



**Heatherdale Resources Ltd.**

(Formerly Brass Capital Corp.)

**CONSOLIDATED FINANCIAL STATEMENTS**

YEARS ENDED  
OCTOBER 31, 2010 AND 2009

(Expressed in United States Dollars, unless otherwise stated)

**AUDITORS' REPORT**

To the Shareholders of Heatherdale Resources Ltd.

We have audited the consolidated balance sheets of Heatherdale Resources Ltd. as at October 31, 2010 and 2009 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2010 and 2009 and the results of its operations and its cash flows for the for the years then ended in accordance with International Financial Reporting Standards.

*"De Visser Gray LLP"*

**CHARTERED ACCOUNTANTS**

Vancouver, British Columbia  
February 25, 2011

## Heatherdale Resources Ltd.

### Consolidated Statements of Financial Position

(Expressed in United States Dollars)

	Notes	October 31 2010	October 31 2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	\$ 14,442,419	\$ 14,440,656
Total non-current assets		14,442,419	14,440,656
<b>Current assets</b>			
Trade and other receivables	7	\$ 339,557	\$ 110,915
Cash and cash equivalents	8	3,661,449	3,985,045
Total current assets		4,001,006	4,095,960
<b>Total Assets</b>		<b>\$ 18,443,425</b>	<b>\$ 18,536,616</b>
<b>EQUITY</b>			
Share capital	9	\$ 20,403,558	\$ 7,247,276
Reserves		2,149,714	-
Deficit		(19,736,472)	(4,095,963)
Total equity attributable to equity holders of the Company		2,816,800	3,151,313
Non-controlling interest	4	14,411,765	14,411,765
Total equity		17,228,565	17,563,078
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables to related parties	6	\$ 163,739	\$ 245,822
Trade and other payables	10	1,051,121	727,716
Total current liabilities		1,214,860	973,538
<b>Total Equity and Liabilities</b>		<b>\$ 18,443,425</b>	<b>\$ 18,536,616</b>

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

These consolidated financial statements are authorized for issue by the Board of Directors on February 25, 2011.

They are signed on the Company's behalf by:

*/s/ David J. Copeland*

David J. Copeland  
Director

*/s/ Robert A. Dickinson*

Robert A. Dickinson  
Director

## Heatherdale Resources Ltd.

### Consolidated Statements of Comprehensive Loss

(Expressed in United States Dollars)

	Notes	Years ended October 31	
		2010	2009
<b>Expenses</b>			
Exploration		\$ 12,429,556	\$ 2,675,951
Assays and analysis		460,819	51,471
Depreciation		13,137	1,521
Drilling		5,466,662	346,110
Engineering		232,598	50,362
Environmental		306,105	177,060
Equipment rental		198,896	42,711
Freight		307,865	98,511
Geological		1,890,038	725,130
Graphics		6,204	22,532
Property fees and assessments		60,910	169,643
Site activities		3,136,829	865,743
Travel and accommodation		349,493	125,157
Administration		3,529,660	583,978
Impairment loss recognized on trade receivables	11 (b)	86,017	-
Legal, accounting and audit		284,166	135,132
Management and consulting		125,048	23,797
Office and administration		105,688	20,846
Salaries		487,174	299,091
Shareholder communication		189,463	41,097
Share-based compensation	9 (e)	2,127,511	-
Travel		61,050	53,179
Trust and filing		63,543	10,836
Loss from operating activities		15,959,216	3,259,929
Foreign exchange gain		(268,848)	(625,991)
Interest income		(49,859)	(44,489)
Loss before income taxes		15,640,509	2,589,449
Income taxes	13	-	-
<b>Loss and comprehensive loss for the year</b>		<b>\$ 15,640,509</b>	<b>\$ 2,589,449</b>
Basic and diluted loss per common share	9 (c)	\$ 0.33	\$ 0.08

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

## Heatherdale Resources Ltd.

### Consolidated Statements of Cash Flows

(Expressed in United States Dollars)

	Years ended October 31	
Note	2010	2009
<b>Cash flows from operating activities</b>		
Loss for the year	\$ (15,640,509)	\$ (2,589,449)
Adjustments for:		
Depreciation	13,137	1,521
Foreign exchange gain	(230,143)	(625,991)
Interest income	(49,859)	(44,489)
Share-based compensation	2,127,511	-
	<u>(13,779,863)</u>	<u>(3,258,408)</u>
Changes in non-cash working capital items		
Increase in trade and other receivables	(203,332)	(74,690)
Increase in trade and other payables	301,078	729,878
(Decrease) increase in payables to related parties	<u>(82,083)</u>	<u>333,121</u>
	15,663	988,309
<b>Net cash used in operating activities</b>	<u>(13,764,200)</u>	<u>(2,270,099)</u>
<b>Cash flows from investing activities</b>		
Interest income	49,859	44,489
Cash received on reverse asset acquisition	2 102,328	-
Acquisition of property, plant and equipment	(14,900)	(30,412)
<b>Net cash provided by investing activities</b>	<u>137,287</u>	<u>14,077</u>
<b>Cash flows from financing activities</b>		
Shares issued for cash, net of issue costs on private placement	13,030,771	-
Shares issued for cash on exercise of options	42,403	-
<b>Net cash provided by financing activities</b>	<u>13,073,174</u>	<u>-</u>
<b>Net decrease in cash and cash equivalents</b>	(553,739)	(2,256,022)
Effect of exchange rate fluctuations on cash held	230,143	625,991
	<u>(323,596)</u>	<u>(1,630,031)</u>
Cash and cash equivalents at beginning of the year	3,985,045	5,615,076
<b>Cash and cash equivalents at end of the year</b>	<u>\$ 3,661,449</u>	<u>\$ 3,985,045</u>

