



**SOLTORO LTD.**

**(A DEVELOPMENT STAGE ENTERPRISE)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009**

21 April 2011

### **Management's Responsibility for Financial Reporting**

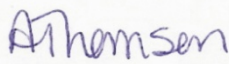
The accompanying consolidated financial statements of Soltoro Ltd. (the "Company") were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 3 to the financial statements

Sievert & Sawrantschuk LLP, the Company's independent auditors, perform an audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards. Their audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the consolidated financial statements. As well, they assess the accounting principles used and significant estimates made by management, and they evaluate the overall financial statement presentation.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the audited annual consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the audited annual consolidated financial statements and (ii) the audited annual consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The members of the Audit Committee are members of the Board of Directors and the majority are independent. The Audit Committee meets with the independent auditors to discuss the results of their audit and their audit report prior to submitting the consolidated financial statements to the Board of Directors for its consideration and approval for issuance to shareholders. On the recommendation of the Audit Committee, the Board of Directors has approved the consolidated financial statements

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.



Andrew Thomson  
President and Chief Executive Officer



Brian Jennings  
Chief Financial Officer

# SIEVERT & SAWRANTSCHUK LLP CHARTERED ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

### **To the shareholders of SOLTORO LTD.:**

We have audited the accompanying consolidated financial statements of Soltoro Ltd. which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and comprehensive loss, the consolidated statements of cash flows, and the consolidated statements of changes in shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### **Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material aspects, the financial position of Soltoro Ltd. as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in cursive script that reads "Sievert & Sawrantschuk LLP CA's".

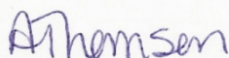
April 21, 2011  
Toronto, Canada

Sievert & Sawrantschuk LLP  
Chartered Accountants, Licensed Public Accountants

**SOLTORO LTD.**  
**Consolidated Balance Sheets**  
**As at December 31, 2010 and 2009**  
(Audited & expressed in Canadian dollars)

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
Current		
Cash and cash equivalents	<b>3,993,725</b>	493,066
Marketable securities (Note 6)	<b>62,000</b>	30,000
Value-added taxes receivable	<b>154,998</b>	121,714
Prepaid expenses	<b>30,126</b>	6,015
	<b>4,240,849</b>	650,795
Equipment (Note 7)	<b>46,341</b>	25,434
Mineral properties and deferred exploration expenditures (Note 8)	<b>5,799,202</b>	3,647,232
	<b>10,086,392</b>	4,323,461
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (Note 9)	<b>238,271</b>	211,652
	<b>238,271</b>	211,652
<i>Basis of Presentation and Going Concern (Note 1)</i>		
<i>Commitments and Contingencies (Note 15)</i>		
<i>Subsequent Events (Note 17)</i>		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 10)	<b>11,720,816</b>	6,073,624
Warrants (Note 11)	<b>706,899</b>	102,085
Contributed surplus (Note 13)	<b>757,039</b>	657,881
Deficit	<b>(3,336,633)</b>	(2,721,781)
	<b>9,848,121</b>	4,111,809
	<b>10,086,392</b>	4,323,461

On behalf of the Board of Directors:



Andrew Thomson  
Director



Douglas Reeson  
Director

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

**SOLTORO LTD.**  
**Consolidated Statements of Operations and**  
**Comprehensive Loss**  
**For the years ended December 31, 2010 and 2009**  
(Audited & expressed in Canadian dollars)

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Salaries and management fees (Note 9)	<b>268,018</b>	186,256
Investor relations	<b>155,490</b>	62,404
Legal and audit	<b>48,607</b>	25,822
Travel	<b>39,012</b>	27,613
Rent	<b>34,382</b>	43,355
Office expenses	<b>20,464</b>	15,798
Communications	<b>13,833</b>	11,857
Regulatory fees	<b>12,565</b>	10,189
Transfer agent	<b>10,727</b>	11,280
Foreign exchange loss (gain)	<b>6,023</b>	(15,863)
Stock-based compensation (Note 12)	<b>99,158</b>	221,480
Amortization	<b>2,083</b>	4,464
<b>Total administrative expenses</b>	<b>710,362</b>	604,655
<b>Other Income</b>		
Interest (income)	<b>(1,787)</b>	(316)
Mineral property payments (Note 8)	<b>(61,723)</b>	(24,645)
Unrealized (gain) on held-for-trading securities	<b>(32,000)</b>	(12,500)
<b>Net loss &amp; comprehensive loss</b>	<b>614,852</b>	567,194
<b>Loss &amp; comprehensive loss per share - basic and diluted</b>	<b>0.02</b>	0.02
Weighted average number of common shares	<b>36,142,652</b>	23,919,245

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

**SOLTORO LTD.**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2010 and 2009**  
(Audited & expressed in Canadian dollars)

	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Operating activities</b>		
Net loss and comprehensive loss	(614,852)	(567,694)
Items not affecting cash:		
Amortization charged to operations	2,083	4,464
Stock-based compensation	99,158	221,480
Mineral properties write-offs	-	-
Unrealized gain on marketable securities (Note 6)	(32,000)	(12,500)
Change in non-cash working capital	(30,776)	(209,733)
Cash used in operating activities	(576,387)	(563,983)
<b>Investing activities</b>		
Purchase of equipment	(35,818)	-
Exploration expenditures (Note 8)	(2,179,690)	(1,171,255)
Property option payment	40,548	-
Cash used in investing activities	(2,174,960)	(1,171,255)
<b>Financing activities</b>		
Issuance of share capital, net of costs (Note 10)	5,647,192	1,313,868
Issuance of warrants, net of costs (Note 11)	604,814	110,747
Cash provided from financing activities	6,252,006	1,424,615
<b>Change in cash and cash equivalents</b>	<b>3,500,659</b>	<b>(310,623)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>493,066</b>	<b>803,689</b>
<b>Cash and cash equivalents, end of year</b>	<b>3,993,725</b>	<b>493,066</b>
<b>Supplementary Information</b>		
Interest paid	-	-
Income tax paid	-	-
Shares received for property payment	-	7,500
Common shares issued to acquire mineral properties	-	-
Warrants issued as part of share issue costs	86,554	22,144

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

**SOLTORO LTD.****Consolidated Statements of Changes in Shareholders' Equity****For the years ended December 31, 2010 and 2009**

(Audited &amp; expressed in Canadian dollars)

