act* (British Columbia) (the

“Arrangement”) involving VMS. Under the Arrangement, VMS continued to hold its base and specialty metals assets, and a newly-created public company, Harvest Gold held the current gold and gold-silver assets of VMS. Effective December 1, 2005, the gold and gold-silver properties were transferred to Harvest Gold as per the Arrangement and four property options were assigned by VMS to Harvest Gold who has accepted all of VMS’s rights, title, obligations and interest in such properties.

In consideration of the transfer of the gold/gold-silver assets to Harvest Gold, Harvest Gold issued to REM shareholders one share of Harvest Gold for every three REM Shares issued and outstanding as of October 11, 2005 (the “Harvest Gold REM Shares”), which resulted in Harvest Gold issuing REM shareholders 9,831,565 common shares at \$0.31 per common share for a total consideration of \$3,064,194.

RESOURCE PROPERTIES

Dr. Mark Fedikow P. Geo., Vice President of Technical Services at VMS is the Qualified Person who has reviewed and compiled the technical information relating to mineral projects disclosed in the MD&A.

PERFORMANCE SUMMARY DURING THE YEAR ENDED AUGUST 31, 2010:

VMS (Copper- Zinc Projects), Snow Lake, Manitoba:

REED LAKE PROPERTY

Background

On November 1, 2007, the Company amended its October 13, 2006 property option agreement with W. Bruce Dunlop Ltd. (“BDL”) to acquire 50% of BDL's right, title and interest in, and to the Dunlop Reed Lake mining claims located in Snow Lake, Manitoba, with two further options each enabling the Company to acquire an additional 15% interest for a total 80% interest in the property. As consideration for the amended agreement, the Company issued 200,000 common shares. The property consists of 13 claims covering 1,968 hectares and one Mineral Exploration License MEL268A. The original option agreement outlines the terms whereby the Company can earn an initial 50% interest in the claims through fulfilment of a schedule of property payments totalling \$50,000, share issuances totalling 50,000 (25,000 issued) and expenditures of \$100,000 before May 1, 2009. This interest may be increased to 65% following expenditures on the property of \$300,000 within a period of 24 months of achieving the 50% interest. An 80% ownership may be acquired following completion of the above schedule and of an industry standard bankable feasibility study.

In December, 2008 the Company signed a property purchase agreement (the “New Agreement”) and acquired a 100% interest in the Dunlop Reed Lake claims from BDL. The New Agreement outlined the following terms and conditions being: pay to the vendor the sum of \$375,000 (paid), issue to the vendor 3,000,000 shares (issued). This agreement negated the requirement to issue the last 25,000 shares due by May 2009 per the original agreement.

The New Agreement also requires the Company to pay the vendor the further sum of \$225,000 payable as to \$125,000 on the first anniversary of the closing and the remaining \$100,000 on the second anniversary of the closing. These payments were due only in the event the Company entered into an agreement with a third party on or before one year from the closing date which contemplated the property being placed into commercial production. Subsequently, these further sums were not paid.

Also conditional upon the commencement of commercial production, the Company will pay a production bonus of

\$600,000 to the vendor, said monies to be payable solely from proceeds received by the Company from commercial production in amounts equal to 20% of payments received by the Company.

The details of the amended option agreements are as follows:

Date	Amount
Upon execution of the agreement	\$5,000 Paid
Payable on or before May 1, 2006	\$15,000 Paid
Payable on or before May 1, 2007	\$15,000 Paid
Payable on or before May 1, 2008	\$15,000 Paid
Payable on closing December 8, 2008	\$375,000 Paid
Total	<u>\$425,000</u>

Date	Number of Shares
On or before May 1, 2007	25,000 Issued
Upon execution of amended agreement	200,000 Issued
Upon closing December 8, 2008	3,000,000 Issued
Total	<u>3,225,000</u>

HUBBAY OPTION, MANITOBA

Background

On June 20, 2007, the Company was granted an option by Hudson Bay Exploration Company Limited (“HudBay”) to acquire, a 100% interest in the claims situated near Reed Lake, Manitoba, subject to a 2% net smelter royalty.

Under the agreement, the Company can earn a 100% ownership in the claims through fulfilment of a schedule of cash payments totalling \$55,000 and incur expenditures of \$300,000 over a three-year period.

Date	Cash Payments
On Execution of Agreement	\$5,000 Paid
On or before June 20, 2008	\$10,000 Paid
On or before June 20, 2009	\$15,000 Paid
On or before June 20, 2010	\$25,000 Paid
Total	<u>\$55,000</u>

Date	Exploration Expenditures (cumulative)
On or before June 20, 2008	\$10,000 Completed
On or before June 20, 2009	\$110,000 Completed
On or before June 20, 2010	\$300,000 Completed

The Optionor has a right to re-acquire a 50% interest (the “Buy-Back Interest”) by incurring expenditures equivalent to two and a half times the total expenditures incurred by the Company. If the Optionor exercises its Buy-Back Interest right, a

joint venture shall be formed between the Optionor and the Company with each initially having a 50% undivided participating interest in the property. The Optionor becomes the Operator of the Joint Venture.

The Optionor shall have a further right to acquire an additional 20% interest (the "Additional Buy-Back Interest") in the property by completing the following:

- (i) Make a one-time cash payment to the Company in the amount of \$1,500,000;
- (ii) Bring the property to commencement of commercial production within 2 years following the Additional Buy-Back Notice Period; and
- (iii) Finance the Company's portion, being for greater certainty, 30% of the development costs to bring the property to commencement of commercial production with such costs being reimbursed by the Company to the Optionor from the Company's share of the net annual profits from production on the property until the Company's share of such costs are repaid in full to the Optionor.

On July 5, 2010, the Company entered into a joint venture agreement and four separate option agreements with a subsidiary of Hudbay Minerals Inc. respecting its copper-rich Reed Lake Discovery Zone properties and a series of adjacent mineral properties held by the Company in Manitoba's Flin Flon Greenstone Belt. These transactions were contemplated by the previously announced letter of intent entered into by the parties on March 4, 2010.

Pursuant to the joint venture agreement, HudBay has a 70% interest and the Company has a 30% interest in a joint venture respecting the Reed Lake property and the two claims immediately to the south. HudBay will act as operator of the joint venture with authority and discretion as to the exploration and potential development of the property and will have exclusive rights to purchase and market the ore produced from the property.

HudBay will also provide full financing for the Company's proportionate share of the costs to explore and develop the property, which will be repayable solely from the Company's share of cash flow generated by the project. Upon the Company making certain filings to confirm the previously-disputed boundaries of the joint venture claims, HudBay will make a cash payment to the Company of \$2.6 million, as consideration for the Company transferring the southern claims to the joint venture and in lieu of HudBay's obligation to earn back into the property under the initial option agreement between the parties.

The option agreements grant HudBay the right to earn a 70% interest in four adjacent claim parcels held by the Company, including the Tower Zone and Super Zone properties. Upon making certain cash payments and meeting work commitments over two to three years, HudBay will earn a 70% interest in the applicable property and a new joint venture will be formed between HudBay and the Company which will have substantially the same terms as the Reed joint venture. Any failure to make the required cash payments and work commitments with respect to a particular property will cause that property to revert to the Company but will not affect HudBay's option over the other properties.

Performance Summary:

Reed Lake Project (Joint Venture)

In November 2006 the Company began negotiations to acquire the two HudBay Minerals Claims at the centre of the Company's Reed Lake land package. In June 2007 the Company successfully completed negotiations and signed an option agreement with HudBay Minerals for the two claims.

On October 4, 2007, the Company announced a “discovery” drill hole, which intercepted 43.05 metres of mineralization grading 4.38% copper, 1.56% zinc, 0.85 g/t gold and 13.09 g/t silver. The mineralization was intercepted in the area of the property boundary between the HudBay Claims and a Mineral Exploration Licence held by VMS Ventures, and within the area of influence of claims optioned from W. Bruce Dunlop.

Sixty four holes were completed using at times up to 3 diamond drill rigs. fifty five holes were completed on the Discovery Zone while testing for mineralization down to a depth of approximately 400m and along a strike of over 200 m in length. Highlights from the drilling include 81.07m grading 3.53% copper and 1.39 g/t gold in hole RD-08-36 and 33.46m grading 10.36% copper in hole RD-08-41, and 100.19m grading 3.59% copper in hole RD-08-61.

