

## Management's Responsibility

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To the Shareholders of Jasper Mining Corporation:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors exercises its responsibilities for financial controls through an Audit Committee. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

May 2, 2011

*"signed"*  
John Dixon  
Secretary

*"signed"*  
Gordon Dixon  
President

**Independent Auditor's Report**

**To the Shareholders of  
Jasper Mining Corporation**

We have audited the accompanying financial statements of Jasper Mining Corporation, which comprise the balance sheet as at December 31, 2010, and the statement of operations, comprehensive loss and deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Jasper Mining Corporation as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**Emphasis of matter**

Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes the material uncertainty that may cast significant doubt about the ability of Jasper Mining Corporation to continue as a going concern.

**Other matter**

The financial statements as at December 31, 2009 and for the year then ended were audited by a predecessor auditor who expressed an opinion without reservation on these financial statements in their report dated April 29, 2010.

**"MacKay LLP"**

**Chartered Accountants  
Calgary, Canada  
April 28, 2011**

**Jasper Mining Corporation**  
**(an exploration stage Corporation)**  
**Balance Sheets**  
December 31

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Current		
Cash	\$ 71,945	\$ 703,781
Due from related parties	5,967	5,967
Accounts receivable	<u>26,548</u>	<u>8,403</u>
	<b>104,460</b>	718,151
Mineral property security deposits <i>(note 4)</i>	71,068	69,581
Investment <i>(note 5)</i>	100	100
Mineral properties <i>(note 6)</i>	6,703,522	6,755,391
Property and equipment <i>(note 7)</i>	<u>145,619</u>	<u>151,747</u>
	<u>\$ 7,024,769</u>	<u>\$ 7,694,970</u>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 244,586	\$ 257,458
Future income taxes <i>(note 11)</i>	<u>919,517</u>	<u>933,216</u>
	<b>1,164,103</b>	<b>1,190,674</b>
<b>Shareholders' Equity</b>		
Share capital <i>(note 8)</i>	7,852,572	7,908,530
Warrants <i>(note 9)</i>	16,759	697,633
Contributed surplus <i>(note 10)</i>	6,335,220	5,564,116
Deficit	<u>(8,343,885)</u>	<u>(7,665,983)</u>
	<u>5,860,666</u>	<u>6,504,296</u>
	<u>\$ 7,024,769</u>	<u>\$ 7,694,970</u>

Nature of operations, basis of presentation and going concern *(note 1)*

Commitments *(note 12)*

Subsequent events *(note 17)*

On behalf of the Board

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

See accompanying notes to financial statements

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**Jasper Mining Corporation**  
**(an exploration stage Corporation)**  
**Statements of Loss, Comprehensive Loss and Deficit**  
Years ended December 31

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	<u>2010</u>	<u>2009</u>
<b>Revenue</b>		
Interest	\$ <u>1,506</u>	\$ <u>2,268</u>
<b>Expenses</b>		
Stock-based compensation <i>(note 8)</i>	90,230	101,579
General and administrative	269,011	276,489
Part XII.6 interest	107,169	–
Amortization	6,957	9,659
Impairment of mineral properties <i>(note 6)</i>	<u>275,698</u>	<u>2,258,808</u>
	<u>749,065</u>	<u>2,646,535</u>
<b>Loss before income taxes</b>	<b>(747,559)</b>	<b>(2,644,267)</b>
Future income tax reduction <i>(note 11)</i>	<u>(69,657)</u>	<u>(559,018)</u>
<b>Net loss and comprehensive loss for the year</b>	<b>(677,902)</b>	<b>(2,085,249)</b>
<b>Deficit, beginning of year</b>	<u>(7,665,983)</u>	<u>(5,580,734)</u>
<b>Deficit, end of year</b>	<u>\$ (8,343,885)</u>	<u>\$ (7,665,983)</u>
<b>Loss per share – basic and diluted</b> <i>(note 8)</i>	\$ (0.01)	\$ (0.03)

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See accompanying notes to financial statements

**Jasper Mining Corporation**  
**(an exploration stage Corporation)**  
**Statements of Cash Flows**  
Years ended December 31