	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Share capital</b>		
Balance, beginning of year	<b>6,073,624</b>	4,698,203
Private placements (net of issue costs)	<b>4,405,116</b>	1,121,870
Warrants exercised:		
Cash value of warrants exercised	<b>1,100,768</b>	67,500
Fair value of warrants exercised	<b>141,308</b>	8,661
Options exercised:		
Cash value of options exercised	-	124,500
Fair value of options exercised	-	52,890
<b>Balance, end of year</b>	<b>11,720,816</b>	6,073,624
<b>Warrants</b>		
Balance, beginning of year	<b>102,086</b>	108,004
Fair value of warrants issued (net of issue costs)	<b>746,121</b>	110,747
Fair value of exercised warrants	<b>(141,308)</b>	(8,661)
Fair value of expired warrants	-	(108,004)
<b>Balance, end of year</b>	<b>706,899</b>	102,086
<b>Contributed surplus</b>		
Balance, beginning of year	<b>657,881</b>	381,287
Stock-based compensation (Note 12)	<b>99,158</b>	221,480
Fair value of expired warrants	-	108,004
Fair value of exercised stock options	-	(52,890)
<b>Balance, end of year</b>	<b>757,039</b>	657,881
<b>Deficit</b>		
Balance, beginning of year	<b>(2,721,781)</b>	(2,154,587)
Net loss and comprehensive loss for the year	<b>(614,852)</b>	(567,194)
<b>Balance, end of year</b>	<b>(3,336,633)</b>	(2,721,781)
<b>Total</b>	<b>9,848,121</b>	4,111,809

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

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**1. BASIS OF PRESENTATION AND GOING CONCERN**

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business.

Soltoro Ltd. (“Soltoro” or “the Company”) has no sources of revenue and is dependent on financings to fund its operations. In addition, the Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. The ability of the Company to continue as a going concern and the recoverability of amounts capitalized in respect of mineral properties and deferred exploration costs are dependent upon: the continuing financial support of shareholders or other investors; obtaining new financing on commercial terms acceptable to the Company to enable it to complete exploration and development; successfully establishing the existence of economically recoverable reserves; confirmation of the Company’s interest in the underlying mineral concessions; the acquisition of required permits to mine; and upon attaining profitable production once any or all of its properties have commenced operations, all of which outcomes are uncertain and which, taken together, cast significant doubt over the ability of the Company to continue as a going concern.

These financial statements do not include any adjustments to the carrying values of the Company’s assets, liabilities, and expenses and the related balance sheet and income statement classifications that would be necessary if the going concern assumption were inappropriate. Such adjustments have not been quantified by management but could be material.

**2. NATURE OF BUSINESS**

Soltoro was incorporated on September 12, 2005 under the Canada Business Corporations Act. Soltoro is a development stage company focused on one business segment being the exploration for economic mineral deposits, exclusively in Mexico, through its wholly-owned subsidiary, Soltoro S.A. de C.V. (“Soltoro-Mexico”).

**3. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of the Company have been prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of the consolidated financial statements are as follows:

**Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Soltoro S.A. de C.V.

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments**

All financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

The Company has made the following classifications:

Cash and cash equivalents	-	Held-for-trading
Marketable securities	-	Held-for-trading
Value-added taxes receivable	-	Loans and receivables
Accounts payable and accrued liabilities	-	Other financial liabilities

Transaction costs are expensed as incurred for all financial instruments.

**Financial instruments - disclosures**

In June 2009, the CICA issued an amendment to Handbook Section 3862 to provide improvements to fair value and liquidity risk disclosures. The amendment applies to the Company's fiscal year ending December 31, 2009. This adoption resulted in additional disclosure as provided below. The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where measurement is required. The fair value of short-term financial instruments approximates their carrying amounts due to the relatively short period to maturity. These include cash and cash equivalents, marketable securities, accounts receivable and accounts payable and accrued liabilities. Equity investments classified as available-for-sale that do not have an active trading market are recorded at cost. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future.

The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in GAAP.

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level two includes inputs that are observable other than quoted prices included in level one.
- Level three includes inputs that are not based on observable market data.

	<b>Level One</b>	<b>Level Two</b>	<b>Level Three</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	3,993,725	-	-
Marketable securities	62,000	-	-
Value-added taxes receivable	-	154,998	-
Accounts payable and accrued liabilities	-	238,271	-

**Financial instruments – presentation**

The Company classifies for presentation on the balance sheet its financial assets, financial liabilities and equity based upon the substance of the instrument at the date of issuance, and separately classifies the components of any instrument that contains elements of financial liability and equity while appropriately classifying costs or gains associated with issuing financial liabilities within the income statement and distributions to holders of equity instruments in the equity section of the balance sheet.

**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, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates are reviewed periodically and, as adjustments become necessary, they are made in the period in which they become known. Actual results could differ from those estimates. Accounts which require management to make material estimates in determining amounts recorded include fair value of assets, asset retirement obligations, future income taxes and stock-based compensation.

**Cash and equivalents**

Cash and equivalents include cash and short-term investments in Canadian Guaranteed Investment Certificates.

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Mineral properties and deferred exploration expenditures**

The Company 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. Option payments or sales of mineral properties are accounted for by applying the proceeds from such sales to the carrying costs of the property and reducing costs to zero prior to recognizing any gains. Costs related to abandoned projects are written off.

The amounts shown for mineral properties represent costs incurred to date and do not necessarily represent present or future values. Periodically, a determination will be made by management as to the status of each property. When the carrying value of a property is impaired, it will be written down to its fair value. Where a property shows no promise from prior exploration results and is dormant, the concessions may be allowed to lapse and written off or written down to a nominal value where an interest in the concession remains.

**Equipment**

Equipment is carried at cost less accumulated amortization. Amortization is calculated on a straight-line-basis at rates which range from 10% to 30%. Amortization on assets used for exploration activities is charged to deferred exploration expenditures.

**Currency translations**

The functional currency of the Company is the Canadian dollar. The functional currency of the subsidiary Soltoro S.A. de C.V. is the Mexican peso and the temporal method of foreign currency translation is applied as Soltoro S.A. de C.V. is considered to be an integrated foreign operation. Monetary assets and liabilities denominated in a foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary assets and liabilities are translated at exchange rates in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the Consolidated Statements of Operations and Comprehensive Loss.

**Asset retirement obligations**

The fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets. The Company did not have any asset retirement obligations as at December 31, 2010.

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment of long-lived assets**

The Company has adopted the CICA Handbook Section 3063, "Impairment of Long-Lived Assets". This section requires the Company to assess the impairment of long-lived assets, which consist primarily of mineral property, plant and equipment and make adjustments, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used are measured by a comparison of the carrying value of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value.