The Company reported analytical results for holes RD-08-50 to RD-08-73 which include 97.21 m of 2.08% copper in RD-08-51; 53.19 m of 3.08% copper in RD-08-53; 61.96 m of 5.96% copper in RD-08-55; 100.19 m of 3.59% copper in RD-08-61; 99.32 m of 1.08% copper in RD-08-65; and 39.71 m of 4.04% copper in hole RD-08-71. Of particular interest, the intersection in RD-08-71 at approximately 450 m from surface is the deepest mineralization intersected yet. Hole RD-08-73 was the last hole drilled by the Company on the deposit and was located near the western edge of our drilling pattern, approximately 25 m east of the western-most section drilled. On December 10, 2008, the Company reported the results of RD-08-73, the final hole of the 2008 program which intersected 11.70 m of 6.12% copper and confirmed that mineralization continues to a depth of more than 350 m in this part of the deposit. A borehole survey of the western-most holes drilled suggests that the deposit extends west and southwest of the mineralization in the last section drilled.

A deep penetrating geophysical survey known as DeepEM covered the Discovery Zone and along strike to the east and west of the known mineralization. The survey was used to look for geophysical evidence of mineralization at depths of approximately 400m below surface. A strong response was interpreted below the mineralization drilled thus far and continuing to the west. The survey also tested the horizontal strike length and direction of the mineralized body which indicated an east-west trend to mineralization which has also been interpreted from examination of drill core collected in the program.

A walking magnetic survey covered the discovery area, producing a higher resolution map of the magnetic properties of the underlying geology. The mineralization contains abundant magnetic minerals which makes this method very useful in tracking the direction of mineralization and, potentially, in identifying related deposits along strike of the Discovery Zone mineralization. The Discovery Zone near surface was well defined in the survey and the magnetic anomaly associated with the mineralization extends over 500m to the west of the Discovery Zone to the extent of the survey grid area. Borehole surveys were completed on a number of holes at the Discovery Zone to test for off-hole anomalies in holes that did not intersect mineralization.

Geological studies of the drill core has resulted in the interpretation that the three lenses of the deposit, that have been discovered to date are hosted in mafic to intermediate volcanic rocks of the Four Mile Island rock assemblage, which also hosts the past producing Dickstone and Spruce Point polymetallic copper-zinc deposits. The Reed Lake deposit is stratigraphically controlled, meaning it is confined within the same rock layers that the original deposit was emplaced. This is an important finding as we can use this information to begin exploring for the centre mass of the mineralizing system. The Reed Lake Deposit is classified as a Volcanogenic Massive Sulphide-type deposit. These deposits are polymetallic in nature meaning they are composed of minerals which have multiple metals of economic interest, and accordingly the Reed Lake deposit hosts significant grades in copper, zinc, gold and silver.

In February 2008, a second VTEM airborne geophysical survey was flown over the Reed Lake property. This survey was flown in a north-south direction and designed to fly across target geologic features oriented in an east-west direction. The 2008 survey results were merged with the 2007 airborne survey which covered a smaller portion of the Reed Lake property, and was flown in a north-west flight line direction. The combined surveys served to enhance our understanding of the

geology of the deposit. When viewed in conjunction with drill core observations, an east-west trend to the host rocks was interpreted. Targets previously identified in the 2007 survey were further defined and many new anomalies detected.

In September and October 2010, the Company reported that drill targets had been identified on the Tower Zone property approximately 1 to 1.5 km to the east of the Discovery Zone. The target areas were defined by ground geophysical survey results. Five conductor plates were modelled from the ground geophysics and selected for drill testing.

Drill targets located at or near the boundary of the HudBay Option claims on the Tower Zone property were tested in the phase one program undertaken in November and December 2009 with portions of some drill holes extending onto this property. No significant economic mineralization was intersected on the property. The anomalous sulphide mineralization identified in drilled core was intersected at the contact between felsic and mafic volcanic rock units which is generally the location of base and precious metal massive sulphide deposits of this type. This is the same geological setting at the Discovery Zone and it is interpreted that the previous geophysical interpretations which appeared to locate the host rocks to the Discovery Zone and the Highway Zone sulphide deposits extend at least 1.5 kilometres to the east of the Discovery Zone and remains open to the east.

Ground geophysical surveying in the area of the Tower Zone, due to the size of the survey grid, was extended onto the southern and eastern border areas of the HudBay Option claims. Combined with the geological controls provided by the recent drilling it has been established that the geophysical trend recognized in DeepEM and airborne surveys are associated with the key geological horizon which is represented by a change in the volcanic rock chemistry from felsic to mafic in composition. Massive sulphide mineralization is typically located between these two volcanic rock units. Based on the property-wide geophysical surveys completed to date, there are up to 4 or 5 km's of prospective geology to be explored, although this geology may be repeated to the north and further increase the area considered to be high priority for exploration.

During the quarter ended November 30, 2010:

On September 27, 2010 the Company released the first results from the in-fill drill program being financed and conducted by Hudbay at the Reed Lake deposit. Hole RLD001 intersected 9.90 metres grading 5.56% copper and hole RLD002 which intersected two zones of mineralization, 13.98 metres grading 3.74% zinc in zone 30 and 38.55 metres grading 3.81% copper.

On October 10, 2010 the Company released the second set of drill hole results from the Reed Lake deposit. Drill hole RLD003 intersected two zones of mineralization reporting 28.80 metres grading 1.58% copper and 3.07% zinc in Zone 30 and 71.69 metres grading 6.69% copper in Zone 20. Drill hole RLD004 intersected 6.43 metres grading 4.46% zinc in Zone 30 and 21.77 metres grading 3.74% copper in Zone 20.

November 18, 2010 the Company reported four more drill holes. Highlights include RLD006 which intersected 63.70 metres grading 2.93% copper, RLD007 which intersected 7.52 metres grading 2.62% copper and RLD008 which intersected 3.86 metres of 4.32% copper.

Subsequent Events

On December 10, 2010 the Company announced that the first major step out hole, testing for mineralization 214 metres down-plunge of the known extent of mineralization intersected 10.09 metres of massive sulphide grading 2.39% copper.

On December 16, 2010 five additional infill drill holes testing the upper and eastern limits of the deposit were released. Drill hole RLD015 intersected mineralization within 30 metres of surface, the most shallow intersect to date, reporting 15.76 metres of 1.53% copper and 6.57% zinc.

Activities contemplated in the future

It is anticipated that step out and infill drilling will continue into March 2011 ultimately leading to a 43-101 compliant resource estimate planned to be published before the end of March 2011. Following publication of a resource a pre-feasibility study will be undertaken. As well, drilling will occur on several targets proximal to the deposit and any new targets adjacent to the deposit identified in borehole geophysical surveys that are being conducted on every completed drill hole.

Reed Option

The Tower Claim (Option)

Exploration History

Ten holes have been completed on the Tower Claim no previous drilling was conducted on the property prior to the Company commencing work on the property. Though trace amounts of mineralization and various rock types associated with copper-zinc massive sulphide deposits of the belt were identified in drill core, no concentrations of economic minerals were intersected. Further drilling and surveying is required to complete the exploration of this property. Though the geology of the area is complicated, the number of anomalies and their apparent strength makes this a priority target area. The targets are located along the eastern strike direction of the Discovery Zone and lithochemical sampling of drill core has shown that the felsic volcanic rock unit directly overlying the Reed Deposit is also present at the Tower Claim property. Exploration efforts will in part focus on locating the base of this unit where similar rocks host mineralization 1km to the west at the Reed Deposit. These types of deposits tend to occur in clusters, with multiple lenses of mineralization generally formed within one prominent rock unit and therefore identification of this unit is a priority for exploration geologists working on the property.

During the quarter ended November 30, 2010:

There were no activities on the property during the quarter

Subsequent Events

There have been no subsequent events

Activities contemplated in the future

Under the terms of the Option agreement with HudBay Minerals Inc., for the Tower Property, \$300,000 must be spent in exploration activity before the anniversary date of July 5, 2011. It is anticipated that HudBay Minerals Inc., will meet this expenditure commitment and an exploration program including diamond drilling will take place on the property before the first anniversary date.

The Super Zone Claims (Option)

The Super Zone property comprises five claims which as of July 5, 2010 are held under option by HudBay Minerals wholly-owned subsidiary of Hudson Bay Exploration and Development Company Limited (HBMS) to earn a 70% interest in the claim by completing terms of the Option Agreement. The terms of the agreement include expenditures of \$1,100,000 and payments of \$340,000 over a 3 year period following signing of the deal with the Company.