	2010	2009
<b>Operating</b>		
Net loss for the year	\$ (677,902)	\$ (2,085,249)
Add back non-cash items:		
Stock-based compensation	90,230	101,579
Amortization	6,957	9,659
Impairment of mineral properties	275,698	2,258,808
Future income tax reduction	(69,657)	(559,018)
	<u>(374,674)</u>	<u>(274,221)</u>
Change in non-cash working capital <i>(note 13)</i>	<u>(18,651)</u>	<u>(1,802)</u>
	<u>(393,325)</u>	<u>(276,023)</u>
<b>Financing</b>		
Issuance of common shares, net of costs	–	981,723
Change in non-cash working capital <i>(note 13)</i>	–	(7,462)
	<u>–</u>	<u>974,261</u>
<b>Investing</b>		
(Payment) refund on mineral deposit	(1,487)	3,386
Mineral property expenditures	(223,829)	(213,490)
Other capital additions	(829)	–
Redemption of short term investment	–	198,914
Change in non-cash working capital <i>(note 13)</i>	(12,366)	(63,711)
	<u>(238,511)</u>	<u>(74,901)</u>
<b>(Decrease) increase in cash</b>	<b>(631,836)</b>	<b>623,337</b>
Cash, beginning of year	<u>703,781</u>	<u>80,444</u>
<b>Cash, end of year</b>	<b>\$ <u>71,945</u></b>	<b>\$ <u>703,781</u></b>
Interest paid	\$ –	\$ –

See accompanying notes to financial statements

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# **Jasper Mining Corporation**

## **(an exploration stage Corporation)**

### **Notes to the Financial Statements**

December 31, 2010 and 2009

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#### **1. Nature of operations, basis of presentation and going concern**

The Corporation is incorporated under the laws of the Province of Alberta and is listed on the TSX Venture Exchange. The Corporation is engaged in the business of mineral exploration in Canada. To date, the Corporation has not yet determined whether these properties are economically recoverable and is considered to be in the exploration stage. The Corporation is satisfied that title to all of its properties in all material respects is satisfactory.

At December 31, 2010, the Corporation had a working capital deficiency of \$140,126 (December 31, 2009 – working capital of \$460,693) and an accumulated deficit of \$8,343,885 (December 31, 2009 – \$7,665,983). As described in Note 12, as at December 31, 2010 the Corporation had approximately \$820,921 of qualifying flow through expenditures that were not incurred by December 31, 2010. The Corporation's ability to continue its operations is dependent on the Corporation's success in developing its mineral interests, obtaining required funds to continue exploration activities and attaining profitable operations. The Corporation expects that sufficient liquidity and equity financing will be available to meet its obligations over the next fiscal year. Subsequent to year end, the Corporation completed private placements for aggregate gross proceeds of \$902,600 (*note 17*).

These audited financial statements have been prepared on the basis that the Corporation will be able to discharge its obligations and realize its assets in the normal course of business at the values at which they are carried in these financial statements, and that the Corporation will be able to continue its business activities. Management believes that steps being taken will enable the Corporation to obtain additional capital as its commitments become due. However, there is no certainty that the Corporation will be able to continue as a going concern, in which case the Corporation may not be able to meet its obligations as they come due, or realize its assets at the amounts at which they are carried in these financial statements. Should the going concern assumption not be appropriate, certain asset and liability amounts would require adjustment and reclassification and such adjustments may be significant.

#### **2. Significant accounting policies**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

##### **a) Cash**

Cash consist of bank balances.

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# Jasper Mining Corporation

## (an exploration stage Corporation)

### Notes to the Financial Statements

December 31, 2010 and 2009

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## 2. Significant accounting policies (continued)

### b) Mineral properties

The Corporation records its interest in mineral claims and properties at cost whereby all direct and indirect costs of acquiring, exploring for and developing mining properties are capitalized as separate areas of interest.

The Corporation capitalizes the acquisition costs of mineral properties and all direct costs relating to exploration on its mineral properties. These costs will be amortized over the estimated productive lives of the properties upon commencement of production using the unit-of-production method. Costs related to abandoned projects are written off. Mineral property interest, where future cash flows are not reasonably determinable, are evaluated for impairment based on results of exploration work, management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded. General exploration costs not related to specific properties and general administrative expenses are charged to operations in the year in which they are incurred.

Recovery of carrying value is dependent upon future commercial success or proceeds from disposition of the resource interests. It is reasonably possible, based on existing knowledge that changes in future conditions could require a change in the recognized amounts.