**Stock-based compensation**

The Company has adopted the CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". This section requires the use of a fair-value based method, determined by using the Black-Scholes option pricing model to calculate all stock-based compensation associated with granting stock options to employees, consultants, and directors, and the inclusion of that expense in the statement of operations. Under this accounting policy, the Company measures stock-based compensation on the date of the grant and recognizes this cost over the vesting period of the options in results from operations. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase in capital stock.

**Income taxes**

The Company accounts for income taxes using the asset and liability method. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying value of existing assets and liabilities and their respective income tax bases (temporary differences), and losses carried forward. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

**Loss per share**

Basic loss per share is computed by dividing the loss and comprehensive loss for the period by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for stock options and warrants. The current effect of potential issuances of shares under stock options and warrants would be anti-dilutive, and accordingly basic and diluted loss per share are the same.

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Hedging**

CICA Handbook Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company does not engage in hedging transactions and therefore does not have any financial instruments which are subject to hedge accounting.

**Comprehensive loss**

Comprehensive loss is the change in equity (net assets) of the Company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes to equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive loss is comprised of net loss for the period and other comprehensive loss, and this standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in "Other comprehensive loss" until it is considered appropriate to recognize into net loss. The Company had no comprehensive loss transactions, other than its net loss which is presented in the Consolidated Statements of Net Loss, Comprehensive Loss and Deficit, nor accumulated other comprehensive loss during the periods that have been presented.

**Mining Exploration Costs**

In March 2009, the Emerging Issue Committee ("EIC") of the CICA issued abstract EIC 174, "Mining Exploration Costs." This abstract considers when exploration costs related to mining properties may be capitalized, and if exploration costs are initially capitalized, when impairment should be assessed to determine whether a write-down is required and what conditions indicate impairment. It applies to financial statements issued subsequent to March 27, 2009. The adoption of this policy is reflected in Note 8 below.

**Goodwill and Intangible Assets**

The Company adopted CICA Section 3064, "Goodwill and Intangible Assets," which replaces CICA Sections 3062, "Goodwill and Other Intangible Assets," and 3450 "Research and Development Costs", as well as EIC-27, "Revenues and Expenditures During the Pre-operating Period", and part of Accounting Guideline 11, "Enterprises in the development stage". Under previous Canadian standards, a greater number of items were recognized as assets than are recognized under International Financial Reporting Standards ("IFRS"). The provisions relating to the definition and initial recognition of intangible assets reduce the differences with IFRS in the accounting for intangible assets. The objectives of CICA 3064 are: 1) to reinforce the principle-based approach to the recognition of assets; 2) to establish the criteria for asset recognition; and 3) to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing assets items that do not meet the recognition criteria is eliminated. The standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets. The portions in the standard relating to goodwill remain unchanged.

The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at December 31, 2010.

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Future accounting changes**

*International Financial Reporting Standards (“IFRS”)*

In February 2008, the Canadian Accounting Standards Board confirmed that the use of IFRS will be required for publicly accountable enterprises. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently engaged in the implementation phase of the project which included the quantification and implementation of necessary changes as a result in changes to accounting policies under IFRS.

*Business combination; consolidated financial statements and non-controlling interests*

The CICA issued three new accounting standards in January 2009: Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements” and Section 1602, “Non-Controlling Interests”. These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, “Business Combinations”. Sections 1601 and 1602 together replace section 1600, “Consolidated Financial Statements”. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS-27, “Consolidated and Separate Financial Statements”.

**4. CAPITAL MANAGEMENT**

The Company manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- To maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, comprising capital stock, warrants, contributed surplus, accumulated other comprehensive loss and deficit which at December 31, 2010 totaled \$9,848,121 (December 31, 2009 - \$4,111,809).

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**5. PROPERTY AND FINANCIAL RISK FACTORS**

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

**Property risk**

The Company's major mineral properties are in the exploration stage (the "Properties"). Unless the Company acquires or develops additional material properties, the Company will be mainly dependent upon its existing Properties. If no additional major mineral properties are acquired by the Company, any adverse development affecting the Company's Properties would have a material adverse effect on the Company's financial condition and results of operations.

**Credit risk**

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and accounts receivable. Cash and cash equivalents consist of cash on hand deposited with reputable financial institutions which is closely monitored by management. Financial instruments included in accounts receivable consist of sales tax receivable from government authorities in Canada and Mexico and deposits held with service providers. Management believes credit risk with respect to financial instruments included in cash and cash equivalents and accounts receivable is minimal.

**Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2010, the Company had cash and cash equivalents of \$3,993,725; (December 31, 2009 - \$493,066) to settle current liabilities of \$238,271 (December 31, 2009 - \$211,652). The Company will seek additional capital to increase liquidity when required.

**Market risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and the prices of commodities and equities.

***Interest rate risk***

The Company has cash and cash equivalents balances and no interest-bearing debt. The Company's current policy is to invest excess cash in short-term guaranteed investment certificates issued by banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its investments. As of December 31, 2010, the Company had cash and cash equivalents of \$3,993,725 (December 31, 2009 - \$493,066) which includes guaranteed investment certificates.

***Foreign currency risk***

The Company's exploration activities are conducted entirely in Mexico. Major purchases and exploration expenditures are transacted in Mexican pesos and US dollars. Administrative expenditures and cash and cash equivalents balances are primarily transacted in Canadian dollars. The Company has exposure to foreign currency risk. The Company mitigates the risk of foreign currency fluctuations by converting Canadian currency to Mexican pesos and US dollars when required to fund expenditures.

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
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**5. PROPERTY AND FINANCIAL RISK FACTORS (CONTINUED)**

*Price risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, particularly as they relate to gold, silver, copper, and zinc, individual equity movements and the stock market in general to determine the appropriate course of action to be taken by the Company. The Company's investment in marketable securities is subject to fair value fluctuations arising from price changes in the resource sector and equity markets.

**Sensitivity analysis**

The Company has, for accounting purposes, designated its marketable securities as held-for-trading, which is measured at fair value. Accounts receivable are classified for accounting purposes as loans and receivables, which are measured at amortized cost which equals fair value. Accounts payable and accrued liabilities are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which also equals fair market value.