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

## Heatherdale Resources Ltd.

### Consolidated Statements of Changes in Equity

(Expressed in United States Dollars)

	Attributable to equity holders of the Company						
	Notes	Share Capital	Equity settled share-based payments reserve	Deficit	Total	Non- controlling interest (note 4)	Total Equity
Balance at November 1, 2008		\$ 7,247,276	\$ -	\$ (1,506,514)	\$ 5,740,762	\$ -	\$ 5,740,762
Non-controlling interest in Niblack Project LLC						14,411,765	14,411,765
Total comprehensive loss		-	-	(2,589,449)	(2,589,449)	-	(2,589,449)
<b>Balance at October 31, 2009</b>		<b>\$ 7,247,276</b>	<b>\$ -</b>	<b>\$ (4,095,963)</b>	<b>\$ 3,151,313</b>	<b>\$ 14,411,765</b>	<b>\$ 17,563,078</b>
Shares issued for cash on private placement		13,030,771	-	-	13,030,771	-	13,030,771
Shares issued for cash on exercise of options		42,403	-	-	42,403	-	42,403
Fair value of net assets acquired in reverse asset acquisition	2	105,311	-	-	105,311	-	105,311
Fair value of share options allocated to shares issued on exercise		46,797	(46,797)	-	-	-	-
Share-based compensation - share issue costs	9 (d)	(69,000)	69,000	-	-	-	-
Share-based compensation		-	2,127,511	-	2,127,511	-	2,127,511
Total comprehensive loss		-	-	(15,640,509)	(15,640,509)	-	(15,640,509)
<b>Balance at October 31, 2010</b>		<b>\$ 20,403,558</b>	<b>\$ 2,149,714</b>	<b>\$ (19,736,472)</b>	<b>\$ 2,816,800</b>	<b>\$ 14,411,765</b>	<b>\$ 17,228,565</b>

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

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

---

### 1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

Heatherdale Resources Ltd. (formerly Brass Capital Corp.) (the "Company") was incorporated under the laws of the Province of Alberta, Canada on November 6, 2007 and continued under the laws of the Province of British Columbia, Canada on November 16, 2009. The Company's corporate office is located at Suite 1020, 800 West Pender Street, Vancouver, British Columbia. These consolidated financial statements of the Company as at and for the year ended October 31, 2010 comprises Heatherdale Resources Ltd. and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). Heatherdale Resources Ltd. is the ultimate parent entity of the Group.

The Group holds a 51% interest in the Niblack copper-gold-zinc-silver project in southeast Alaska (the "Niblack Project") with additional earn-in options to increase its interest to 70% (note 4). The Group is in the process of exploring the Niblack Project and has not yet determined whether it contains economically recoverable mineral reserves. The Group's continuing operations and the underlying value and recoverability of the amount shown for the mineral property interest is entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Group to obtain the necessary financing to complete the exploration and development of the Niblack Project, obtaining the necessary permits to mine, and on future profitable production of the proceeds from the disposition of the Niblack Project.

These consolidated financial statements have been prepared on a going concern basis. As at October 31, 2010, the Group has \$2.8 million in working capital and accumulated a deficit of \$19.7 million since inception. The Group has not yet produced any revenue and further funds will be required in developing the Group's business plans and its mineral property interest. In November 2010, the Group completed a private placement equity financing of \$7.8 million (note 14) to fund the exploration and development of the Niblack Project. While there can be no assurances that the Group's plans to raise additional financing in the future will be successful or at favourable terms, management is of the opinion that additional financing will be available to continue its planned activities in the normal course of operations. If the Group is unable to raise the necessary capital and generate sufficient cash flows to meet obligations as they come due, the Group may have to reduce or curtail its operations or obtain financing at unfavourable terms. Furthermore, failure to continue as a going concern would require that the Group's assets and liabilities be restated on a liquidation basis which would differ significantly from the going concern basis. These Financial Statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Group be unable to continue as a going concern.

### 2. QUALIFYING TRANSACTION AND REVERSE ASSET ACQUISITION

On November 17, 2009, the Company completed a qualifying transaction ("QT") in accordance with TSX Venture Exchange Inc. ("TSX V") Policy 2.4 whereby the Company acquired all the issued shares of Heatherdale Holdings (Canada) Ltd. (formerly Heatherdale Resources Ltd.) on a one for one basis. Under the terms of the transaction the Company issued 32,600,001 common shares for 100% of the issued and outstanding shares of Heatherdale Holdings (Canada) Ltd. ("Heatherdale Holdings"). As well, the Company as part of the QT, consolidated its share capital on the basis of 2.5 old shares for 1 new share.