Where the Corporation's exploration commitments for a mineral property are performed under option agreements with a third party, the proceeds of option payments under such agreements are applied to the mineral property to the extent costs are incurred. The excess is recorded to earnings (loss). Provincial government mining tax credits reduce the book value of mineral properties.

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of mineral properties. The Corporation has investigated title to all of its mineral properties and, to the best of its knowledge, titles to all of its properties are in good standing.

### c) Property and equipment

Property and equipment are recorded at cost. Amortization is determined using the declining balance basis, over the estimated useful life of the assets at the following annual rates:

Furniture and fixtures	20 to 30%	Fence	10%
Vehicles	30%	Computer equipment	30 to 50%

### d) Impairment of long-lived assets

The Corporation reviews its long-lived assets, including mineral properties for impairment. Long-lived assets are assessed for impairment when events and circumstances warrant an assessment. 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 factors which might indicate that an impairment exists. These conditions include significant unfavorable 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, capitalized costs are written down to the estimated fair value.

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# **Jasper Mining Corporation**

## **(an exploration stage Corporation)**

### **Notes to the Financial Statements**

December 31, 2010 and 2009

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## **2. Significant accounting policies (continued)**

### **e) Asset retirement obligation**

Asset retirement costs and liabilities associated with site restoration and abandonment of long-lived assets are initially measured at fair value which approximates the cost a third party would incur in performing the tasks necessary to retire such assets. Such costs are capitalized as part of the cost of mineral properties and amortized to expense through depletion over the life of the asset. The change in the liability due to the passage of time is measured by applying an interest method of allocation to the opening liability and is recognized as an increase in the carrying value of the liability and an expense. The expense is recorded as accretion expense in the statement of loss. A change in the liability resulting from revisions to either the timing or the amount of the original estimate of undiscounted cash flows is recognized as an increase or decrease in the carrying amount of the liability, with an offsetting increase or decrease in the carrying amount of the associated asset. Management has reviewed the nature of exploration activity on the properties including the potential impact that would require restoration. The Corporation has assessed the exposure to be immaterial to the financial statements and accordingly, has not recorded an asset retirement obligation.

### **f) Future income taxes**

The Corporation follows the asset and liability method of accounting for income taxes. Under this method future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings (loss) in the period in which the change is substantively enacted. A valuation allowance is recorded against a future income tax asset if it is more likely than not that the asset will not be realized.

### **g) Flow-through shares**

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada) (the "Act"). The Act provides that, where the share issuance proceeds are used for exploration and development expenditures, the related income tax deduction may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the Corporation.

Share capital is reduced and a future income tax liability is recorded for the estimated future tax cost of the renounced expenditures, on the date that the Corporation files the renouncement documents with the tax authorities.

### **h) Stock options**

Under the Corporation's stock option plan described in note 8(b), options to purchase common shares are granted to directors, employees and consultants at current market prices. Stock-based compensation is recorded over the vesting period of the options with a corresponding amount recorded as contributed surplus. Stock-based compensation for options granted to directors and employees is based on the estimated fair value at the time of the grant. Stock-based compensation for options granted to consultants is based on the estimated fair value at each balance sheet date until the related options are fully vested. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire unexercised, previously recognized compensation expense associated with such stock options is not reversed. In the event that unvested options are forfeited, previously recognized compensation expense associated with such stock options is reversed.

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# Jasper Mining Corporation

## (an exploration stage Corporation)

### Notes to the Financial Statements

December 31, 2010 and 2009

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## 2. Significant accounting policies (continued)

### i) Per share amounts

The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of in-the-money stock options or warrants are assumed to be used to purchase, for cancellation, common shares of the Corporation at the average market price during the year. Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if stock options or warrants to purchase common shares were exercised and converted to common shares.

### j) Revenue recognition

Interest income is recorded on a pro rata basis over the term of the related investments.

### k) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The expenditure classification made with respect to the renouncement of flow-through shares is based on estimates from geologic information obtained and the classification of the expenditures may be challenged by the taxation authorities and in this regard the assessments may be different from that of management. The amounts recorded for stock-based compensation and the value of warrants are based on estimates and assumptions for expected volatility and risk-free interest rates. By their nature, these estimates and assumptions are subject to measurement uncertainty, and the impact in the financial statements of future periods could be material. These assumptions are reviewed periodically and, as adjustments become necessary, they are reported in operations in the periods in which they become known.