In addition to drilling, soil samples have been collected over the Discovery Zone and in the vicinity of drill holes RD-07-04 and RD-07-05 located 1,000 m and 1,500 m east of the Discovery zone. The results of this survey were inconclusive and offered several interpretations. The survey data and procedures are being reviewed.

On March 12, 2009, the Company announced that a DeepEM survey identified a major conductor or series of conductors to the north and east of the Reed Lake Discovery Zone. The anomaly is present over a distance of approximately 2.0 km and may extend the Tower Zone target area all the way back to the Highway Zone, a further 600 metres west of the last survey line but on strike with this mineralization. This new anomaly is interpreted to be between 200 and 400 metres below surface. It provides confirmation of the regional northwestern geological trend deduced from drilling at the Reed Lake Discovery Zone.

On June 17, 2009 the Company commenced ground geophysical surveys to extend the coverage area of the DeepEM survey conducted earlier in the year which resulted in the identification of a 2 km long series of conductive anomalies trending from west to east. This survey extended coverage to the east and north east and extended the length of the prospective trend a further 600 meters to the NE on to ground held 100% by the Company.

During the quarter ended November 30, 2010:

There were no activities on the property during the quarter.

Subsequent Events

There have been no subsequent events.

Activities contemplated in the future

Under the terms of the Option agreement with HudBay Minerals Inc., for the Super Zone Property, \$300,000 must be spent in exploration activity before the anniversary date of July 5, 2011. It is anticipated that HudBay Minerals Inc., will meet this expenditure commitment and an exploration program including diamond drilling will take place on the property before the first anniversary date.

Northwest Zone Claims (Option)

The Northwest Zone Claims property comprises five claims which as of July 5, 2010 are held under option by HudBay Minerals wholly-owned subsidiary of Hudson Bay Exploration and Development Company Limited (HBMS) to earn a 70% interest in the claim by completing terms of the Option Agreement. The terms of the agreement include expenditures of \$400,000 and payments of \$110,000 over a 3 year period following signing of the deal with the Company.

During the quarter ended November 30, 2010:

There were no activities on the property during the quarter.

Subsequent Events

There have been no subsequent events.

Activities contemplated in the future

It is contemplated that a minimum of \$75,000 in exploration activity will be completed on the property by the anniversary date of July 5, 2011, as stated in the terms of the option agreement HudBay Minerals Inc., has with the Company.

Northeast Zone Claims (Option)

The Northeast Zone Claims property comprises eight claims which as of July 6, 2010 are held under option by HudBay Minerals wholly owned subsidiary of Hudson Bay Exploration and Development Company Limited (HBMS), to earn a 70% interest in the claim by completing terms of the Option Agreement. The terms of the agreement include expenditures of \$400,000 and payments of \$110,000 over a 3 year period following signing of the deal with the Company.

During the quarter ended November 30, 2010:

There were no activities on the property during the quarter.

Subsequent Events

There have been no subsequent events.

Activities contemplated in the future

It is contemplated that a minimum of \$75,000 in exploration activity will be completed on the property by the anniversary date of July 5, 2011, as stated in the terms of the option agreement HudBay Minerals Inc., has with the Company.

SAILS LAKE PROPERTY, MANITOBA**Background**

On August 21, 2006, the Company announced it had optioned and staked a property prospective for copper-zinc volcanogenic-hosted massive sulphide deposits in the Snow Lake area of Manitoba. The Sails Lake property was acquired by optioning the Arse 1 claim from Ken de Graff and staking seven additional claims surrounding the core claim covering a total of 18.88 square kilometres. The Letter of Intent outlines terms for an Option Agreement whereby the Company can earn an 80% ownership in the claims through fulfillment of a schedule of property payments totaling \$32,500, issuing 300,000 shares of the Company and incur expenditures of \$750,000 over a five-year period. The Company may acquire the remaining 20% to hold a 100% ownership in the property for a further payment of \$1 million. The property is subject to a 3% net smelter return, which may be purchased down to a 1.5% net smelter return for \$1.5 million

Date	Amount
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On Execution of Letter of Intent	\$7,500	Paid
On or before February 7, 2007	\$5,000	Paid
On or before February 7, 2008	\$5,000	Paid
On or before February 7, 2009	\$5,000	Paid
On or before February 7, 2010	\$5,000	Paid
On or before February 7, 2011	\$5,000	
Total	<u>\$32,500</u>	

Date	Number of shares	
On or before February 7, 2007	50,000	Issued
On or before February 7, 2008	50,000	Issued
On or before February 7, 2009	50,000	Issued
On or before February 7, 2010	50,000	Issued
On or before February 7, 2011	100,000	
Total	<u>300,000</u>	

Date	Exploration Expenditures (cumulative)
On or before February 7, 2011	\$750,000 (1,219,493)

Performance Summary:

A geological mapping and sampling program was conducted in 2006. In the spring of 2007, a VTEM airborne geophysical survey was flown covering the entire property producing more than one hundred individual anomalies associated with a number of discrete target areas. Soil samples were collected over two of the VTEM target area anomalies in September 2007. Geochemical data for Enzyme Leach and Soil Gas Hydrocarbon analyses of samples collected in the summer of 2007 were received. These results identify positive anomalies in the vicinity of one of the two VTEM conductors sampled. Soil sample surveys were undertaken in the summer of 2008, testing several new target anomaly areas. Approximately half of the target areas on the property have been surveyed to date. Mobile Metal Ion soil geochemical survey results indicate base and precious metal anomalies are present in proximity to selected VTEM geophysical responses and historic arsenopyrite +/- gold-mineralized outcrop.

Evaluation of the soil geochemical analytical data has identified new anomalies that are coincident with VTEM anomalies. A MMI assessment report has been completed and submitted to the Manitoba Mining Recorder.

During the quarter ended November 30, 2010:

On September 2, 2010 the Company announced plans to drill the Sails Lake property, testing both base metal and precious metal targets on the property.

On October 6, 2010, the Company announced that between 1,500 and 2,000 metres of diamond drilling would begin on or about October 12, 2010.

Subsequent events

On January 11, 2011 the Company announced the discovery of gold mineralization in drill core with an intersection of 1.21 grams per tonne gold over a core length of 58.89 metres including a higher grade interval grading 5.13 grams per tonne gold over a core length of 9.89 metres.

Permits for follow-up exploration activity on the property have been submitted.

Activities contemplated in the future

An exploration program designed to follow-up the newly discovered gold mineralization and to explore several areas with surface gold showings elsewhere on the property is planned to commence in February 2011. The program will include line-cutting to expand the current exploration grid on the property, a deep penetrating, 3D Induced Polarization geophysical survey, MMI geochemical sampling, outcrop washing and detailed geological mapping and rock sampling and other prospecting activities ahead of a second phase of diamond drilling on the property likely to take place in early 2011.

PUELLA BAY PROJECT, MANITOBA

Background

By a Letter of Intent, ("LOI") with Ken DeGraff, dated July 1, 2007, the Company was granted an option to acquire a 100% interest in the Jol 3753 claim situated on the south-eastern shore of Herb Lake, near the town of Snow Lake, Manitoba, subject to a 2% net smelter royalty

The LOI outlines terms for an option agreement whereby the Company will earn an 80% ownership in the claims through fulfilment of a schedule of cash payments totalling \$27,500, issuing 50,000 shares of the Company and incurring expenditures of \$500,000 over a four-year period. The company may acquire the remaining 20% to hold a 100% ownership in the property for a further payment of \$1 million.

Date	Cash Payments
On Execution of Letter of Intent	\$7,500 Paid
On or before June 27, 2008	\$5,000 Paid
On or before June 27, 2009	\$5,000 Paid
On or before June 27, 2010	\$5,000 Paid
On or before June 27, 2011	\$5,000
Total	<u>\$27,500</u>

Date	Number of shares
On Execution of Letter of Intent	50,000 Issued

Date	Exploration Expenditures (cumulative)	
On or before June 27, 2008	\$125,000	(\$375,305)
On or before June 27, 2009	\$250,000	(\$944,186)
On or before June 27, 2010	\$375,000	(1,110,499)
On or before June 27, 2011	\$500,000	

Previous exploration and government reports indicate that the Puella occurrence contains widespread pyrite mineralization and near solid laminae of pyrite, sphalerite and galena as well as minor chalcopyrite and arsenopyrite. These minerals and alteration are commonly present in VMS-type mineralization. Historical grab samples from trenches at the occurrence contain up to 2.9% Zn and 1.9% Pb.

The Company staked an additional seven claims in the area to cover the along strike projection on the Puella Bay strata, as well as the remainder of the felsic volcanic complex.