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

---

From the date of incorporation to the transaction date, the Company performed no significant business activities as its sole purpose was the identification and evaluation of assets or businesses with the view to completing a QT. On the date of the completion of the QT, the fair value of the net assets of the Company was \$105,311 and comprised the following:

Cash and cash equivalents	\$ 102,328
Trade and other receivables	25,310
Trade and other payables	<u>(22,327)</u>
	<u>\$ 105,311</u>

Legally, the Company is the parent of Heatherdale Holdings; however, as a result of the share exchange, control of the combined companies passed to the former shareholders of Heatherdale Holdings, which for accounting purposes is deemed to be the acquirer. For financial reporting purposes the transaction has been treated as a reverse asset acquisition and therefore these consolidated financial statements have been prepared as a continuation of Heatherdale Holdings. The following accounting principles have been employed:

- a. the assets and liabilities of Heatherdale Holdings were recognized and measured at their pre-combination carrying amounts;
- b. the deficit and other equity balances are the retained deficit and other equity balances of Heatherdale Holdings immediately prior to the share exchange transaction;
- c. the amount recognized as issued equity instruments is determined by adding the fair value attributable to the net assets of the Company (accounting acquiree) to the issued equity of Heatherdale Holdings (accounting acquirer) immediately prior to the share exchange transaction. However, the equity structure appearing in these consolidated financial statements (the number and type of equity instruments issued) reflect the equity structure of the Company, including the equity instruments issued by the Company to effect the combination; and
- d. comparative information presented in these condensed consolidated financial statements is that of Heatherdale Holdings.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) *Statement of Compliance and Transition to International Financial Reporting Standards ("IFRS")*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations committee ("IFRIC"). These consolidated financial statements have been prepared on the basis of IFRS standards that are effective or available for early adoption for the Company's reporting year ended October 31, 2010.

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

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

---

With the completion of the QT a reverse acquisition occurred (note 2) resulting in the Company's accounting becoming a continuation of Heatherdale Holdings' accounting with Heatherdale Holdings treated as the acquirer of the Company. Heatherdale Holdings has historically prepared its financial statements in accordance with IFRS since inception. Consequently, the Company is presenting financial statements in accordance with IFRS. The Company received exemption from the applicable Canadian Securities Administrators under National Instrument 52-107, Acceptable Accounting Principles, Auditing Standards and Reporting Currency, to prepare and present financial statements in accordance with IFRS on February 16, 2010.

### (b) *Basis of Preparation*

These consolidated financial statements have been prepared on a historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

### (c) *Basis of Consolidation*

These consolidated financial statements include the accounts of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. These consolidated financial statements are prepared using the principles of a reverse asset acquisition as described in Note 2.

Intra-company balances and transactions, including any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

### (d) *Foreign Currencies*

The functional and presentation currency of the Company and its subsidiaries is the United States dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

### (e) *Financial Instruments*

#### Non derivative financial assets

All financial assets are recognized or derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. Financial assets held are trade and other receivables and

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

---

cash and cash equivalents. Financial assets are classified into the following specified categories: loans and receivables and financial assets through profit or loss. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### **Financial assets at fair value through profit or loss**

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's risk management or investment strategy. Attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

### **Held for trading financial instruments**

Cash and cash equivalents are classified as held for trading financial instruments.

### **Loans and receivables**

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

### Non-derivative financial liabilities

The Group has the following non-derivative financial liabilities: trade and other payables and payables to related parties.

Such financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are amortized at cost using the effective interest method.

### Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements  
For the years ended October 31, 2010 and 2009  
(Expressed in United States dollars, unless stated otherwise)

---

The Company recorded an impairment charge for \$86,017 in the year presented relating to Goods and Services tax credits which were denied by the relevant tax authorities.

### Derivative financial instruments

The Company does not have any derivative financial instruments.

### *(f) Exploration and Evaluation Expenditures*

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination or an asset acquisition. Exploration and evaluation expenditures are expensed as incurred except for expenditures associated with the acquisition of exploration and evaluation assets through a business combination or an asset acquisition. Costs incurred before the Group has obtained the legal rights to explore an area are recognized in profit or loss.

Acquisition costs, including general and administrative costs, are only capitalized to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

### *(g) Property, Plant and Equipment*

Property, plant and equipment ("PPE") are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write off the cost of PPE, less their estimated residual value, using the declining balance method at various rates ranging from 20% - 30% per annum.

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

---

An item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Residual values and estimated useful lives are reviewed at least annually.

### (h) *Cash and Cash Equivalents*

Cash and cash equivalents comprise cash holdings in business and savings accounts held at major financial institutions which are available on demand by the Group.

### (i) *Impairment of Non Financial Assets*

At the end of each reporting period the carrying amounts of the Group's non financial assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. A cash-generating unit is determined as the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

The Company has not recorded any impairment charges in the periods presented.

### (j) *Share Capital*

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

---

### *(k) Income Taxes*

Any income tax on profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

### *(l) Restoration, Rehabilitation and Environmental Costs*

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. The cost of any rehabilitation program is recognized at the time that the environmental disturbance occurs. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset along with a corresponding liability, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect risks specific to the asset are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The corresponding liability is adjusted each period for the unwinding of the discount rate, changes to the current market-based discount rate, and for the amount or timing of the underlying cash flows needed to settle the obligation.