### l) Financial instruments

All financial instruments, including all derivatives, except for certain related party transactions are recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available for sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in operations. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income (loss) and reclassified to operations when derecognized or impaired.

The Corporation has classified its financial assets and liabilities as follows:

<u>Held-for-trading</u>	<u>Loans and receivables</u>	<u>Other liabilities</u>
Cash	Accounts receivable	Accounts payable and accrued liabilities
Investment	Due from related parties	

At each balance sheet date, the Corporation assesses whether a financial asset is impaired and any related impairment is recorded in operations.

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# **Jasper Mining Corporation**

## **(an exploration stage Corporation)**

### **Notes to the Financial Statements**

December 31, 2010 and 2009

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## **2. Significant accounting policies (continued)**

### **m) Comprehensive loss**

Comprehensive loss is the change in shareholders' deficit during a period from transactions and other events and circumstances from non-owner sources and includes unrealized gains and losses on financial assets classified as held available-for-sale. The Corporation has reported a statement of comprehensive loss combined with the statement of operations. When related amounts are recorded, a new category for accumulated other comprehensive loss will be presented in the shareholders' equity section of the balance sheet.

### **n) Derivative instruments**

Derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value unless they qualify for the normal sale and purchase exception. Changes in the fair values of derivative instruments are recognized in operations with the exception of derivatives designated as cash flow hedges. The Corporation did not identify any derivatives which require separate recognition and measurement.

## **3. Changes in accounting policies**

### International Financial Reporting Standards ("IFRS")

On January 1, 2011, the Company will adopt IFRS for publicly accountable enterprises as required by the Accounting Standards Board of Canada. Entities are required to adopt IFRS effective January 1, 2011 with a restatement of the comparative periods for 2010 including an opening balance sheet as at January 1, 2010. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies and increased note disclosures which must be addressed.

## **4. Mineral properties security deposits**

The Corporation has made no provision for site restoration costs or potential environmental liabilities on the basis any such liability would not have a material effect on these financial statements. Factors such as further exploration, inflation and changes in technology may materially change the cost estimate. Mineral property deposits totaling \$71,068 (2009 – \$69,581) have been paid to the Government of British Columbia and are refundable upon reclamation of areas impacted by mining exploration activities.

## **5. Investment**

The Corporation owns 50% of the common shares outstanding in a private company named Jasper Diamonds Inc. for an investment of \$100. The remaining 50% is held by the President of the Corporation. The Company was inactive throughout the current and prior years and held no assets or liabilities.

**Jasper Mining Corporation**  
**(an exploration stage Corporation)**  
**Notes to the Financial Statements**  
December 31, 2010 and 2009

**6. Mineral properties**

		Balance as at December 31 2009	2010 Expenditures	Impairment	Balance as at December 31 2010
Isintok	Acquisition	113,867	–	–	113,867
	Exploration	3,295,073	209,798	–	3,504,871
Lydy/McFarlane	Acquisition	51,700	–	–	51,700
	Exploration	2,955,927	6,769	–	2,962,696
Other	Acquisition	67,146	7,262	(5,585)	68,823
	Exploration	271,678	–	(270,113)	1,565
		<u>\$ 6,755,391</u>	<u>\$ 223,829</u>	<u>\$ (275,698)</u>	<u>\$ 6,703,522</u>
Summary	Acquisition	\$ 232,713	\$ 7,262	\$ (5,585)	\$ 234,390
	Exploration	6,522,678	216,567	(270,113)	6,469,132
		<u>\$ 6,755,391</u>	<u>\$ 223,829</u>	<u>\$ (275,698)</u>	<u>\$ 6,703,522</u>
		Balance as at December 31 2008	2009 Expenditures	Impairment	Balance as at December 31 2009
Vowell Creek	Acquisition	\$ –	\$ 3,279	\$ (3,279)	\$ –
Isintok	Acquisition	113,867	–	–	113,867
	Exploration	3,132,106	162,967	–	3,295,073
Lydy/McFarlane	Acquisition	93,715	–	(42,015)	51,700
	Exploration	3,102,756	45,878	(192,707)	2,955,927
Erie Creek	Acquisition	57,457	–	(57,457)	–
	Exploration	986,584	–	(986,584)	–
Irony	Acquisition	58,262	–	(58,262)	–
	Exploration	554,224	–	(554,224)	–
Other	Acquisition	160,038	691	(93,583)	67,146
	Exploration	541,700	675	(270,697)	271,678
		<u>\$ 8,800,709</u>	<u>\$ 213,490</u>	<u>\$ (2,258,808)</u>	<u>\$ 6,755,391</u>
Summary	Acquisition	\$ 483,339	\$ 3,970	\$ (254,596)	\$ 232,713
	Exploration	8,317,370	209,520	(2,004,212)	6,522,678
		<u>\$ 8,800,709</u>	<u>\$ 213,490</u>	<u>\$ (2,258,808)</u>	<u>\$ 6,755,391</u>