Performance Summary:

A reconnaissance geological survey confirmed the presence of copper and zinc mineralization, VMS type alteration zones, abundant felsic volcanic rocks, and possible exhalite, all of which are characteristic geological features of VMS copper-zinc deposits in the belt.

Following on the results of the 2007 geological mapping program, the central core of the property claim package was surveyed with a VTEM airborne survey in the winter of 2008. Additional 100%-owned claims were added to the property package as a result of this survey.

During the summer field season of 2008, geological mapping in and around Puella Bay was undertaken along with the completion of geochemical analysis of pathfinder elements on available drill core from historical drilling. Assays of intervals of exhalite (chemical sediment rock), returned values as high as 1.4 g/t Au and 4.7 g/t Ag, as well as anomalous amounts of copper. The previous drill logs for this core did not report any Au or Ag values. Chemical sedimentary rocks, such as these, are commonly associated with the formation of copper-zinc-gold-silver massive sulphide deposits mined in the belt. The geological information obtained in drill holes 3 and 4 and the study of historical drill core from the area, are important elements in evaluating the stratigraphic position of the alteration zone relative to the precious metal-bearing distal exhalite layers.

The 2008 airborne VTEM survey has been evaluated by the Company's geophysical consultants. This work produced several promising target areas that are considered prospective for hosting VMS type copper-zinc deposits due to the presence of coincident anomalous geophysical, MMI geochemical and geological evidence for a VMS mineralizing system.

A geological report for the summer field mapping program was completed. The mapping extended the known area with alteration of the VMS type within the felsic volcanic pile. Geophysical, drill hole and geochemical data from historical drilling were entered into the Company's database.

The Company reported the results from the 1,202 metre drill program completed in the spring of 2009. This program was designed to test four targets developed from airborne geophysical surveys and to obtain geological information in areas of the property with poor outcrop exposure. This drill program intersected extensive VMS deposit-type alteration with minor chalcopyrite and sphalerite in the southern portion of the property. As a result of the drill program, 25 additional claims were staked. These claims, more than doubled the size of the Puella Bay land package. The new ground position covers more than 20 km of the eastwards extension of the Puella Bay Felsic Complex, the host to extensive VMS-type alteration evidenced in historic drillhole logs.

Holes 1 and 2 tested two geophysical conductors under a lake at the north end of the property. The holes intersected layered siltstones, argillite, graphitic argillite and a felsic rock of unknown affinity. The conductor appears to be related to the graphitic argillite, however, the targeted contact between the argillite and the altered felsic rocks, expected from the geological maps, was not intersected. The target was most likely overshot due to deeper than expected water and overburden.

Hole 3 was drilled to test a VTEM anomaly along strike from historic prospector trenches that contain the minerals sphalerite (zinc sulphide), chalcopyrite (copper sulphide) and galena (lead sulphide). The hole intersected approximately 300 m of altered and pyritized felsic volcanic rocks. The alteration mineral assemblage included pervasive sericite, biotite and pyrite; locally, there are minor amounts of sphalerite, chalcopyrite, galena and arsenopyrite in late veins that cross cut the early synvolcanic alteration. Though the alteration appears to be intensifying down hole, the hole was abandoned in altered rock as no definable target was present. Additional survey data will be required to delineate a future drill target in this prospective rock package.

Hole 4 was located approximately 300m east of hole 3 and was also drilled towards the west. The hole was designed to test a VTEM geophysical anomaly and also to intersect the contact between the unit the altered rocks intersected in hole 3 and the unaltered rocks, a common geological setting for the type of deposits mined in the area. The drill hole was collared in unaltered felsic volcanic rocks with the alteration gradually increasing towards the bottom of the hole. A conductor was not identified in the hole and the airborne geophysical anomaly remains unexplained. Further evaluation of this area will be undertaken ahead of the next phase of exploration.

A ground-based geophysical survey covering approximately 40 line kilometres over an area roughly 1.3 km by 3.8 km, was undertaken to test for deep conductors within, and at the margins of, this large alteration zone. This survey, in combination with the drill results and last year's geological mapping, increases our understanding of the property geology, especially in areas dominated by water and swamp with limited rock exposure.

Geochemical analyses of drill core in the government archives returned 1.4 g/t Au and 4 g/t Ag from a section of chemical sedimentary rocks (exhalite).

During the summer 2009 field season geological mapping of rock outcroppings on the Puella Bay property was undertaken and this program included newly staked claims acquired following this springs' drill program.

During the quarter ended November 30, 2010:

There were no activities on the property during the quarter.

Subsequent events

A Mobile Metal Ions soil geochemical survey was undertaken on the Puella Bay East claims targeting VTEM picks supplied by Condor Geophysics of Denver. The survey is ongoing.

Activities contemplated in the future

Completion of MMI geochemical survey sampling is anticipated for spring 2011. Compiling of the geochemical survey data, airborne geophysical data and historical exploration work on the property to determine drill targets is planned to follow ultimately leading to diamond drilling of targets in late 2011 or early 2012. An assessment report for the MMI survey will be completed and submitted to the Manitoba Mining Recorder.

COPPER PROJECT, MANITOBA

Background

In 2006, the Company announced that it had staked claims and acquired mineral exploration licenses (M.E.L.s) in its “Cover Project”. Since then the “Cover Project” has been enlarged significantly by the addition of several Mineral Exploration Licenses (MEL). For administrative and exploration accounting purposes “Cover Project” refers to claims located within a large portion of the Flin Flon – Snow Lake VMS Belt, that lie beneath a layer of limestone and other sedimentary rocks that cover the older Precambrian rocks – the host rocks to the copper-zinc deposits of the belt. These claims and MELs, were staked over strata considered to be favourable for the discovery of VMS deposits and have been separated into several discrete projects:

- Copper
- 9-7
- McClarty
- Farwell

A number of geological criteria were used to select the land position including: a) where historic drill core has intersected key volcanic stratigraphy recognized as hosting VMS deposits elsewhere in the belt, b) areas with evidence of hydrothermal alteration of host rocks typically associated with VMS deposits, c) areas with sulphide mineralization having enrichment in pathfinder metals, and d) areas with published airborne geophysical data that indicate the presence of prospective target horizons or Time Space Units.

The Copper Project covers a continuous line of claims and MELs extending over 30 km along a belt of rock identified as being highly favourable to hosting copper-zinc deposits.

The Company acquired its 100% owned Copper properties by staking or by Mineral Exploration Licence.

This property previously was reported on under “Cover Claims”.

Performance Summary:

In April 2007, a VTEM airborne survey was undertaken over the northern 10 km of this vast land package and returned over 800 individual anomalies. The anomalies suggest the presence of rock bodies capable of responding to the electrical field created by the survey such as the copper-zinc deposits known to the area.

Geochemical soil sampling programs were completed on the northern parts of Copper Project claims in autumn 2007 and winter 2008. All results have been received for the samples and data evaluation has been completed.

An airborne VTEM survey was completed over the remaining portions of the Copper Project in winter 2008. The final report has been received by the Company and results are being evaluated by the Company’s geologists and geophysical consultants. Additional VTEM anomalies on the March 2007 survey were tested with soil geochemical surveys in summer 2008.

Analytical data was received for soil samples collected during the 2008 summer season.

Mobile Metal Ions (“MMI”) data were evaluated to determine integrated geophysical and geochemical targets for drill testing. An assessment report was completed for the 2008 MMI reconnaissance geochemistry program.

A field geochemistry program commenced with the goal of detailed soil sampling survey of defined target areas in the northern portion of the property package. Reconnaissance sampling of airborne targets identified at the southern end of the property package between two known VMS deposits on ground adjacent to the Company's property was initiated.

During the summer 2009 field season crews collected samples on detailed grids where previous reconnaissance sampling returned anomalous values. Reconnaissance surveys over VTEM anomalies in the southern 20km of the property package were done.

During the quarter ended November 30, 2010:

Compilation work of historical drilling and other data sets were completed and preliminary target area selection undertaken.

Subsequent events

Exploration permits were applied for and received in January 2011.

Activities contemplated in the future

Exploration activities contemplated to take place on the property in 2011 include detailed MMI geochemical surveying, ground geophysical surveying of target areas and diamond drilling of specific targets possibly in spring and winter of 2011.

McCLARTY PROJECT, MANITOBA

Background

This project area, covered by MEL 270A and six claims, which are held 100% by the Company, extends southwards from McClarty Lake and includes the same rock unit that contains the recently identified McClarty Lake deposit of Troymet Minerals. The project area is covered by flat-lying dolomite that overlies the prospective Precambrian rocks similar to the Copper project (see above), but occurs within a separate belt of volcanic rocks. This property previously was reported on under "Cover Claims".