The Group has no material restoration, rehabilitation and environmental costs. The Group however, has an environmental bond in place which was funded by the previous operator of the Niblack Project.

### *(m) Interest Revenue*

Interest revenue comprises interest earned on funds invested.

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

---

### (n) *Loss per Share*

The Group presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Group by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

### (o) *Segment Reporting*

The Group operates in a single reportable operating segment – the acquisition, exploration and development of mineral properties.

The Group's Niblack Project is located on Prince of Wales Island in southeast Alaska, USA. All other significant assets are held within Canada.

### (p) *Significant Accounting Judgments and Estimates*

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

#### Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i. the recoverability of amounts receivable which are included in the consolidated statements of financial position;
- ii. the estimated useful lives of property, plant and equipment which are included in the consolidated statements of financial position and the related depreciation included in loss;
- iii. the carrying value of the net assets including the mineral property interest of Niblack Project LLC and the recoverability of the carrying value of the investment in the net assets of Niblack Project LLC included in the consolidated statements of financial position;
- iv. the nil provision for income taxes which is included in the consolidated statements of comprehensive loss and the composition of deferred income tax assets and liabilities included in the consolidated statements of financial position; and
- v. the determination of inputs such as volatility given the short trading history for the Company for calculating share-based compensation included in the loss for the year.

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

---

The operations of the Group may in the future be affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Group are not predictable.

### (q) *Share-based Payment Transactions*

The share purchase option plan allows Group employees and consultants to acquire shares of the Group. The fair value of share options granted is recognized as an employee or consultant expense with a corresponding increase in the *equity settled share-based payments reserve* in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each financial reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Group receives the goods or the services.

### (r) *New Accounting Standards, Interpretations and Amendments to Existing Standards*

#### *New and amended standards adopted by the Group*

The following new standards and amendments to standards are mandatory for the first time for the Group's financial year beginning November 1, 2009:

#### **IFRS 3 (Revised), *Business Combinations***

IFRS 3 (Revised), *Business Combinations*, and consequential amendments to IAS 27, *Consolidated and Separate Financial Statements*, IAS 28, *Investments in Associates*, and IAS 31, *Interests in Joint Ventures*, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009.

IFRS 3 (Revised) introduces significant changes for accounting for business combinations including the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

---

goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. IAS 27 (Amended) has had no impact on the current year, as the non-controlling interest does not have a deficit balance; there has been no loss of control of the Group's subsidiary, Niblack Project LLC (note 4), and there has been no transactions with the non-controlling interest.

### *New standards, amendments and interpretations to existing standards not adopted by the Group*

The Group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for accounting periods beginning on or after January 1, 2010 or later periods.

- Amendments to IFRS 3, *Business Combinations*, effective for the Group's annual reporting period beginning November 1, 2011. The amendments address the following:
  - a) transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS. The amendment eliminates the exemption for contingent consideration;
  - b) the measurement of non-controlling interests. The amendment requires that the choice of measurement at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the assets in the event of liquidation; and
  - c) un-replaced and voluntarily replaced share-based payment awards. The amendment includes these type of awards that are part of the business combination in the application guidance in IFRS 3.

The Group anticipates that these amendments will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results;

- IFRS 9, *Financial Instruments, Classification and Measurement*, effective for the Group's annual reporting period beginning November 1, 2013. The Group anticipates that the adoption of this standard will have no material impact except for additional disclosures;
- Amendments to IAS 24, *Related Party Disclosures*, effective for the Group's annual reporting period beginning November 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. When the revised standard is applied, the Group and the parent will need to disclose any transactions between its subsidiaries and its associates;
- Amendment to IAS 32, *Financial Instruments: Presentation*, effective for the Group, November 1, 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously any such issues needed to be accounted for as derivative liabilities. Earlier application is permitted. However, this standard will only impact the Group on issue of such instruments;

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

---

- IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, effective for the Group's annual reporting period beginning November 1, 2010. This interpretation is not expected to have any impact on the financial results of the Group.

#### 4. NIBLACK PROJECT

On June 30, 2009, the Group and Niblack Mineral Development Inc. ("NIB"), formerly CBR Gold Corp., entered into a limited liability company agreement ("the Agreement") pursuant to which the Group and NIB became members of Niblack Project LLC. The Group retained a controlling interest in Niblack Project LLC (51%) with NIB holding the remaining 49% interest.

Pursuant to the Agreement, NIB transferred its mineral claims in the Niblack Project into Niblack Project LLC, and the Group is required to fund exploration and development expenditures on the Niblack Project totalling in aggregate at least \$15,000,000 within three years (the "Initial Contribution") to retain its 51% interest in Niblack Project LLC. For the period June 30, 2009 to October 31, 2010, the Group funded approximately \$14,655,000 in exploration expenditures towards the Initial Contribution. In November 2010, the Group completed the required Initial Contribution pursuant to the Agreement.