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**Jasper Mining Corporation**  
**(an exploration stage Corporation)**  
**Notes to the Financial Statements**  
December 31, 2010 and 2009

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**6. Mineral properties** (continued)

The Corporation has not capitalized any general and administrative expenses nor any stock-based compensation expense to mineral properties in 2010 and 2009.

In 2010, management's evaluation of the Corporation's exploration results and future plans for two (2009 - ten) of the properties in British Columbia determined the properties to be impaired as exploration plans have been delayed on these properties. Although the Corporation may continue to hold the related claims, impairment charges of \$275,698 (2009 - \$2,258,808), respectively, was recorded to the statement of loss for the years ended December 31, 2010 and 2009. Future license fees will be expensed as incurred until management recommences exploration plans or the claims are sold.

**7. Property and equipment**

	December 31, 2010		
	Cost	Accumulated Amortization	Net
Land	\$ 123,387	\$ -	\$ 123,387
Furniture and fixtures	1,708	1,538	170
Vehicles	70,887	59,029	11,858
Fence	12,692	3,902	8,790
Computer equipment	14,834	13,420	1,414
	<u>\$ 223,508</u>	<u>\$ 77,889</u>	<u>\$ 145,619</u>

	December 31, 2009		
	Cost	Accumulated Amortization	Net
Land	\$ 123,387	\$ -	\$ 123,387
Furniture and fixtures	1,708	1,495	213
Vehicles	70,887	53,947	16,940
Fence	12,692	2,926	9,766
Computer equipment	14,005	12,564	1,441
	<u>\$ 222,679</u>	<u>\$ 70,932</u>	<u>\$ 151,747</u>

**Jasper Mining Corporation**  
**(an exploration stage Corporation)**  
**Notes to the Financial Statements**  
December 31, 2010 and 2009

**8. Share capital**

**a) Common shares issued**

	Number	Amount
Balance – December 31, 2008	62,705,047	\$ 7,137,592
Private placement - flow-through common shares (i)	250,000	49,039
Flow-through common shares to be issued (i)	5,000,000	984,202
Tax effect of flow-through shares (ii)	–	(187,310)
Share issue costs (net of tax of \$nil)	–	(74,993)
Balance – December 31, 2009	67,955,047	\$ 7,908,530
Tax effect of flow through shares (iii)	–	(261,188)
Reversal of tax effect of flow through shares (iii)	-	205,230
Balance – December 31, 2010	<u>67,955,047</u>	<u>\$ 7,852,572</u>

- i) During November and December 2009, the Corporation completed two private placements for a total of 5,250,000 flow-through units at \$0.20 per unit for gross proceeds of \$1,050,000. At December 31, 2009, 5,000,000 shares were subscribed and paid but not issued until 2010. Each unit consisted of one flow-through common share and one tenth common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$0.75 per share for up to one and one half years from the closing date. At the time of the private placements \$1,033,241 was ascribed to the common shares and \$16,759 was ascribed to the warrants. The fair value of the warrants was estimated using the Black-Scholes pricing model assuming a risk-free interest rate of 2.85%; expected life of 1.5 years; dividend yield of nil; and expected volatility of 170%-187%.

A finder's fee was paid comprised of \$59,857 cash and the issuance of 210,000 stock options. The finder's fee options are exercisable at \$0.75 per share and expire on May 10, 2011 and July 18, 2011.