As at December 31, 2010 and 2009, both the carrying and fair value amounts of the Company's financial instruments related to cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are approximately equivalent.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over the next 12-month period:

- (i) Interest rate risk is limited to cash and cash equivalents balances, primarily held in Canadian and US dollars in Canada.
- (ii) The Company holds balances in US dollars and Mexican pesos that give rise to foreign exchange risk. If the US dollar rose or fell in relation to the Canadian dollar by 5% with all other variables held constant, accumulated other comprehensive loss for the year ended December 31, 2010 would have been approximately \$7,527 higher/lower. If the Mexican pesos rose or fell in relation to the Canadian dollar by 5% with all other variables held constant, accumulated other comprehensive loss for the year ended December 31, 2010 would have been approximately \$2,380 higher/lower. Similarly, as at December 31, 2010, the Company's reported shareholders' equity would have been approximately \$9,907 lower/higher as a result of a 5% decrease/increase in both the US dollar and Mexican peso.

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**5. PROPERTY AND FINANCIAL RISK FACTORS (CONTINUED)**

- (iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of valuable minerals may be produced in the future, a profitable market will exist for them. As of December 31, 2010, the Company is not a producer of valuable minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.
- (iv) The Company's marketable securities are denominated in Canadian dollars and are subject to fair value fluctuations. As at December 31, 2010, if the fair value of the Company's marketable securities had increased/decreased by 10% with all other variables held constant, accumulated other comprehensive loss for the year ended December 31, 2010 would have been approximately \$6,200 lower/higher. Similarly, as at December 31, 2010, the Company's reported shareholders' equity would have been approximately \$6,200 lower/higher as a result of a 10% decrease/increase in marketable securities.

**6. MARKETABLE SECURITIES**

Marketable securities consist of 200,000 common shares of Southern Silver Exploration Corp., a publicly traded Canadian company, focused on the acquisition, exploration and development of mineral properties in Mexico. The market value of the shares at December 31, 2010 was \$62,000 (December 31, 2009 - \$30,000). The unrealized gain for the year ended December 31, 2010 was \$32,000 (December 31, 2009 - \$12,500).

**7. EQUIPMENT**

	<b>December 31, 2010</b>			<b>December 31, 2009</b>	
	<b>Cost</b>	<b>Additions</b>	<b>Accumulated amortization</b>	<b>Net</b>	<b>Net</b>
	\$	\$	\$	\$	\$
Equipment	30,056	11,904	21,205	20,755	12,099
Vehicles	58,692	23,914	57,020	25,586	13,335
<b>Total</b>	<b>88,748</b>	<b>35,818</b>	<b>78,225</b>	<b>46,341</b>	<b>25,434</b>

During the year ended December 31, 2010, there were equipment additions of \$4,854 (\$nil for year ended December 31, 2009) and amortization charges of \$2,083 (\$4,464 for year ended December 31, 2009) related to equipment used in head office activities which were expensed to earnings in the year.

During the year ended December 31, 2010, there were equipment and vehicle additions of \$30,964 (\$nil for year ended December 31, 2009) and amortization charges of \$12,828 (\$13,393 for year ended December 31, 2009) related to equipment used in exploration activities which were capitalized to deferred exploration expenditures.

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
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**8. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

At December 31, 2010, cumulative acquisition and deferred exploration costs with respect to the Company's interests in mineral properties owned, leased or under option, consisted of the following:

	Balance December 31, 2009 \$	Additions \$	Balance December 31, 2010 \$
<b>El Rayo Concessions</b>			
Acquisition costs	179,957	30,779	210,736
Deferred exploration costs	2,543,968	1,606,109	4,150,077
	<u>2,723,925</u>	<u>1,636,888</u>	<u>4,360,813</u>
<b>La Tortuga Concessions</b>			
Acquisition costs	150,529	42,975	193,504
Deferred exploration costs	1,498,113	8,470	1,506,583
Partner funding	(1,154,773)	-	(1,154,773)
	<u>493,869</u>	<u>51,445</u>	<u>545,314</u>
<b>Quila Concession</b>			
Acquisition costs	19,189	40,071	59,260
Deferred exploration costs	6,917	477	7,394
Property payment from JV partner	(26,105)	(40,548)	(66,653)
	<u>1</u>	<u>0</u>	<u>1</u>
<b>El Santuario Concession</b>			
Acquisition costs	16,521	7,409	23,930
Deferred exploration costs	46,686	-	46,686
	<u>63,207</u>	<u>7,409</u>	<u>70,616</u>
<b>Chinipas Concession</b>			
Acquisition costs	6,227	2,674	8,901
Deferred exploration costs	61,017	2,595	63,612
	<u>67,244</u>	<u>5,269</u>	<u>72,513</u>
<b>Coyote Concession</b>			
Acquisition costs	33,044	7,833	40,877
Deferred exploration costs	48,409	3,557	51,966
	<u>81,453</u>	<u>11,390</u>	<u>92,843</u>
<b>Victoria Concession</b>			
Acquisition costs	25,730	59,771	85,501
Deferred exploration costs	67,189	223,071	290,260
	<u>92,919</u>	<u>282,842</u>	<u>375,761</u>
<b>Gavilan Concession</b>			
Acquisition costs	11,536	2,001	13,537
Deferred exploration costs	10,046	-	10,046
	<u>21,582</u>	<u>2,001</u>	<u>23,583</u>
<b>Peña Grande Concession</b>			
Acquisition costs	12,086	54,877	66,963
Deferred exploration costs	26,836	47,983	74,819
	<u>38,922</u>	<u>102,860</u>	<u>141,782</u>

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
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**8. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES  
(CONTINUED)**

	Balance December 31, 2009	Additions	Balance December 31, 2010
	\$	\$	\$
<b>Margarita Concession</b>			
Acquisition costs	4,088	1,927	6,015
Deferred exploration costs	14,774	-	14,774
	<u>18,862</u>	<u>1,927</u>	<u>20,789</u>
<b>San Pedro</b>			
Acquisition costs	-	11,698	11,698
Deferred exploration costs	-	2,123	2,123
	<u>-</u>	<u>13,821</u>	<u>13,821</u>
<b>Tecolote</b>			
Acquisition costs	-	18,211	18,211
Deferred exploration costs	-	2,956	2,956
	<u>-</u>	<u>21,167</u>	<u>21,167</u>
<b>Other</b>			
	<u>45,248</u>	<u>14,951</u>	<u>60,198</u>
Active Properties at December 31, 2010	<u>3,647,232</u>	<u>2,151,970</u>	<u>5,799,202</u>

**Other Cumulative Expenditures since Inception**

<b>Active Properties at December 31, 2010</b>	<u>3,647,232</u>	<u>2,151,970</u>	<u>5,799,202</u>
<b>Discontinued Properties</b>			
Bacanora concession	597,003	-	597,003
Midas concession	8,968	-	8,968
	<u>605,971</u>	<u>-</u>	<u>605,971</u>
<b>Total Cumulative Mineral Expenditures since Inception</b>	<u>4,253,203</u>	<u>2,151,970</u>	<u>6,405,173</u>

**El Rayo Concessions**

Soltoro-Mexico holds 100% title interest to the “El Rayo” and “Guachinango 1” concessions. On November 24, 2006, Soltoro acquired 100% interest of the “Guachinango 1” concession from Silver Predator Mines Inc. (formerly Fury Explorations Ltd.) for a total consideration of US\$5,000 and a 2% net smelter return royalty. The Company has the right to purchase 1.5% of this royalty for US\$1.5 million.