With completion of the Initial Contribution, the Group has additional earn-in options to increase its interest in the Niblack Project to 60% by funding a further \$10,000,000 in expenditures and to 70% by funding the completion of a bankable feasibility study within an additional three year period. This latter period may be extended to complete technical works programs for the bankable feasibility study, if necessary, up to a maximum of six years. The Group is required to spend a minimum of \$5,000,000 per annum from the effective date on exercise of each option.

The Group is the manager and operator of the Niblack Project.

In accordance with IAS 27, *Consolidated and Separate Financial Statements*, the Group has determined that it controls the Niblack Project LLC and as such consolidates the net assets of Niblack Project LLC. Under the terms of the Agreement, the distribution of the losses funded by the Group is fully attributable to the Group so long as the Group funds all exploration and development expenditures. Consequently, none of the losses incurred on the Niblack Project have been allocated to the non-controlling interest as the non-controlling interest currently has no economic interest in such expenditures under the Agreement.

The net assets of Niblack Project LLC include the mineral property interest (the Niblack Project claims) amounting to \$14,411,765 contributed by NIB. A non-controlling interest for the same amount has been recognized on consolidation representing NIB's economic interest therein. This amount equalled the fair value of the interest as established under the Agreement.

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements  
For the years ended October 31, 2010 and 2009  
(Expressed in United States dollars, unless stated otherwise)

### 5. PROPERTY, PLANT AND EQUIPMENT

	Mineral Property (note 4)	Motor Vehicles	Total
<b>Cost</b>			
Balance at November 1, 2009	\$ 14,411,765	\$ 30,412	\$ 14,442,177
Additions	-	14,900	14,900
Balance at October 31, 2010	\$ 14,411,765	\$ 45,312	\$ 14,457,077
<b>Accumulated Depreciation</b>			
Balance at November 1, 2009	\$ -	\$ 1,521	\$ 1,521
Charge for the period	-	13,137	13,137
Balance at October 31, 2010	\$ -	\$ 14,658	\$ 14,658
<b>Net Carrying Value</b>			
<b>At October 31, 2010</b>	\$ 14,411,765	\$ 30,654	\$ 14,442,419

	Mineral Property (note 4)	Motor Vehicles	Total
<b>Cost</b>			
Balance at November 1, 2008	\$ -	\$ -	\$ -
Additions	14,411,765	30,412	14,442,177
Balance at October 31, 2009	\$ 14,411,765	\$ 30,412	\$ 14,442,177
<b>Accumulated Depreciation</b>			
Balance at November 1, 2008	\$ -	\$ -	\$ -
Charge for the period	-	1,521	1,521
Balance at October 31, 2009	\$ -	\$ 1,521	\$ 1,521
<b>Net Carrying Value</b>			
<b>At October 31, 2009</b>	\$ 14,411,765	\$ 28,891	\$ 14,440,656

### 6. RELATED PARTIES

A number of key management personnel, or their related parties, hold positions in other entities, with which the Group transacts, that result in them having control or significant influence over the financial or operating policies of those entities. The terms and conditions of the transactions with key management personnel and those entities were no more favourable than those available, or which might reasonably be expected to be available, for similar transactions with arm's length parties.

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

### (a) Transactions with key management personnel

The aggregate value of transactions with key management personnel are:

	For the years ended October 31	
	2010	2009
Key management personnel compensation		
Salaries and directors' fees	\$ 172,974	\$ 53,488
Share-based compensation	948,455	-
	\$ 1,121,429	\$ 53,488

At October 31, 2010, Hunter Dickinson Inc., a private company with certain directors and officers in common with the Group controlled 28% of the voting shares of the Group (2009 - 41%).

### (b) Transactions with other related parties

The company undertook the following transactions with related parties:

	For the years ended October 31	
	2010	2009
<b>Services rendered:</b>		
C.E.C Engineering Ltd. (i)	\$ 33,097	\$ 5,092
Hunter Dickinson Services Inc. (ii)	\$ 2,436,405	\$ 841,191
<b>Reimbursement of third party expenses paid:</b>		
Hunter Dickinson Services Inc. (ii)	\$ 189,904	\$ 374,127
	As at	As at
	October 31	October 31
<b>Related party payables</b>	2010	2009
C.E.C Engineering Ltd. (i)	\$ 6,306	\$ 2,162
Hunter Dickinson Services Inc. (ii)	157,433	243,660
	\$ 163,739	\$ 245,822

- (i) C.E.C Engineering Ltd. is a private company controlled by a director that provides administrative and engineering services to the Group at market rates.
- (ii) Hunter Dickinson Services Inc. ("HDSI") is a private company which has certain directors in common with the Group. HDSI provides geological, corporate development, administrative and management services to the Group pursuant to annually set rates. Where third party costs are incurred by HDSI on behalf of the Group, the Group reimburses HDSI for these costs. The Group incurs certain payroll related charges on behalf of HDSI which are reimbursed by HDSI. No interest is accrued on these related party balances.

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements  
For the years ended October 31, 2010 and 2009  
(Expressed in United States dollars, unless stated otherwise)

### 7. TRADE AND OTHER RECEIVABLES

	As at October 31 2010	As at October 31 2009
<b>Falling due within the year</b>		
Trade receivables	\$ 276,612	\$ 106,164
Prepayments	62,945	4,751
	<u>\$ 339,557</u>	<u>\$ 110,915</u>

### 8. CASH AND CASH EQUIVALENTS

	As at October 31 2010	As at October 31 2009
Business and savings accounts	<u>\$ 3,661,449</u>	<u>\$ 3,985,045</u>

Cash and cash equivalents comprise cash in business and savings accounts held at major financial institutions which are available on demand by the Group.