- ii) The \$187,310 tax effect of the \$749,240 flow-through share proceeds raised in 2008 was recorded in February 2009 when the tax benefits were filed with the tax authorities and renounced to investors with an effective date of December 31, 2008. As at December 31, 2009, all of the qualifying flow-through expenditures had been incurred.
- iii) The \$261,188 tax effect of the \$1,044,750 flow-through share proceeds raised in 2009 was recorded in February 2010 when the tax benefits were filed with the tax authorities and renounced to investors with an effective date of December 31, 2009. As at December 31, 2010, \$820,921 of the qualifying flow-through expenditures remains unspent and therefore the tax benefit of \$205,230 related to the unspent flow-through expenditures was reversed in December 2010.

**Jasper Mining Corporation**  
**(an exploration stage Corporation)**  
**Notes to the Financial Statements**  
December 31, 2010 and 2009

**8. Share capital (continued)**

**b) Stock options**

The Corporation has a stock option plan, administered by the Board of Directors, for directors, officers, key employees and consultants of the Corporation. The options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Corporation, and vest over terms determined at the time of grant. The price of the stock options can not be lower than permitted by the TSXV. In June 2008, the Corporation's shareholders approved increasing the number of shares covered by the Corporation's stock option plan to 11,600,000 shares.

The following is a continuity of stock options for which shares have been reserved at December 31:

	2010		2009	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance – beginning	5,447,500	\$0.37	7,367,500	\$0.34
Granted	1,900,000	\$0.15	210,000	0.75
Cancelled or expired	(1,020,000)	\$0.45	(2,130,000)	0.32
Balance – ending	6,327,500	\$0.32	5,447,500	\$0.37

In July 2010, the Corporation granted 1,900,000 stock options exercisable at \$0.15 to directors, officers and consultants. The options vest one-half immediately and the balance one year from the date of grant and expire in July 2015.

The fair value of these options was estimated at \$112,232 using the Black-Scholes pricing model based on the following assumptions: risk free interest rate of 2.06%, expected life of 5.0 years, 0% forfeitures and expected volatility of 141%.

The Corporation recognized stock-based compensation expense in the years ended December 31 as follows:

Year of option grant	Weighted Average Fair Value Per Share	2010		2009	
2008	0.25	\$ –	\$ 101,579		
2010	0.06	90,230	–		
Expensed		\$ 90,230	\$ 101,579		

The following table summarizes information about stock options as at December 31, 2010:

Exercise Price (\$)	Number Outstanding	Number Exercisable	Weighted Average Exercise Price Exercisable (\$)	Weighted Average Remaining Contractual Life (years)
0.15	1,900,000	950,000	0.15	4.50
0.30	2,667,500	2,667,500	0.30	1.85
0.40	1,550,000	1,550,000	0.40	0.90
0.75	210,000	210,000	0.75	0.50
	6,327,500	5,377,500	0.29	2.36

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**8. Share capital** (continued)

**b) Stock options** (continued)

During 2009, the Corporation granted a total of 210,000 finder's fees options which vested immediately. The total fair value of these options granted was estimated to be \$6,716 which was recorded in share issue costs. The Black-Scholes pricing model was used to estimate the fair value based on the following assumptions: forfeiture rate of nil%; a dividend yield of nil; risk-free interest rate of 2.85%; expected volatility ranging from 170% to 187% and an expected life of 1.5 years.

**c) Per share amounts**

Per share calculations are based on the weighted average number of common shares outstanding during the year ended December 31, 2010 of 67,955,047 (2009 – 62,755,047). The effect of the conversion of all outstanding options and warrants would be anti-dilutive.

**9. Warrants**

	Number		Amount
Balance – December 31, 2008	14,322,793	\$	1,925,175
Private placements ( <i>note 8(a)(i)</i> )	525,000		16,759
Expired	<u>(10,019,000)</u>		<u>(1,244,301)</u>
Balance – December 31, 2009	4,828,793	\$	697,633
Expired	<u>(4,303,793)</u>		<u>(680,874)</u>
Balance – December 31, 2010	<u>525,000</u>	\$	<u>16,759</u>

The remaining warrants are exercisable at \$0.75 per warrant and expire in May and June 2011.