Performance Summary:

The area was covered with an airborne VTEM survey during 2008.

Historical exploration data were entered into a GIS format.

An additional Mineral Exploration Licence (MEL) was obtained in the McClarty Lake - Farwell Lake area to cover strike continuations of favourable geology which is believed to be prospective in hosting the copper-zinc-gold-silver deposits known to occur in the Flin Flon and Snow Lake mining camps

Reconnaissance MMI soil geochemical surveys were initiated in 2009 with the aim of screening VTEM airborne geophysical picks identified by the Company's geophysical consultants.

During the quarter ended November 30, 2010:

There were no activities on the property during the quarter.

Subsequent events

There have been no subsequent events.

Activities contemplated in the future

Diamond drilling of target areas is contemplated for late 2011 or early 2012. The Company will be carefully monitoring the results of a diamond drill program to be undertaken by HudBay Minerals Inc., and Troymet Exploration Corp., which is planned for spring 2011. The Company holds a very large land position of approximately 300 square km which surrounds the 6 square kilometre area covered by Troymet and HudBay. Airborne geophysical survey interpretations of the area's geology suggest the host geological horizons to the mineralization discovered on the Troymet, Hudbay claims continue onto the Company's adjacent property.

FARWELL LAKE, MANITOBA**Background**

This project was acquired by staking claims along a favourable rock unit. The area is partially covered by flat-lying dolomite that cover the prospective Precambrian rocks (see Copper project above). This property was previously reported on under "Cover Claims".

Performance Summary:

The claims were covered with an airborne VTEM survey in winter 2008 and soil geochemical surveys were initiated.

Historical geophysical and drill hole data along with data from a recent soil geochemistry survey conducted by the Company have been extracted and have been entered into the GIS database.

A new MEL has been applied for which covers favourable strata recognized to date.

During the quarter ended November 30, 2010:

There were no activities on the property during the quarter.

Subsequent events

There have been no subsequent events

Activities contemplated in the future

A diamond drill program is contemplated to test select anomalies for the presence of base metal mineralization.

9-7 ZONE PROJECT, MANITOBA**Background**

Since 1956 junior and major explorers have flown airborne magnetic and electromagnetic surveys and conducted lesser ground geophysical surveys in the general area of the project. These surveys were necessary owing to the extensive cover of dolomite that blankets the prospective Flin Flon-Snow Lake greenstone belt in this area. Diamond drill testing of some of the conductors delineated in this manner intersected abundant iron sulphide (pyrite and pyrrhotite) with graphite. In 1985, the Manitoba Geological Survey in association with Federal and Provincial agencies undertook a regional evaluation of mafic/ultramafic intrusions in the Reed Lake-Snow Lake area. The project area is interpreted to be highly prospective for VMS-type mineralization prompting an integrated exploration approach to the 9-7.

Performance Summary:

An airborne geophysical survey over the property was completed in early 2007 using GEOTECH's VTEM system. A number of well-defined conductors were identified. Follow-up geochemical surveys have been undertaken. These anomalous responses indicate the presence of bedrock-hosted conductive minerals such as copper-bearing and zinc-bearing sulphide with associated gold and silver as well as the iron sulphide minerals pyrite and pyrrhotite, which together provide targets for follow-up exploration.

Partial extraction soil geochemical surveys detected numerous base and precious metal anomalies on the property and these reconnaissance geochemical anomalies are in the process of being followed up with detailed surveys. Multi-element base and precious metal anomalies coincident with VTEM geophysical responses will be used to focus diamond drill targets.

A MMI report has been completed for the reconnaissance geochemical survey undertaken in 2008.

Reconnaissance soil geochemical surveys were undertaken based on interpreted picks from the Company's geophysical consultants.

During the quarter ended November 30, 2010:

There were no activities on the property during the quarter.

Subsequent events

Compilation of all historical work undertaken on the property including more recent geochemical and geophysical surveys completed by the Company was ongoing in the time between the end of the reporting period and the writing of this quarterly report. Exploration permits were submitted to the Manitoba Government subsequent to the end of the period.

Activities contemplated in the future

Upon approval of the exploration permit, anticipated for spring 2011 a diamond drilling program to test select target areas is contemplated.

COPPERMAN - OPTION, MANITOBA**Background**

In October 2007, the Company was granted an option, from Top Notch Marketing Limited, to acquire a 100% interest in Mineral Lease 28 located in the Snow Lake area of Manitoba, subject to a 3% net smelter royalty. In order to earn a 100% interest, the Company must make annual lease payments of \$2,800 and issue 1,100,000 common shares over a four year period.

Date	Amount
On or before August 16, 2008	\$2,800
On or before August 16, 2009	\$2,800
On or before August 16, 2010	\$2,800
On or before August 16, 2011	\$2,800
Total	<u>\$11,200</u>

Date	Number of shares
On Execution of Agreement	100,000 Issued
On or before August 16, 2008	150,000 Issued
On or before August 16, 2009	200,000 Issued
On or before August 16, 2010	250,000 Issued
On or before August 16, 2011	400,000
Total	<u>1,100,000</u>

Drilling on the Copperman property in 1967, by Western Nuclear Mines Ltd., indicated that the "A" zone contains 149,672 tonnes grading 3.08% Cu and 3.08% Zn. Combined reserves of 221,308 tonnes with 2.63% Cu and 4.46% Zn were reported in Manitoba Mineral Deposit Series Report 21. Grab samples from the trenches assayed up to 2.3% Cu and 12% Zn. (Note: these are historic results and are not considered compliant with today's NI 43-101 reporting requirements). The reported mineralization is associated with altered felsic volcanic rocks that are exposed at the edge of the limestone cover rocks found in this area of Manitoba.

Performance Summary:

The area was covered with an airborne VTEM survey in 2007. Initial geochemical surveying began in late summer of 2007 to test the method on several of the target areas to assist in the planning for the next program.

A small amount of MMI soil geochemical soil sampling programs were completed on parts of the Copperman project. All results have been received and data evaluation is completed. Available historical drill and assay data were digitally captured for the Copperman ML 28.

During the quarter ended November 30, 2010:

There were no activities on the property during the quarter.

Subsequent events

There were no subsequent events following the end of the reporting period.

Activities contemplated in the future

A complete compilation of all historical exploration data, including drill hole data for the property will be completed in 2011. An exploration program designed, to identify prospective drill targets or areas on which to survey using deep penetrating geophysical and possibly geochemical surveying to identify drill targets is then anticipated.

MORTON LAKE PROJECT, MANITOBA**Background**

On June 24, 2008, the Company entered into a property purchase agreement, with William Kuran, to earn, subject to a 2% net smelter royalty, a 100% interest in the Morton claims situated approximately 50 km due west of Snow Lake, in Manitoba. The property comprises 12 claims with a total area of 2,318 hectares. The Company paid a one-time payment of \$25,000 and agreed to issue 150,000 common shares. The net smelter royalty may be purchased for \$500,000.

Performance Summary:

Geological mapping of the property commenced during the summer 2009 field season.

During the quarter ended November 30, 2010:

During the quarter, MMI geochemical sampling surveys of VTEM airborne geophysical anomalies was completed.

Subsequent events

Exploration permits were submitted and received allowing for line-cutting, deep penetrating ground geophysical surveying and diamond drilling.

Activities contemplated in the future

Line-cutting of a grid covering the extension of the Dickstone Mine horizon, as interpreted from airborne geophysical survey data is expected to commence in February 2011 followed by a deep penetrating EM geophysical survey and diamond drilling of selected targets on the property. Results of the MMI geochemical survey were received and an assessment report is being prepared for submission to the Manitoba Mining Recorder.

FOX PROJECT, MANITOBA**Background**

The Company's Fox Project consists of 100%-owned claims staked by the Company. These claims were staked in May 2007 to cover the southwards extension of the Fox Lake mine stratigraphy, approximately 40 km west of Lynn Lake, Manitoba. The claims cover an occurrence of a Zn-rich VMS mineralization.

Performance Summary:

The Company completed an airborne VTEM survey of the Fox Project claims in 2008.

During the quarter ended November 30, 2010:

There were no activities on the property during the quarter.

Subsequent events

There have been no subsequent events.

Activities contemplated in the future

Mobile Metal Ion soil geochemical surveys will target VTEM picks provided by Condor geophysics in Denver. These data will be integrated with geology and geophysics databases to derive drill targets.