### 9. CAPITAL AND RESERVES

#### (a) Authorized Share Capital

As described in Note 2, the equity structure of the Group represents the equity structure of the legal parent, Heatherdale Resources Ltd.

At October 31, 2010, the authorized share capital consisted of an unlimited (2009 – unlimited) number of common shares without par value and an unlimited number (2009 – unlimited) of preferred shares with no par value.

#### (b) Reconciliation of Changes in Share Capital

<b>Common Shares:</b>	<b>Number of Common Shares</b>
Balance at November 1, 2009	<u>2,050,000</u>
Balance after consolidation of 2.5 old shares for 1 new share (note 2)	820,000
Shares issued for 100% acquisition of Heatherdale Holdings (note 2)	32,600,001
Shares issued for cash on private placement (d)	14,358,500
Shares issued on exercise of share options (e)	89,960
Balance as at October 31, 2010	<u>47,868,461</u>

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

---

The retroactively adjusted number of common shares of the Company for October 31, 2009 was 33,420,001 (note 2).

(c) *Basic and diluted loss per share*

The calculation of basic and diluted loss per share for the year ended October 31, 2010 was based on the following:

	2010	2009
Loss attributable to common shareholders	\$ 15,640,509	\$ 2,589,449
Weighted average number of common shares outstanding	47,190,101	33,420,001

(d) *Private Placement November 2009*

The Company issued 14,358,500 common shares at Cdn\$1.00 per common share on completion of a brokered and non-brokered private placement financing concurrent with the QT (note 2) for gross proceeds of \$13,740,191 (Cdn\$14,358,500). After share issue costs of \$709,420 (Cdn\$741,151) the Group raised net proceeds of \$13,030,771 (Cdn\$13,617,349).

In connection with the private placement, the Company issued the agents compensation options to purchase 162,000 common shares at Cdn\$1.00 per share until May 17, 2011. The fair value of these options, determined using the Black-Scholes option model (using 96% expected volatility, a risk free rate of 1.31% and expected life of 1.5 years), was \$69,000 or approximately \$0.43 per option, and has been recorded as share issuance costs.

(e) *Share Option Plan*

The Group has adopted an incentive stock option plan which provides that the Board of Directors of the Group may from time to time, in their discretion, and in accordance with TSX-V requirements, grant to its directors, officers, employees and consultants to the Group, non-transferable options to purchase common shares, provided that the number of common shares reserved for issue does not exceed 10% of the number of then outstanding common shares. Such options can be exercisable for a maximum of ten years from the date of grant. The exercise price of each share option is set by the Board of Directors at the time of grant but cannot be less than the market price (less permissible discounts). Vesting of share options is at the discretion of the Board of Directors at the time the options are granted.

The Company granted new options under the share option plan during the year ended October 31, 2010, together with the reissue of existing options that were outstanding as noted in the table below:

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

Expiry date	Exercise price	Number granted	Exercised	Cancelled	As at Oct 31, 2010	Exercisable
May 2, 2010 <sup>(1)</sup>	Cdn\$0.50	40,000	(39,960)	(40)	-	-
November 17, 2010 <sup>(2)</sup>	Cdn\$0.50	82,000	(50,000)	-	32,000	32,000
May 17, 2011	Cdn\$1.00	162,000	-	-	162,000	162,000
November 17, 2012	Cdn\$1.00	2,217,000	-	(142,800)	2,074,200	691,400
December 1, 2012	Cdn\$1.12	56,000	-	-	56,000	18,667
April 9, 2013	Cdn\$1.24	90,000	-	-	90,000	30,000
November 17, 2014	Cdn\$1.00	1,530,000	-	-	1,530,000	510,000
October 1, 2015	Cdn\$1.10	300,000	-	-	300,000	-
		4,477,000	(89,960)	(142,840)	4,244,200	1,444,067
Weighted average exercise price		Cdn\$1.00	Cdn\$0.50	Cdn\$1.00	Cdn\$1.01	Cdn\$1.00
Weighted average remaining contractual life (years)		2.8	-	-	2.9	-
Weighted average share price on exercise		-	Cdn\$1.40	-	-	-

The following are the weighted average assumptions employed to estimate the fair value of options granted in the year excluding compensation options (note (d)) and the options discussed in (1) and (2) below, using the Black-Scholes option pricing model:

Risk-free interest rate	2.10%
Expected volatility	96%
Expected life	3.87 years
Expected dividend yield	Nil

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

- (1) These were agent options that were reissued under the share option plan. As they related to the Company before the reverse asset acquisition they had a nominal fair value. With the completion of the QT, the Company determined that a modification of the original options which had vested had occurred and recognized the additional benefit cost in the loss for the period. The fair value of the options was calculated at \$0.50 per option.
- (2) These were options belonging to the former directors and officers that were reissued under the share option plan. As they related to the Company before the reverse asset acquisition they were determined to have a nominal fair value. With the completion of the QT, the Company determined that a modification of the original options which had vested had occurred and recognized the additional benefit cost in the loss for the period. The fair value of the options was calculated at \$0.54 per option.