**10. Contributed surplus**

Balance – December 31, 2008	\$	4,211,520
Stock-based compensation ( <i>note 8(b)</i> )		101,579
Warrants expired ( <i>note 9</i> )		1,244,301
Finder's fee options ( <i>note 8(b)</i> )		<u>6,716</u>
Balance – December 31, 2009	\$	5,564,116
Warrants expired		680,874
Stock based compensation ( <i>note 8(b)</i> )		<u>90,230</u>
Balance – December 31, 2010	\$	<u>6,335,220</u>

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**11. Income taxes**

The Corporation's computation of income taxes for the years ended December 31 are as follows:

	2010	2009
Loss for the year before income taxes	\$ (747,559)	\$ (2,644,267)
Anticipated income tax reduction at 28.5% (2009 – 29.5%)	\$ (213,054)	\$ (780,059)
Stock-based compensation and other non-deductible items	27,729	31,850
Capital gains on expired warrants	–	159,099
Change in valuation allowance	66,277	(78,456)
Other	26,633	18,684
Effect of rate change	22,758	89,864
Future income tax reduction	\$ (69,657)	\$ (559,018)

The components of the net future income tax asset (liability) at December 31 are as follows:

	2010	2009
Non-capital loss carry forwards	\$ 669,943	\$ 567,683
Share issue costs	50,835	86,819
Cumulative eligible capital	11,720	11,720
Mineral properties and deferred exploration costs	(931,236)	(944,936)
	(198,738)	(278,714)
Valuation allowance	(720,779)	(654,502)
	\$ (919,517)	\$ (933,216)

As at December 31, 2010, the Corporation has approximately \$3,000,000 (2009 – \$3,000,000) in tax pools and \$2,700,000 (December 31, 2009 – \$2,200,000) in non-capital losses available for deduction against future taxable income. The non-capital losses expire between 2014 and 2030 as follows:

Expiry	Losses
2014	\$ 200,000
2015	300,000
2026	700,000
2027	400,000
2028	600,000
2030	500,000
	\$ 2,700,000

The future income tax assets for non-capital losses and share issue costs have not been recognized as their recovery is uncertain.

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**12. Commitments**

Except as disclosed elsewhere in the financial statements, the Company had the following commitments as at December 31, 2010:

- a) Pursuant to the flow-through financing in November and December 2009, the Corporation was to have incurred \$1,044,750 of qualifying flow-through expenditures by December 2010. Approximately \$223,829 of the qualifying expenditures was incurred to December 31, 2010. The Corporation anticipates that it will incur the remaining \$820,921 in 2011.
- b) The Corporation has a rental agreement of \$31,238 on office premises which terminates on May 31, 2013.

**13. Change in non-cash working capital**

	2010	2009
Accounts receivable	\$ (18,145)	\$ 16,444
Due from related party	—	758
Accounts payable and accrued liabilities	(12,872)	(90,177)
	\$ (31,017)	\$ (72,975)

The change in non-cash working capital has been allocated to the following activities:

	2010	2009
Operating	\$ (18,651)	\$ (1,802)
Financing	—	(7,462)
Investing	(12,366)	(63,711)
	\$ (31,017)	\$ (72,975)

**14. Related party balances and transactions**

Transactions to related parties were in the normal course of operations and recorded at exchange amounts, which is the amount of consideration established and agreed to by the related parties.

Except as disclosed elsewhere in the financial statements, the Corporation had the following related party transactions:

- a) Legal fees of \$nil (2009 – \$5,750) relating to various financings were charged by the President's law firm of which \$nil (2009 – \$5,750) was recognized as share issue costs.
- b) A total of \$50,400 (2009 – \$50,400) was charged by a company owned by the President for rent and administrative services.

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# **Jasper Mining Corporation**

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#### **15. Financial instruments and financial risk management**

The Corporation's financial instruments include cash, accounts receivable, due from related parties, investment, mineral property security deposits and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity. The Corporation is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The fair value of cash and short term investments is considered level 1 as it is determined by cash balances and investments held at financial institutions. Accounts receivable, due from related parties, investment, mineral property security deposits, and accounts payable and accrued liabilities approximate their fair values due to their short term to maturity.

The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Corporation's activities. The Corporation has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments.

This note presents information about the Corporation's exposure to each of the above risks and the Corporation's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board has implemented and monitors compliance with risk management policies as set out herein:

##### **a) Credit risk**

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation's policy is to ensure that its investments are liquid and not invested in asset-backed commercial paper products.