**SOLTORO LTD.**  
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**8. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES  
(CONTINUED)**

**La Tortuga Concessions**

The La Tortuga Project comprises numerous contiguous titled concessions and a concession under application in the district of Atengo, Jalisco state, Mexico. Soltoro-Mexico holds a 100% interest in the titled concessions and is the sole applicant for the untitled concession. On August 20, 2007, Soltoro Ltd. signed a letter of intent with Sumitomo Metal Mining Exploration Ltd. (a subsidiary of Sumitomo Metal Mining Co. Ltd.) whereby Sumitomo was able to earn a 51% interest in the property by contributing a total of US\$4 million in expenditures over five years. In January of 2009, Sumitomo advised Soltoro Ltd. that it intended to terminate its option to earn an interest in the La Tortuga project. Final settling of accounts and termination of the option to earn-in was completed on April 8, 2009. Soltoro-Mexico retains 100% title interest to the La Tortuga concessions.

**Quila Concession**

Soltoro-Mexico holds 100% title interest to the "Quila" concession located in the Quila district in the state of Jalisco, Mexico. On January 19, 2007, the Company entered into an earn-in agreement on the property with Southern Silver Exploration Corporation. Southern Silver was able to acquire a 51% interest in the property by issuing a total of 500,000 shares to Soltoro and spending US\$3 million on exploration over five years. On January 13, 2010, Southern Silver terminated its option on the Quila property. The Company holds 200,000 common shares of Southern Silver.

On November 23, 2010, Timmins Gold optioned the eastern portion of Soltoro's Quila concession (the "Property"). Timmins Gold may earn 100% interest in the Property by making a total of US\$1,000,000 in cash payments and incurring US\$2,000,000 in exploration expenditures on the Property over 3 years. On signing Timmins Gold made an initial US\$100,000 payment to Soltoro. Once Timmins Gold has earned its 100% interest in the Property, a 3% net smelter return (NSR) royalty is payable to Soltoro from Timmins Gold's operations within the Property's external boundary including the Cocula claim, and any further internal claims acquired by Timmins Gold within the Property and within a 2 km area of interest to the north and east of the original Quila property boundary. Timmins Gold may acquire 1/3 of the royalty (equal to 1% of the NSR) for US\$1 million and a further 1/3 of the royalty (equal to an additional 1% of the NSR) for an additional US\$1 million up to six months from the date of commencement of commercial production.

**El Santuario Concessions**

The El Santuario concessions are held by Soltoro-Mexico which owns 100% title interest to the "El Santuario" and "Sant" concessions which are located in the Cardonal mining district in the state of Hidalgo, Mexico.

**Chinipas Concessions**

The Chinipas concessions are held by Soltoro-Mexico which owns 100% title interest and are located in the state of Chihuahua, Mexico.

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
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**8. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES  
(CONTINUED)**

**Coyote Concessions**

Soltoro-Mexico holds 100% title interest to the "Xela" concession. Title was issued on January 25, 2008. On May 12, 2008 an option agreement was signed to acquire 3 internal concessions within the "Xela" concession totaling 200 hectares. These concessions along with the "Xela" concession are referred to as the "Coyote" concessions. Under the terms of the option agreement, US\$20,000 was paid on signing with a further cash payment of US\$20,000 required to effect the transfer of the internal concessions. From time to time the agreement has been extended where a total consideration of US\$15,000 was paid by May 12, 2010. On December 10, 2010, Soltoro acquired 100% of the internal claims by making an additional US\$5,000 payment to the vendors to complete the transfers of the internal claims. Soltoro is obliged to pay a further US\$200,000 in advance royalty payments over 4 years from the date of transfer to retain the internal concessions. A 2% net smelter return (NSR) royalty is payable to the vendor upon commercial production. Soltoro may at any time purchase ½, or 1% of the NSR for US\$400,000 and apply the payment to the advance royalty payments. On March 17, 2011 Soltoro entered into a letter of intent to option the property to Argentum Silver Corp which is further discussed in Note 17.

**Victoria Concession**

Soltoro-Mexico holds 100% title interest to the "Victoria" concession located in the state of Jalisco, Mexico. On March 2, 2010, Soltoro Ltd. acquired 100% of the Lupita Mine property by making a US\$25,000 payment on signing, agreeing to advance royalty payments totalling US\$535,000 over 10 years and granted a 2% NSR payable to the vendor. Soltoro may at anytime purchase 1% of the NSR for US\$1,000,000 and apply any advance royalty payments made to the buy-out. During the year the Company made an advance royalty payment of US\$10,000 (2009 - \$nil). The Lupita Mine claim is internal to the Victoria Project. On March 17, 2011 Soltoro entered into a letter of intent to option the property to Argentum Silver Corp which is further discussed in Note 17.

**Gavilan Concession**

Soltoro-Mexico holds 100% title interest to the "Gavilan" concession located in the San Joaquin mining district on the eastern border of the state of Queretaro, Mexico.

**Peña Grande Concession**

Soltoro-Mexico holds 100% title interest to the "Peña Grande" concession located in the state of San Luis Potosi. On October 1, 2010, Soltoro made application for the Peña-1 and Peña-2 claims.

**Margarita Concession**

The Margarita concessions are held by Soltoro-Mexico which owns 100% title interest and are located in the state of Michoacan, Mexico.

**SOLTORO LTD.**  
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**8. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES  
(CONTINUED)**

**San Pedro Application**

On June 25, 2010, the Company entered into a staking competition for the San Pedro claim covering a formerly titled area which had been published as coming open for staking by the government of Mexico 30 days prior. Soltoro was awarded the San Pedro property subject to submitting a legal survey to the government of Mexico for final approval and the granting of title.

**El Tecolote & El Tecolote 3 Applications**

On June 25, 2010, the Company entered into a staking competition for the El Tecolote and El Tecolote 3 claims covering a formerly titled area which had been published as coming open for staking by the government of Mexico. Soltoro was awarded the El Tecolote property and the El Tecolote 3 property subject to submitting a legal survey to the government of Mexico for final approval and the granting of title.