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements  
For the years ended October 31, 2010 and 2009  
(Expressed in United States dollars, unless stated otherwise)

---

### 10. TRADE AND OTHER PAYABLES

	As at October 31 2010	As at October 31 2009
<b>Falling due within one year:</b>		
Trade payables	\$ 1,051,121	\$ 727,716

---

### 11. FINANCIAL RISK MANAGEMENT

#### (a) Overview

The Group has exposure to credit risk, liquidity risk and market risk from its use of financial instruments.

This note presents information about the Group's exposure to each of these risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

#### (b) Credit Risk

Credit risk is the risk of potential loss to the Group if the counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents, trade and other receivables, and a receivable from a related party. The Group limits its exposure to credit risk on liquid financial assets through investing its cash and cash equivalents with high-credit quality financial institutions. The investments are currently invested in business and savings accounts.

The carrying value of the Group's cash and cash equivalents and trade and other receivables represent the maximum exposure to credit risk.

<b>Financial Assets</b>	Carrying Amount as at October 31	
	2010	2009
Trade receivables (note 7)	\$ 276,612	\$ 106,164
Cash and cash equivalents (note 8)	3,661,449	3,985,045
	\$ 3,938,061	\$ 4,091,209

---

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

---

### Impairment losses

At October 31, 2010 the Group recognized an impairment loss on certain of its outstanding receivables relating to Goods and Services tax credits which were denied by the relevant tax authorities in the amount of \$86,017 (2009 – \$ nil).

### (c) *Liquidity Risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group ensures that there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Group's holdings of cash and cash equivalents. The Group's cash and cash equivalents are currently invested in business and savings accounts with high-credit quality financial institutions which are available on demand by the Group for its programs.

The following are the contractual maturities of financial liabilities:

<b>Trade payables and payables to related parties</b>	Carrying Amount	Contractual Cash Flow	Due in less than six months
As at October 31, 2010	\$ 1,214,860	\$ 1,214,860	\$ 1,214,860
As at October 31, 2009	\$ 973,538	\$ 973,538	\$ 973,538

### (d) *Market Risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

#### (i) *Interest Rate Risk*

The Group is subject to interest rate risk with respect to its investments in cash and cash equivalents. The Group's policy is to invest cash at fixed rates of interest and cash reserves are to be maintained in cash and cash equivalents in order to maintain liquidity, while achieving a satisfactory return for shareholders. Fluctuations in interest rates when cash and cash equivalents mature impact interest income earned.

Assuming that all variables remain constant, a 10 basis point increase or decrease in interest rates would have resulted in a decrease or increase in the loss of approximately \$4,986 (2009 – \$4,449).

#### (ii) *Currency Risk*

In the normal course of business, the Group enters into transactions for the purchase of supplies and services denominated in a currency other than the functional currency of the Company. As a result, the Group is subject to foreign exchange risk from fluctuations in

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

foreign exchange rates. The Group has not entered into any derivative or other financial instruments to mitigate this foreign exchange risk.

The exposure of the Group's financial assets and liabilities to foreign exchange risk is as follows:

<b>Currency</b>	As at October 31 2010	As at October 31 2009
Canadian dollars – Financial assets		
Cash and cash equivalents	\$ 1,917,197	\$ 3,058,870
Trade and other receivables	216,572	106,164
<b>Total financial assets</b>	<b>\$ 2,133,769</b>	<b>\$ 3,165,034</b>
Canadian dollars – Financial liabilities		
Payables to related parties	\$ 169,614	\$ 254,612
Trade and other payables	68,498	79,354
<b>Total financial liabilities</b>	<b>\$ 238,112</b>	<b>\$ 333,966</b>

A 10% change of the Canadian dollar against the US dollar at October 31, 2010 would have increased or decreased net loss by \$172,296 (2009 – \$257,372). This analysis assumes that all other variables, in particular interest rates, remain constant.

### (e) *Capital Management*

The Group's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Group consists of equity, comprising share capital, net of accumulated deficit. The Company manages its capital structure through the preparation of operating budgets, which are approved by the Board of Directors.

There were no changes in the Group's approach to capital management during the period.

The Group is not subject to any externally imposed capital requirements.

### (f) *Fair Value*

The fair value of the Group's financial assets and liabilities approximate the carrying value.

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

### 12. SUBSIDIARIES

Name of Subsidiary	Place of Incorporation	Proportion of Ownership Interest	Principal Activity
Heatherdale Holdings (Canada) Ltd.	British Columbia, Canada	100%	Holds interest in Niblack Holdings (US) Inc.
Niblack Holdings (US) Inc.	Nevada, USA	100%	Holds interest in Niblack Project LLC
Niblack Project LLC	Delaware, USA	51%	Exploration of Niblack Project

### 13. TAXATION

(a) *Provision for current tax*

No provision has been made for current income taxes, as the Group has no taxable income.