RUTTAN SOUTH PROJECT, MANITOBA

Background

The Company acquired a 100% interest in a group of claims by staking during 2007 and 2008.

Performance Summary:

An airborne VTEM survey was flown over the claims in 2008.

During the quarter ended November 30, 2010:

There were no activities on the property during the quarter.

Subsequent events

There have been no subsequent events.

Activities contemplated in the future

Mobile Metal Ion soil geochemical surveys will target VTEM picks provided by Condor geophysics in Denver. These data will be integrated with geology and geophysics databases to derive drill targets.

NICKEL PROPERTIES**LEAK LAKE PROJECT, MANITOBA****Background**

Two MELs were taken out to cover rocks beneath the limestone cover that have magnetic signatures similar to a layered ultramafic magmatic body exposed north of the limestone cover area. The exposed rocks, immediately west of Reed Lake, are being explored for PGE and Cu-Ni mineralization. The Leak Lake project is situated approximately 60 km southwest of the town of Snow Lake.

Performance Summary:

A high resolution VTEM airborne geophysical survey was completed on the Leak Project in 2008.

A GIS database for the property has been created and reconnaissance Mobile Metal Ions soil geochemical surveys have been completed. These surveys are targeting VTEM geophysical responses to test for associated pathfinder metals-related base metal deposits.

During the quarter ended November 30, 2010:

Detailed MMI soil geochemical surveys focusing on anomalous responses obtained during the reconnaissance phase of sampling have been completed.

Subsequent events

Analyses from the MMI survey have been received.

Activities contemplated in the future

The MMI data will be interpreted and a report prepared for submission to the Manitoba Mining Recorder. Diamond drilling of prospective targets is anticipated to be carried out in spring 2011.

SUDBURY PROPERTIES**TERRA INCOGNITA****Background**

On April 5, 2010 the Company signed a property option agreement with John and Marie Brady of 1227 Holland Road, Sudbury, Ontario to acquire a 100% interest in 28 unpatented mining claims comprising 41 mining claim units in Sudbury, Ontario, subject to a 2.5% net smelter royalty, of which 1.5% may be purchased for \$1.5 million. In order to earn a 100% interest, the Company must make cash payments totalling \$90,000, issue 150,000 common shares and incur \$49,200 in expenditures on the property.

Date	Amount
On signing	\$10,000 Paid
On or before April 5, 2011	\$15,000
On or before April 5, 2012	\$20,000
On or before April 5, 2013	\$45,000
Total	<u>\$90,000</u>

Date	Number of shares
On signing	37,500 Issued
On or before April 5, 2011	37,500
On or before April 5, 2012	37,500
On or before April 5, 2013	37,500
Total	<u>150,000</u>

Date	Expenditures (cumulative)
On or before April 5, 2011	\$16,400
On or before April 5, 2012	\$32,800
On or before April 5, 2013	\$49,200

Performance Summary:

There is currently five years in assessment credits applied in advance on the Terra Incognita property

During the quarter ended November 30, 2010:

There were no activities on the property during the quarter.

Subsequent events

There are no subsequent activities for the property.

Activities contemplated in the future

The Geological team will continue its review and compilation of historical data and compile a 2011 exploration plan by the end of March 2011.

GOLDEN PINE**Background**

On April 5, 2010, the Company signed a property option agreement with John and Marie Brady of 1227 Holland Road, Sudbury, Ontario to acquire a 100% interest in 17 unpatented mining claim units, 3 mining lease units and 2 patented mining claim units (mineral rights only) for a total of 22 mining claim units in Sudbury, Ontario, subject to a 2.5% net smelter royalty, of which 1.5% may be purchased for \$1.5 million. In order to earn a 100% interest, the Company must make cash payments totalling \$150,000, issue 200,000 common shares and incur \$20,400 in expenditures on the property.

Date	Amount
On signing	\$20,000 Paid
On or before April 5, 2011	\$30,000
On or before April 5, 2012	\$50,000
On or before April 5, 2013	\$50,000
Total	<u>\$150,000</u>

Date	Number of shares
On signing	50,000 Issued
On or before April 5, 2011	50,000
On or before April 5, 2012	50,000
On or before April 5, 2013	50,000
Total	<u>200,000</u>

Date	Expenditures (cumulative)
On or before April 5, 2011	\$6,800
On or before April 5, 2012	\$13,600
On or before April 5, 2013	\$20,400

Performance Summary:

There is currently five years in assessment credits applied in advance on the Golden Pine property

During the quarter ended November 30, 2010:

There were no activities on the property during the quarter.

Subsequent events

There are no subsequent activities for the property.

Activities contemplated in the future

The Geological team will continue its review and compilation of historical data and compile a 2011 exploration plan by the end of March 2011.

BLACK CREEK

Background

On April 5, 2010, the Company signed a property option agreement with John and Marie Brady of 1227 Holland Road, Sudbury, Ontario to acquire a 100% interest in 63 unpatented mining claims comprising 94 mining claim units in Sudbury, Ontario, subject to a 2.5% net smelter royalty, of which 1.5% may be purchased for \$1.5 million. In order to earn a 100% interest, the Company must make cash payments totalling \$100,000, issue 250,000 common shares and incur \$112,800 in expenditures on the property.

Date	Amount
On signing	\$15,000 Paid
On or before April 5, 2011	\$20,000
On or before April 5, 2012	\$25,000
On or before April 5, 2013	\$40,000
Total	<u>\$100,000</u>

Date	Number of shares
On signing	62,500 Issued
On or before April 5, 2011	62,500
On or before April 5, 2012	62,500
On or before April 5, 2013	62,500
Total	<u>250,000</u>

Date	Expenditures (cumulative)
On or before April 5, 2011	\$37,600
On or before April 5, 2012	\$75,200
On or before April 5, 2013	\$112,800

Performance Summary:

There is currently five years in assessment credits applied in advance on the Black Creek property

During the quarter ended November 30, 2010:

No activities took place on the property during the quarter.

Subsequent events

There are no subsequent activities for the property.

Activities contemplated in the future

The Geological team will continue its review and compilation of historical data and compile a 2011 exploration plan by the end of March 2011.

SELECTED FINANCIAL INFORMATION

The Company's financial statements for the three months ended November 30, 2010, 2009, and 2008 (the "Financial Statements") have been prepared in accordance with Canadian generally accepted accounting principles and practices. Currency amounts are in Canadian dollars, except where stated otherwise. The following selected financial information is taken from the Financial Statements and should be read in conjunction with those statements.

	For the three months ended		
	<u>November 30, 2010</u>	<u>November 30, 2009</u>	<u>November 30, 2008</u>
Financial results			
Net gain/(loss) for the period	\$ 139,448	\$ (60,018)	\$ (433,555)
Basic and diluted loss per share	0.00	(0.00)	0.00
Balance sheet data			
	<u>November 30, 2010</u>	<u>August 31, 2010</u>	<u>August 31, 2009</u>
Cash and short-term investments	\$ 11,970,101	\$ 11,934,438	\$ 12,836,171
Mineral properties	15,397,998	14,417,659	20,206,116
Total assets	29,731,182	28,648,426	33,282,248

RESULTS OF OPERATIONS

Three Months Ended November 30, 2010 compared with Three Months Ended November 30, 2009

For the three months ended November 30, 2010, the Company incurred a net gain of \$139,448 compared to a net loss of \$60,018 for the three months ended November 30, 2009. The increase of \$199,466 for a net gain from the comparative year is mostly a result of a gain on marketable securities of \$1,271,367 compared to the prior year's loss on marketable securities of \$123,000 netting a gain of \$1,394,367. This gain is offset by an increase in general and administrative expenses of \$590,159 compared with last year's general and administrative expenses of \$316,325 for an increase of \$273,834 and a future income tax expense of \$439,048 compared with last year's future income tax recovery of \$153,000 netting an increase of 592,048 and the share of loss of significantly influenced investment of \$94,000 compared to last year's amount of \$nil and the netted change in interest earned, loss on sale of resource property and the write down of mineral properties which netted an increased expense of \$235,019.

General and Administrative expenses increased by \$273,834 which was due mainly from an increase in shareholder communication of \$80,696 as a result of an increase in investor relations services, an increase in consulting fees of \$11,896 as a result of additional consultants brought on board and an increase in stock-based compensation of \$167,853 as a result of a stock option grant in the quarter and an increase of \$8,449 in amortization due to the purchase of computer software and an increase of \$4,940 in general operating costs.