**9. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2010, compensation of \$140,727 (December 31, 2009, - \$114,044) was charged to operations for management services by the President and a director of the Company.

During the year ended December 31, 2010, the total of \$142,512 (December 31, 2009 - \$140,407) was capitalized as a component of the Company's mineral properties and deferred exploration expenditures reflecting the fees charged for geological services by the VP of Exploration of the Company's subsidiary in Mexico.

During the year ended December 31, 2010, compensation of \$32,000 (December 31, 2009, - \$36,000) was charged to operations for management services by the CFO and a director of the Company.

Directors fees of \$18,500 were paid during the year ended December 31, 2010 (December 31, 2009 - \$nil)

As at December 31, 2010, \$8,763 was included in accounts payable and accrued liabilities with respect to management services provided by officers and directors of the Company and its wholly-owned subsidiary (December 31, 2009 - \$nil).

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
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**10. SHARE CAPITAL**

- a) Authorized:  
An unlimited number of common shares
- b) Issued and outstanding:

	Number of Shares	Amount \$
<b>Balance – December 31, 2008</b>	<b>20,215,000</b>	<b>4,698,203</b>
Issued for cash pursuant to private placement of 4,470,000 units, net of the amount attributable to warrants <sup>(i)</sup>	4,470,000	809,070
Share issue costs	-	(100,512)
Agent commission	154,700	30,940
Finance fee	75,000	13,575
Issued for cash pursuant to private placement of 2,280,000 units, net of the amount attributable to warrants <sup>(ii)</sup>	2,280,000	412,680
Share issue costs	-	(50,263)
Agent commission	12,250	2,450
Finance fee	21,700	3,930
Issued for cash upon exercise of stock options	630,000	124,500
Transferred from contributed surplus for stock options	-	52,890
Issued for cash upon exercise of warrants	225,000	67,500
Transferred from contributed surplus for warrants	-	8,661
<b>Balance – December 31, 2009</b>	<b>28,083,650</b>	<b>6,073,624</b>
Issued for cash pursuant to private placement of 6,715,000 units, net of the amount attributable to warrants <sup>(iii)</sup>	6,715,000	2,108,510
Share issue costs	-	(185,859)
Finance fee	199,200	62,550
Issued for cash pursuant to private placement of 6,922,223 units, net of the amount attributable to warrants <sup>(iv)</sup>	6,922,223	2,630,444
Share issue costs	-	(210,529)
Issued for cash upon exercise of warrants	3,664,275	1,100,768
Transferred from contributed surplus for warrants	-	141,308
<b>Balance – December 31, 2010</b>	<b>45,584,348</b>	<b>11,720,816</b>

- (i) On June 24, 2009, the Company closed the first tranche of a \$1,350,000 brokered private placement. The first tranche consisted of 4,470,000 units at \$0.20 per unit for gross proceeds of \$894,000. Each unit consisted of one common share and one half of one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.30 per share until December 24, 2010. The compensation to the broker was comprised of \$15,220 cash, 154,700 common shares and 288,500 agents' warrants (exercisable at \$0.30 for one common share for 18 months). An additional corporate finance fee was paid comprised of 75,000 units and legal fees of \$8,000 cash. Issue costs pursuant to the first tranche amounted to \$127,629 consisting of \$69,572 of cash costs and \$58,057 of non-cash costs. The cost of issue was allocated: \$100,512 to common share capital and \$27,112 to warrants.

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
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**10. SHARE CAPITAL (CONTINUED)**

- (ii) On July 3, 2009, the Company closed the second tranche of a \$1,350,000 brokered private placement. The second tranche consisted of 2,280,000 units at \$0.20 per unit for gross proceeds of \$456,000. Each unit consisted of one common share and one half of one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.30 per share until January 3 2011. The compensation to the broker was comprised of \$28,750 cash, 12,250 common shares and 195,000 agents' warrants (exercisable at \$0.30 for one common share for 18 months). An additional corporate finance fee was paid comprised of 21,700 units and legal fees of \$2,000 cash. Issue costs pursuant to the second tranche amounted to \$62,793 consisting of \$47,613 of cash costs and \$14,980 of non-cash costs. The cost of issue was allocated: \$50,063 to common share capital and \$12,530 to warrants.
  
- (iii) On February 12, 2010, the Company completed a non-brokered private placement of 6,715,000 units at \$0.35 per unit for gross proceeds of \$2,350,250. Each unit consisted of one common share and one half of one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.50 per share until August 12, 2011. In the event that at any time on or after June 14, 2010, the volume weighted average trading price of the Company's common shares on the TSX Venture Exchange (or such other stock exchange on which the Company's shares are listed and where a majority of the trading volume occurs), for a period of 20 consecutive trading days exceeds \$0.65, the Company may, within five days after such an event, provide notice to the warrant holders of early expiry and thereafter, the warrants will expire on the date which is 30 days after the date of the notice to the warrant holders ("Accelerated Expiry Date"). On March 17, 2011, the Company gave notice to the warrant holders of an Accelerated Expiry Date of April 19, 2011 (see Subsequent Event Note 17). In connection with the financing, the Company issued to two separate brokerage firms a total 199,200 units in lieu of a cash finder's fee which are also subject to the Accelerated Expiry Date, 402,300 finder's warrants which are not subject to the Accelerated Expiry Date and a cash finder's fee of \$71,085. Each finder's warrant entitles the holder to subscribe for one additional common share at a price of \$0.50 per share until August 12, 2011. Issue costs amounted to \$209,772 consisting of \$109,477 of cash costs and \$100,295 of non-cash costs. The cost of issue was allocated: \$185,859 to common share capital and \$23,913 to warrants.

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
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**10. SHARE CAPITAL (CONTINUED)**

- (iv) On December 21, 2010, the Company completed a non-brokered private placement of 6,922,223 units at \$0.45 per unit for gross proceeds of \$3,115,000. Each unit consisted of one common share and one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.70 per share until December 21, 2011 and \$0.85 per share thereafter until June 21, 2012. In the event that at any time on or after April 22, 2011, the volume weighted average trading price of the Company's common shares on the TSX Venture Exchange (or such other stock exchange on which the Company's shares are listed and where a majority of the trading volume occurs), for a period of 20 consecutive trading days exceeds \$1.20, the Company may, within five days after such an event, provide notice to the warrant holders of early expiry and thereafter, the warrants will expire on the date which is 30 days after the date of the notice to the warrant holders ("Accelerated Expiry Date"). In connection with the financing, the Company has paid eligible persons a cash finder's fee of \$175,709 and has issued 390,464 finder's warrants which are not subject to the Accelerated Expiry Date. Each finder's warrant entitles the holder to subscribe for one common share at a price of \$0.45 per share until June 21, 2012. Issue costs amounted to \$253,343 consisting of \$204,533 of cash costs and \$48,810 of non-cash costs. The cost of issue was allocated: \$210,529 to common share capital and \$42,814 to warrants.