(b) *Provision for deferred tax*

As future taxable profits of the Group are uncertain, no deferred tax asset has been recognized. As at October 31, 2010, the Group has unused non-capital loss carry forwards of \$2,580,000 (2009 - \$1,097,000) in Canada and \$11,178,000 (2009 - \$255,000) in the United States. In addition, the Group has approximately \$3,432,000 (2009 - \$2,272,000) of resource tax pools available, which may be used to shelter certain resource income in the United States.

Reconciliation of effective tax rate	Years Ended October 31			
	2010	2010	2009	2009
Loss for the period		\$ (15,640,509)		\$ (2,589,449)
Total income tax expense		-		-
Loss excluding income tax		(15,640,509)		(2,589,449)
Income tax using the Company's domestic tax rate	28.75 %	(4,497,000)	30.08 %	(779,000)
Effect of tax rates in foreign jurisdictions	9.39 %	(1,469,000)	10.77 %	(279,000)
Reduction in tax rates	- %	-	(0.19)%	5,000
Non-deductible expenses	(2.47)%	387,000	7.22 %	(187,000)
Difference in statutory tax rates	(0.51)%	80,000	(1.58)%	41,000
Difference due to foreign exchange	0.14 %	(22,000)	1.31 %	(34,000)
Change in unrecognized temporary differences	(35.30)%	5,521,000	(47.61)%	1,233,000
	- %	-	- %	-

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

As of at October 31, 2010 the Group had the following balances in respect of which no deferred tax asset was recognized:

<b>Expiry</b>	<b>Net operating losses</b>	<b>Resource pools</b>	<b>Financing fees and other</b>
Within one year	\$ -	\$ -	\$ -
One to five years	-	-	204,000
After five years	5,240,000	-	21,000
No expiry date	-	1,411,000	-
	<b>\$ 5,240,000</b>	<b>\$ 1,411,000</b>	<b>\$ 225,000</b>

### 14. SUBSEQUENT EVENTS

#### (a) Private Placement

The Group completed a private placement of 7,889,500 units of its capital at a price of Cdn\$1.00 per unit for gross proceeds of Cdn\$7,889,500 (\$7,783,000). Each unit consists of one common share and one warrant entitling the holder to purchase an additional common share at a price of Cdn\$1.20 until May 26, 2012. The common shares and warrants comprising the units are subject to a four month hold period.

#### (b) Delta Project Acquisition

In February 2011, the Group announced that it has acquired an interest in the 39,840-acre Delta volcanogenic massive sulphide ("VMS") project ("Delta Project") located in east-central Alaska about 19 miles (30 kilometres) from the Alaska Highway, being an initial 60% interest which Heatherdale can retain by funding exploration expenditures on the Delta Project of at least \$1,000,000 on or before January 1, 2012 and \$2,000,000 on or before January 1, 2013, and earn-in options to increase its ownership interest in the Delta Project to 100%.

The Group is acquiring Hunter Dickinson Acquisitions Inc. ("HDAI"), a non-arm's length private company that holds a 60% interest, with options to acquire a 100% interest, in the Delta Project under a Limited Liability Company Agreement ("Delta LLC agreement") with Grayd Resource Corporation dated October 2010. Under the HDAI purchase agreement and the underlying Delta LLC agreement, in addition to assuming some acquisition costs, the Group will be required to make the following payments and incur exploration expenditure as set out below:

- Issue 2,000,000 common shares to the shareholders of HDAI on closing;
- To retain its 60% interest, the Group must expend at least \$1,000,000 on or before January 1, 2012, of which \$400,000 has been spent to date, and an additional amount of at least \$2,000,000 on or before January 1, 2013 (the "Initial Contribution");
- Issue 2,000,000 common shares to the shareholders of HDAI on completion of its Initial Contribution;

## Heatherdale Resources Ltd.

Notes to Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

(Expressed in United States dollars, unless stated otherwise)

---

- If the Group does not complete its Initial Contribution, it shall be deemed to have withdrawn from the joint venture, returning its 60% ownership interest; no further payments will be due to the HDAI shareholders;
- Upon completion of its Initial Contribution, the Group shall have an additional earn-in option to increase its ownership interest in the Delta Project to 80% by funding additional expenditures of \$4,000,000 on or before January 1, 2014 (the "First Option");
- Issue Cdn\$2,000,000 worth of common shares based on the 10-day volume weighted average price before date of issue, to the HDAI shareholders, upon exercise of the First Option;
- Within 90 days of exercising the First Option, the Group shall have the option to increase its ownership interest in the project to 100% by issuing to Grayd Resources (USA) Inc., at the Group's election, either two million shares or shares with a market value of \$4,000,000 (the "Second Option");
- Issue Cdn\$2,000,000 worth of common shares based on the 10-day volume weighted average price before date of issue, to the HDAI shareholders, upon exercise of the Second Option.

The Delta Project acquisition is subject to regulatory approval, including approval of the TSX Venture Exchange.

### (c) *Other*

The Group cancelled 3,000 share options with an exercise price of Cdn\$1.00 per common share. The Group issued 38,000 common shares pursuant to the exercise of share purchase options at exercise prices of Cdn\$0.50 and Cdn\$1.00 per common share and granted 36,000 share options with an exercise price of Cdn\$1.22 per common share.