The Corporation's accounts receivable relates to Goods and Services Tax input tax credits. Accordingly, the Corporation views credit risk on accounts receivable as minimal and has subsequently collected the outstanding amount.

##### **b) Liquidity risk**

Liquidity risk is the risk that the Corporation will incur difficulties meeting its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Corporation's reputation.

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### Notes to the Financial Statements

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#### 15. Financial instruments and financial risk management (continued)

##### b) Liquidity risk (continued)

The Corporation prepares annual expenditure budgets, which are regularly monitored and updated as considered necessary. To facilitate its expenditure program, the Corporation raises funds through private equity placements. The Corporation's liquidity position has weakened since the beginning of the year due to the cost of ongoing exploration and corporate activities exceeding funds raised during the period. Current market conditions resulting from the global credit crisis have created unfavourable terms for equity financings required for many junior mineral exploration companies, including the Corporation. As a result, the Corporation is currently evaluating alternatives to raise additional capital to improve liquidity.

As at December 30, 2010, the Corporation's financial liabilities were comprised of accounts payable and accrued liabilities which have a maturity of less than one year. As described in Note 12 at December 31, 2010, the Corporation has an \$820,921 unexpended flow-through commitment. The Corporation's working capital deficit as at December 31, 2010 was \$140,126. Subsequently, the Corporation has raised additional equity (*see note 17*).

##### c) Market risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

###### i) Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Corporation is considered to be in the exploration stage and has not yet developed commercial mineral interests, the underlying market prices in Canada for minerals are impacted by changes in the exchange rate between the Canadian and United States dollar. As all of the Corporation's transactions are denominated in Canadian dollars, the Corporation is not exposed to foreign currency exchange risk at this time.

###### ii) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. As the Corporation has not yet developed commercial mineral interests, it is not exposed to commodity price risk at this time.

###### iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk primarily through its variable interest rate on its cash and term deposits. For the year ended December 31, 2010, if interest rates had been 1% higher with all other variables held constant, loss for the year would have been \$275 lower, (2009 – \$975) due to increased interest income. An equal and opposite impact would have occurred had interest rates been lower by the same amounts.

The Corporation did not have any interest rate contracts outstanding at December 31, 2010 or 2009.

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# **Jasper Mining Corporation**

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### **Notes to the Financial Statements**

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#### **16. Capital management**

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the development of its mineral properties. Therefore, the Corporation monitors the level of risk incurred in its mineral property expenditures relative to its capital structure.

The Corporation considers its capital structure to include its working capital (deficit) of (\$140,126) (December 31, 2009 – \$460,693) and shareholders' equity of \$5,860,666 (December 31, 2009 – \$6,504,296). The Corporation monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets.

To maintain or adjust the capital structure, the Corporation may issue new equity if available on favourable terms, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of mineral properties.

The Corporation's investment policy is to hold cash in interest bearing bank accounts and highly liquid short-term interest bearing investments with maturities of one year or less which can be liquidated at any time without penalties.

The Corporation is not subject to externally imposed capital requirements. There has been no change in the Corporation's approach to capital management during the year ended December 31, 2010. The Corporation has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

#### **17. Subsequent events**

- a) In February 2011, the Corporation granted 1,200,000 stock options to certain directors, officers, employees and consultants at an exercise price of \$0.27 per share. The options vest on-half immediately and the balance one year from the date of grant and expire with expiration five years from the date of issue.
- b) In February 2011, the Corporation completed a private placement for a total of 3,180,000 units at \$0.25 per unit for gross proceeds of \$797,000. Each unit consisted of common share and one half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$0.35 per share for up to two years from the closing date. Total finders fee of cash in the amount of \$47,820 was paid and 191,280 finder's fee options were granted at an exercise price of \$0.35 with a term of one and one-half year.
- c) In March 2011, the Corporation completed a private placement for a total of 377,144 units at \$0.28 per unit for gross proceeds of \$105,600. Each unit consisted of common share and one half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$0.45 per share for up to two years from the closing date. Total finders fee of cash in the amount of \$3,000 was paid and 10,714 finder's fee options were granted at an exercise price of \$0.45 with a term of one and one-half year.