**11. WARRANTS**

The following table reflects the continuity of warrants for the year ended December 31, 2010.

	<b>Number of Warrants</b>	<b>Amount \$</b>
<b>Balance – December 31, 2008</b>	<b>500,000</b>	<b>108,004</b>
Expired <sup>(i)</sup>	(500,000)	(108,004)
Issued pursuant to private placement <sup>(ii)</sup>	2,235,000	84,930
Agent's warrants issued <sup>(iii)</sup>	288,500	12,117
Finance fee warrants issued	37,500	1,425
Issue costs pursuant to private placement		(27,117)
Issued pursuant to private placement <sup>(iii)</sup>	1,140,000	43,320
Agent's warrants issued <sup>(iii)</sup>	195,000	8,190
Finance fee warrants issued	10,850	412
Issue costs pursuant to private placement		(12,530)
Exercised	(225,000)	(8,661)
<b>Balance – December 31, 2009</b>	<b>3,681,850</b>	<b>102,085</b>
Issued pursuant to private placement <sup>(iv)</sup>	3,357,500	241,740
Agent's unit warrants issued <sup>(iv)</sup>	99,600	7,171
Finance fee warrants issued	402,300	30,575
Issue costs		(23,914)
Issued pursuant to private placement <sup>(v)</sup>	6,922,223	484,556
Finance fee warrants issued <sup>(v)</sup>	390,464	48,808
Issue costs		(42,814)
Exercised	(3,664,275)	(141,308)
<b>Balance – December 31, 2010</b>	<b>11,189,662</b>	<b>706,899</b>

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
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**11. WARRANTS (CONTINUED)**

- (i) The warrants were issued on January 29, 2007 pursuant to the private placement of units were not exercised by the expiry date of January 29, 2009. These warrants had a fair value of \$108,004 which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	4%	Expected volatility	85%
Dividend yield	nil	Expected life -units	1.5 years

- (ii) The warrants issued pursuant to the first tranche of the private placement on June 24, 2009, are described in Note 10(b)(i) above, and have a fair value of \$84,930 which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	2%	Expected volatility	85%
Dividend yield	nil	Expected life-units	1.2 years

The agent's warrants issued pursuant to the first tranche of the private placement on June 24, 2009, are described in Note 10(b)(i) above, and have a fair value of \$12,117 which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	2%	Expected volatility	85%
Dividend yield	nil	Expected life-units	1.3 years

- (iii) The warrants issued pursuant to the second tranche of the private placement on July 3, 2009, are described in Note 10(b)(ii) above, and have a fair value of \$43,320 which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	2%	Expected volatility	85%
Dividend yield	nil	Expected life-units	1.2 years

The agent's warrants issued pursuant to the second tranche of the private placement on July 3, 2009, are described in Note 10(b)(ii) above, and have a fair value of \$8,190 which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	2%	Expected volatility	85%
Dividend yield	nil	Expected life-units	1.3 years

- (iv) The warrants issued pursuant to the private placement on February 12, 2010, are described in Note 10(b)(iii) above, and have a fair value of \$241,740 which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	2%	Expected volatility	85%
Dividend yield	nil	Expected life-units	1.2 years

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**11. WARRANTS (CONTINUED)**

The agent's warrants issued pursuant to the private placement on February 12, 2010, are described in Note 10(b)(iii) above, and have a fair value of \$7,171 which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	2%	Expected volatility	85%
Dividend yield	nil	Expected life-units	1.3 years

- (v) The warrants issued pursuant to the private placement on December 21, 2010, are described in Note 10(b)(iv) above, and have a fair value of \$484,556 which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	2%	Expected volatility	85%
Dividend yield	nil	Expected life-units	1.2 years

The agent's warrants issued pursuant to the private placement on December 21, 2010, are described in Note 10(b)(iv) above, and have a fair value of \$48,808 which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	2%	Expected volatility	85%
Dividend yield	nil	Expected life units	1.3 years

Warrants to purchase common shares carry exercise prices and terms to maturity as follows:

<b>Exercise price</b>	<b>Number of outstanding</b>	<b>Expiry</b>	<b>Remaining</b>
<b>\$</b>	<b>exercisable Warrants</b>	<b>Date</b>	<b>Contractual</b>
			<b>Life (years)</b>
0.30	25,000	January 3, 2011	0.005
0.50	3,851,975	August 11, 2011	0.6
0.45	390,464	June 21, 2012	1.5
0.70-0.85 <sup>(i)</sup>	6,922,223	June 21, 2012	1.5

- <sup>(i)</sup> Pursuant to the non-brokered private placement described in 10(b)(i) above each warrant is exercisable into one common share at a price of \$0.70 per share until December 21, 2011 and \$0.85 per share thereafter until June 21, 2012.

**12. STOCK OPTIONS**

The Company has a stock option plan (the "Plan") under which the Company may grant options to directors, officers and consultants. The maximum number of common shares reserved for issue under the Plan at any point in time may not exceed 10% of the number of shares issued and outstanding.

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**12. STOCK OPTIONS (CONTINUED)**

The purpose of the Plan is to attract, retain and motivate directors, officers, and certain third party service providers by providing them with the opportunity to acquire a proprietary interest in the Company and benefit from its growth. Options granted under the Plan are non-assignable and vest over various terms up to 18 months from the date of grant.