The Company reports the investment in North American Nickel Inc. under the equity method since it is a significantly influenced investment which requires the Company to report a 47% share of the loss of American Nickel Inc. based on North American Nickel

Inc.'s September 30, 2010 net loss results of \$200,626 of which \$94,000 was reported as a loss on the investment for the three months ending November 30, 2010.

There was a future income tax expense of \$439,048 which was an increase over the recovery amount of \$153,000 for the three month period ending November 30, 2009. This is a result of the Company's recovery of income taxes for the period mainly generated by the gain on marketable securities.

SUMMARY OF QUARTERLY RESULTS

The table below represents selected financial data for the Company's eight most recently completed quarters, rounded to the nearest thousand:

	November 30 2010	August 31 2010	May 31 2010	Three months ended February 28, November 30, 2010 2009		August 31, 2009	May 31, 2010	February 28, 2009
Financial Results								
Net gain/(loss) for the period	\$ 139,448	\$ 50,010	\$ (3,292,000)	\$ (251,000)	\$ (60,000)	\$ 196,000	\$ (335,000)	\$ 339,000
Basic loss per share	0.00	0.00	0.03	0.00	0.00	0.00	0.00	0.00

LIQUIDITY

As at November 30, 2010, the Company had working capital of \$13,185,890 (August 31, 2010: \$13,183,514), including cash and short-term investments of \$11,970,101 (August 31, 2010: \$11,934,438). The Company believes it is well positioned financially to continue with its planned exploration and business activities for the next twelve months.

The Company has financed its operations to date primarily through the issuance of common shares and exercise of stock options and warrants. The Company continues to seek capital through various means including the issuance of equity and/or debt and the securing of joint venture partners where appropriate.

	November 30, 2010	August 31, 2010
Working capital	\$ 13,185,840	\$ 13,183,514
Deficit	(9,488,049)	(9,627,497)

CAPITAL MANAGEMENT

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition and exploration of mineral 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 team to manage its capital.

The properties in which the Company currently has an interest are in the exploration stage. As such, 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 financial resources to do so.

Management considers its approach to capital management to be appropriate given the relative size of the Company. There were no changes in the Company's approach to capital management during the period.

FINANCIAL INSTRUMENT RISK FACTORS

Risk management is carried out by the Company's management team with guidance from the Board of Directors. The Company's risk exposures and their impact on the Company's financial instruments are summarized below:

a) Credit Risk

The Company's credit risk is primarily attributable to cash and cash equivalents, short-term investments and amounts receivable. Cash and cash equivalents, and short-term investments are held with one reputable Canadian chartered bank which is closely monitored by management. Financial instruments included in amounts receivable consist primarily of GST recoverable from the Canadian government. Management believes that the credit risk concentration with respect to financial instruments included in cash and cash equivalents, short-term investments and amounts receivable is minimal.

b) Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at November 30, 2010, the Company held cash and cash equivalents of \$8,297,601 (Aug 31, 2010 - \$8,261,938), and short-term investments of \$3,672,500 (Aug 31, 2010 - \$3,672,500) and had current liabilities of \$296,028 (Aug 31, 2010 - \$134,612). All of the Company's liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

c) Market Risk

i) Interest Rate Risk

The Company had cash balances and short-term investments, and no interest bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of its banks. As of November 30, 2010, the Company had non-interest bearing accounts with one Canadian chartered bank

ii) Foreign Currency Risk

The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

iii) 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 precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

RELATED PARTY TRANSACTIONS

a) Due from related companies

Amounts due from related parties represent intercompany advances for shared administration costs from and to companies related through common shareholders and directors. These amounts are non-interest-bearing and have no fixed terms of repayment and all parties have waived the right to demand payment for more than one year.

Amounts due from related parties as at November 30, 2010 are as follows:

	For the period ended: November 30, 2010	For the year ended: August 31, 2010
Due from Harvest Gold Corp.	\$ 89,223	\$ 73,870
Due from Pancontinental Uranium Corp.	2,957	1,859
Due from North American Nickel Inc.	37,615	7,145
	<u>\$ 129,795</u>	<u>\$ 82,874</u>

b) Transactions with related parties

Related party 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. The Company incurred expenditures for various services provided by corporations controlled by directors and officers of the Company during the period ended November 30, 2010 and 2009 which are as follows:

3 month period ended November 30, 2010

	Cash Payments	Stock-based Compensation	Total
Geological consulting - expensed	\$ 20,875	\$ -	\$ 20,875
Geological consulting - capitalized	58,218	64,832	123,050
Management - expensed	61,500	97,248	158,748
	<u>\$ 140,593</u>	<u>\$ 162,080</u>	<u>\$ 302,673</u>

3 month period ended November 30, 2009

	Cash Payments	Stock-based Compensation	Total
Geological consulting - expensed	\$ 15,899	\$ -	\$ 15,899
Geological consulting - capitalized	88,023	28,088	116,111
Management - expensed	61,500	28,088	89,588
	<u>\$ 165,422</u>	<u>\$ 56,176</u>	<u>\$ 221,598</u>

As of November 30, 2010, accounts payable and accrued liabilities included \$Nil (November 30, 2009 - \$1,325) owing

to directors for general expenses incurred.

OUTSTANDING SHARE DATA

As at November 30, 2010, the Company had 114,717,955 common shares issued and outstanding.

	Number of Common Shares	Amount
Balance - August 31, 2009	113,967,955	\$ 31,397,840
Shares issued for mineral properties - non-cash	450,000	130,000
Stock-based compensation	-	-
Balance - August 31, 2010	<u>114,417,955</u>	<u>\$ 31,527,840</u>
Shares issued for stock option exercise	300,000	66,000
Stock-based compensation	<u> </u>	<u>32,076</u>
Balance - November 30, 2010	<u><u>114,717,955</u></u>	<u><u>\$ 31,625,916</u></u>

As at the date of this MD&A, the Company had 116,001,955 common shares outstanding and stock options exercisable for 10,204,800 common shares.

SUBSEQUENT EVENTS

Subsequent to November 30, 2010, a total of 1,284,000 common shares of the Company were issued as the result of certain directors and consultants exercising stock options. The Company received proceeds of \$312,380.

RISKS AND UNCERTAINTIES

The Company is in the mineral exploration and development business, and as such, is exposed to a number of risks and uncertainties that are not uncommon to other companies in the same business. Exploration for mineral resources involves a high degree of risk, and the cost of conducting programs may be substantial and the likelihood of success is difficult to assess. The Company attempts to mitigate its exploration risk through joint ventures with other companies, if deemed appropriate.

Beyond exploration risk, management is faced with other possible risks which include the following:

1. Early Stage Company

The Company has no history of profitable operations and its present business is at an early stage. As such, the Company is subject to many risks common to other companies in the same business, including under-capitalization, cash shortages, and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

The Company expects to obtain financing in the future primarily through further equity and/or debt financing, as well as through joint venturing and/or optioning out the Company's properties to qualified mineral exploration companies. There can be no assurance that the Company will succeed in obtaining additional financing, now or in the future. Failure to raise additional financing on a timely basis could cause the Company to suspend its operation and eventually to forfeit or sell its interest in its mineral properties.

2. Exploration and Development

Mineral exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits, but also from finding mineral deposits that, though present, are of insufficient size and/or grade to return a profit from production.

All of the mineral claims to which the Company has a right to acquire an interest are in the exploration stages only, and are without a known body of commercial ore. Upon discovery of a mineralized occurrence, several stages of exploration and assessment are required before its economic viability can be determined. Development of the subject mineral properties would follow only if favorable results are determined at each stage of assessment. Few precious and base metal deposits are ultimately developed into producing mines.

There is no assurance that the Company's mineral exploration activities will result in any discoveries of commercial bodies of ore. The long-term profitability of the Company's operations will in part be directly related to the costs and success of its exploration programs, which may be affected by a number of factors.

3. Operating Hazards and Risks

Mining operations involve many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of mineral deposits.

Although the Company maintains liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a materially adverse effect upon its financial conditions.

4. Supplies, Infrastructure, Weather and Inflation

The Company's property interests are often located in remote, undeveloped areas and the availability of infrastructure such as surface access, skilled labour, fuel and power at an economic cost cannot be assured.

5. Metal Prices

The mining industry, in general, is intensely competitive and there is no assurance that a profitable market will exist for the sale of metals produced even if commercial quantities of precious and/or base metals are discovered. Factors beyond the control of the Company may affect the marketability of metals discovered. Pricing is affected by numerous factors beyond the Company's control, such as international economic and political trends, global or regional consumption and demand patterns, increased production and smelter availability. There is no assurance that the price of metals recovered from any mineral deposit will be such that they can be mined at a profit.

6. Title Risks

Although the Company has exercised due diligence with respect to determining title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral property interest may be subject to prior unregistered agreements, or transfers, or native claims, and title may be affected by undetected defects.

7. Environmental Regulations, Permits and Licenses

The Company's operations are subject to various laws and regulations governing the protection of the environment, exploration, development, production, taxes, labour standards, occupational health, waste disposal, safety and other matters. Environmental legislation in Canada provides restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact statements. Environmental legislation is evolving in a direction of stricter standards and enforcement, and higher fines and penalties for non-compliance. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. The Company intends to fully comply with all environmental regulations.

The current operations of the Company may require permits from Canadian authorities and such operations are governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental, mine safety and other matters.

The Company believes that it is in substantial compliance with all material laws and regulations which currently apply to its activities. There can be no assurance, however, that all permits which the Company may require for its operations and exploration activities will be obtainable on reasonable terms or on a timely basis or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake.

8. Competition and Agreements with Other Parties

The mining industry is intensely competitive in all its phases, and the Company competes with other companies that have greater financial resources and technical capacity. Competition could adversely affect the Company's ability to acquire suitable properties or prospects in the future.

The Company may, in the future, be unable to meet its share of costs incurred under such agreements to which it is a party and it may have its interest in the properties subject to such agreements reduced as a result. Also, if other parties to such agreements do not meet their share of such costs, the Company may not be able to finance the expenditures required to complete recommended programs.

9. Economic Conditions

Unfavourable economic conditions may negatively impact the Company's financial viability. Unfavourable economic conditions could also increase the Company's financing costs, decrease net income or increase net loss, limit access to capital markets and negatively impact any of the availability of credit facilities to the Company.

10. Dependence on Management

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result.

CONFLICTS OF INTEREST

The Company's directors and officers may serve as directors or officers, or may be associated with, other reporting companies, or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding on terms with respect to the transaction. If a conflict of interest arises, the Company will follow the provisions of the Business Corporations Act (BC) ("Corporations Act") dealing with conflict of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Company's directors, disclose his or her interest and refrain from voting on the matter unless otherwise permitted by the Corporations Act. In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith, and in the best interest of the Company.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

Additional disclosure concerning the Company's general and administrative expenses and resource property costs is provided in the Company's annual audited financial statements and in note 2 of the audited financial statements for the year ended August 31, 2010 that is available on SEDAR at www.sedar.com.

CRITICAL ACCOUNTING POLICIES

Management has prepared the financial statements of the Company in accordance with Canadian generally accepted accounting policies and are stated in Canadian dollars. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

ADOPTION OF CHANGES IN ACCOUNTING POLICIES

a) Amendments to Section 1400 – Going Concern

Effective September 1, 2008, the Company implemented the amended CICA Handbook section 1400, General Standards of Financial Statement Presentation, to include requirements to assess and disclose an entity's ability to continue as a going concern.

b) Goodwill and Intangible Assets

Effective September 1, 2008, the Company implemented CICA handbook section 3064, "Goodwill and intangible assets", which establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. The adoption of this new standard did not have a material impact on the Company's financial statements.

Future Changes in Accounting Policies

i) Business Combinations

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "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 IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These Sections are applicable for interim and annual consolidated financial statements for fiscal years beginning January 1, 2011. Early adoption of these Sections is permitted and all these Sections must be adopted concurrently.

ii) International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board confirmed January 1, 2011 as the date IFRS will replace Canadian standards and interpretations as Canadian Generally Accepted Accounting Principles (Canadian GAAP) for publicly accountable enterprises (which includes investment funds and other reporting issuers). Changing from the Current Canadian GAAP to IFRS may materially affect an issuer's reported financial position and results of operations. It may also affect certain business functions. The Company's transition date of September 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for the year commencing September 1, 2010.

The conversion from Canadian GAAP to IFRS will require the implementation of a new set of accounting standards, and the internal controls over financial reporting will need to address the initial reporting of IFRS financial statements, including related note disclosures, as well as on-going financial reporting. The Company is working through a planned IFRS transition plan. The first stage was for management and the accounting department to be introduced to IFRS. The

Company's accounting team have attended IFRS workshops and has started to create working papers to prepare for the transition process. The Company is currently in the second stage and is assessing what the impact of these changes will have on the Company's financial reporting. The accounting team plans to prepare a September 1, 2010 transition date opening balance sheet in accordance with IFRS in the 2011 fiscal year to assist with determining the accounting policies best suited for financial reporting. Management will be relying on outside consultants and auditors to assist with the transition where sufficient technical expertise does not exist in-house.

The following accounting policies will or may impact the Company's financial reporting under IFRS:

Exploration for and Evaluation of Mineral Resources

The Company is in the exploration stage and under Canadian GAAP currently capitalizes all costs related to the acquisition and exploration of its mining rights. Management regularly reviews the carrying value of its mineral rights for evidence of impairment, and makes a provision when the carrying values are estimated to exceed their net recoverable amounts.

Under IFRS 6 "*Exploration for and Evaluation of Mineral Resources*" exploration and evaluation assets shall continue to be measured at cost, but the Company will have to determine an accounting policy specifying which expenditures are to be recognized as exploration and evaluation assets, and then apply that policy consistently. This standard will not apply to expenditures incurred for investigating properties before the Company has the legal right to explore the property, nor to expenditures incurred in the development stage of a property once technical and economic feasibility are demonstrable.

In addition, under IFRS 6 and under International Accounting Standard (IAS) 36, "*Impairment of Assets*", the Company will be required to assess at the end of each reporting period whether there is any indication that the asset may be impaired. IFRS also allows the reversal of impairments if conditions that gave rise to those impairments no longer exist. Canadian GAAP prohibits reversal of impairment losses. It is expected therefore, that there will be increased volatility in impairment recognition due to increase in frequency of assessment and possibility of reversal of impairments.

Other Policy Differences

A number of differences between Canadian GAAP and IFRS have been identified, but their applicability and potential impact to the Company have not yet been assessed, including the accounting for income taxes, stock-based compensation, and financial instruments and disclosure requirements. These differences will or may have a material impact on the Company's financial statements for the year ending August 31, 2012.

System and Internal Control Impacts

In addition to the impact of IFRS on accounting policies, management is also in the process of assessing the impact of IFRS adoption on the Company's internal controls over financial reporting, disclosure controls and procedures, information technology and data systems. As a preliminary assessment, the Company does not expect that the conversion to IFRS will have a significant impact on its accounting processes and internal controls, information technology and data systems.

As the review of the accounting policies is completed, appropriate changes to ensure the integrity of internal control over financial reporting will be made. For example, under IFRS 6 and IAS 36, discussed above, the Company will be required to assess at the end of each reporting period whether there has been any indication that the asset may be impaired. Additional controls will be needed to ensure that the recorded balance is fairly stated at each reporting period. It is anticipated that such controls will include senior management oversight on the development of key assumptions and variables.

OFF-BALANCE SHEET ARRANGEMENTS

At November 30, 2010, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligation that trigger financing, liquidity, market or credit risk to the Corporation.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying interim financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with Canadian generally accepted accounting principles.

TSX Venture listed companies are not required to provide representations in the annual filings relating to the establishment and maintenance of DC&P and ICFR, as defined in Multinational Instrument 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP. The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding the absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitation on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in Multinational Instrument 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

CAUTION REGARDING FORWARD LOOKING STATEMENTS

Statements contained in this MD&A that are not historical facts are forward-looking statements (within the meaning of the Canadian securities legislation and the U.S. Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements with respect to the future price of metals; the estimation of mineral reserves and resources, the realization of mineral reserve estimates; the timing and amount of estimated future production, costs of production, and capital expenditures; costs and timing of the development of new deposits; success of exploration activities, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and the timing and possible outcome of pending litigation. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such risks and other factors include, among others, risks related to the integration of acquisitions; risks related to operations; risks related to joint venture operations; actual results of current exploration activities; actual results of current reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of metals; possible variations in ore reserves, grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, as well as those factors discussed in the sections entitled "Risks and Uncertainties" in this MD&A. Although the Company has attempted to identify important factors that could affect the Company and may cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The forward-looking statements in this MD&A speak only as of the date hereof. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof to reflect the occurrence of unanticipated events.

Forward-looking statements and other information contained herein concerning the mining industry and general expectations concerning the mining industry are based on estimates prepared by the Company using data from publicly available industry sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Company is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.