The continuity of outstanding stock options for the period ended December 31, 2010 is as follows:

	Number of stock options	Weighted average exercise price per share \$
<b>Balance – December 31, 2008</b>	<b>1,655,000</b>	<b>0.36</b>
Issued during the period <sup>(i)</sup>	1,225,000	0.42
Issued during the period <sup>(ii)</sup>	550,000	0.35
Exercised during the period	(630,000)	0.20
<b>Balance – December 31, 2009</b>	<b>2,800,000</b>	<b>0.37</b>
Issued during the period	-	-
Expired during the period	(440,000)	0.36
Cancelled during the period	(390,000)	0.42
<b>Balance – December 31, 2010</b>	<b>1,970,000</b>	<b>0.44</b>

- (i) On September 8, 2009, the Company granted 1,225,000 stock options to directors, officers and consultants of the Company. The options are exercisable at \$0.42 and expire on September 8, 2012. The resulting fair value of \$243,775 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 85%; a risk-free interest rate of 2% and an expected average life of 2.1 years. The options have a vesting term of 50% at date of grant and 25% at 6 and 18 month intervals. For the year ending December 31, 2010, the impact on expenses was \$63,652 (December 31, 2009 - \$172,448) in stock-based compensation, which has been charged to operations.
- (ii) On December 11 2009, the Company granted 550,000 stock options to directors, officers and consultants of the Company. The options are exercisable at \$0.35 and expire on December 10, 2012. The resulting fair value of \$91,300 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 85%; a risk-free interest rate of 2% and an expected average life of 2.1 years. The options have a vesting term of 50% at date of grant and 25% at 6 and 18 month intervals. For the year ending December 31, 2010, the impact on expenses was \$35,506 (December 31, 2009 - \$49,032) in stock-based compensation, which has been charged to operations.

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**12. STOCK OPTIONS (CONTINUED)**

Options to purchase common shares carry exercise prices and terms to maturity as follows:

Exercise price \$	Number of options Outstanding	Exercisable	Expiry Date	Remaining Contractual Life (years)
0.63	245,000	245,000	January 31, 2012	1.1
0.45	240,000	240,000	June 28, 2012	1.5
0.42	1,085,000	813,750	September 8, 2012	1.7
0.35	400,000	300,000	December 10, 2012	1.9
<b>0.44</b>	<b>1,970,000</b>	<b>1,598,750</b>		<b>1.2</b>

**13. CONTRIBUTED SURPLUS**

The continuity of contributed surplus during the year ended December 31, 2010 is as follows:

	\$
<b>Balance – December 31, 2008</b>	<b>381,287</b>
Warrants expired	108,004
Stock-based compensation	221,480
Transferred to share capital	(52,890)
<b>Balance – December 31, 2009</b>	<b>657,881</b>
Stock-based compensation	99,158
<b>Balance – December 31, 2010</b>	<b>757,039</b>

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**14. INCOME TAX INFORMATION**

The provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial income tax rates to the net loss and comprehensive loss due to the following:

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Statutory tax rate	30%	29%
Loss after income taxes	(184,456)	(164,486)
Stock-based compensation	29,747	64,229
Non-deductible meals and entertainment	4,522	1,352
Loss from foreign operations	2,410	121
Amortization of tangible assets	625	711
Share issue costs	(64,435)	(35,426)
Unrealized (gain) on marketable securities	(9,600)	(3,625)
Valuation allowance	221,187	137,124
<b>Provision for income taxes</b>	<b>-</b>	<b>-</b>

The Company has the following future income tax assets.

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Future tax rate	25%	25%
Non-capital losses	558,632	372,135
Unrealized (gain) on marketable securities	(8,000)	(3,125)
Valuation allowance	(550,632)	(369,010)
<b>Future income tax assets</b>	<b>-</b>	<b>-</b>

The Company has placed a full valuation allowance on its excess tax assets due to a lack of past taxable profits. It does not believe significant income tax obligations will occur in the near future. At December 31, 2010, the Company has the following unused tax losses available for tax carry-forward purposes:

Amount	Expiry
\$ 21,000	2015
182,000	2026
370,000	2027
444,000	2028
473,000	2029
<u>745,000</u>	2030
<u>\$2,235,000</u>	

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**14. INCOME TAX INFORMATION (CONTINUED)**

The estimated taxable income for the year ended December 31, 2010 is \$nil (2009: \$nil). It cannot be reasonably estimated at this time if it is more likely than not that the Company will realize the benefits from future income tax assets or the amounts owing from future income tax liabilities. Consequently, the future recovery or loss arising from differences in tax values and accounting values has been reduced by an equivalent estimated taxable temporary difference valuation adjustment.

The estimated taxable temporary valuation allowance will be adjusted in the period in which it is determined that it is more likely than not that some portion or all of the future tax assets or future tax liabilities will be realized.

**15. COMMITMENTS AND CONTINGENCIES**

Under the terms of the Company's mining concessions, the Company must make periodic tax payments and perform minimum levels of exploration to maintain these concessions in good standing. The failure of the Company to meet these requirements would lead to the forfeiture of the Company's rights to these properties.

**16. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the current period basis of presentation.

**17. SUBSEQUENT EVENTS**

**(i) Mineral properties and deferred development expenditures**

On March 7, 2011 the Company entered into a letter of intent with Argentum Silver Corp ("Argentum") whereby Argentum may earn a 100% interest in the Victoria and Coyote silver gold projects by paying \$255,000 in total cash payments, issuing an aggregate 5,000,000 common shares of Argentum and spending a total of \$1.1 million on exploration over 2 years. Soltoro retains a 3% net smelter return (NSR) royalty interest in each project. Argentum may acquire 1/3 of the royalty in each project (equal to 1% of the NSR) for US\$1.5 million and 2/3 of the royalty (equal to 2% of the NSR) for US\$3.0 million. The earn in period can be accelerated at the discretion of Argentum. Soltoro and Argentum have agreed to use best efforts to complete an option agreement by April 15, 2011 whereby Argentum will pay Soltoro a total \$135,000 in cash and issue 1,500,000 common shares of Argentum with a commitment to pay the balance of cash and shares by the first anniversary of the letter agreement. The parties have mutually agreed to extend the date to complete an option agreement to April 29, 2011.

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**17. SUBSEQUENT EVENTS (CONTINUED)**

**(ii) Warrants**

Subsequent to year end the following common share purchase warrants were exercised:

- 25,000 warrants with an exercise price of \$0.30 relating to July 3, 2009 private placement as described in Note 10 (ii) above,
- 3,769,420 warrants with an exercise price of \$0.50 relating to February 12, 2010 private placement as described in Note 10 (iii) above,

**(iii) Stock options**

Subsequent to year end the following stock options were granted to directors, officers and consultants of the Company pursuant to the stock option plan:

On January 4, 2011 the Company granted 1,975,000 stock options with an exercise price of \$0.59 and an expiry date of January 4, 2014. The options have a vesting term of 25% at date of grant and 25% at 6, 12 and 18 month intervals.

On March 17, 2011 the Company granted 550,000 stock options with an exercise price of \$0.59 and an expiry date of March 14, 2014. The options have a vesting term of 25% at date of grant and 25% at 6, 12 and 18 month intervals.

Subsequent to year end 75,000 stock options were cancelled which were held by previous consultants of the Company with an expiry date of January 4, 2014 and an exercise price of \$0.59.