



CARLISLE
—  CNSX-CGJ  —
GOLDFIELDS

ADVANCED EXPLORATION & DEVELOPMENT

2010
ANNUAL REPORT

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CARLISLE GOLDFIELDS LIMITED

Carlisle Goldfields Limited is a publicly listed junior mining and development company engaged in the acquisition, exploration and development of Canadian gold and silver projects in northern Manitoba and Ontario.

Our primary focus is an impressive 20,000-hectare land position assembled within the Lynn Lake Greenstone Belt in northwest Manitoba, consisting of 182 mining leases and 126 mining claims. Included are several producing mines that operated in the 1980's and 1990's.

The Burnt Timber Mine operated from 1995-1996, the Farley Lake Mine operated from 1996-1999 and the MacLellan Mine operated between 1986 and 1989.

The combined mining production of these three mines resulted in approximately 433,880 ounces of gold and 1,308,000 ounces of silver being produced between 1986 and 2000.

The MacLellan Mine is the first mine targeted for further exploration and development.

GOLD & SILVER

ADVANCED EXPLORATION & DEVELOPMENT

2010 HIGHLIGHTS & MILESTONES

- ▶ New experienced Management and Board of Directors
- ▶ New 43-101 compliant resource estimate released August 2010
- ▶ 1.2 MM ounces of gold with approximately 600,000 ounces contained within open pit
- ▶ Listed on Canadian National Stock Exchange (CNSX: CGJ)
- ▶ 20,000 hectare land position in northwest Manitoba
- ▶ Approximately 200,000 metres of drilling completed
- ▶ Lynn Lake has the local infrastructure in place to support active mining
- ▶ MacLellan Gold Mine produced 144,000 ounces Au and 432,000 ounces Ag between 1986 and 1989
- ▶ Q2 2011 – New fully funded drilling program to commence

LETTER TO THE SHAREHOLDERS

Dear fellow shareholders;

My name is Bruce Reid. I became President and Chief Executive Officer of Carlisle Goldfields in January 2010.

I am very pleased to report that 2010 was a highly eventful year for your Company after the disappointing events in 2008 and the first half of 2009. During 2010, management successfully reversed the slide. Probably the most important events in the past year were the completion of a new NI 43-101 resource report on August 3rd 2010 and the listing of your Company's shares on the CNSX Exchange in June 2010 here in Canada.

As well, in early 2010, management successfully raised nearly \$1.3 million through a series of Private Placement Equity issues that allowed the Company to take care of most of the extensive list of trade payables that were in short-term liabilities on the Company's balance sheet at that time. Now, in early 2011, the only serious short-term liabilities existing on the balance sheet are those associated with the tax assessment resulting from misspent flow-through monies dating back to 2006 and 2007 - approximately \$1.4 million in total. Management expects to reach a resolution of these liabilities during 2011.

The Company also restarted work in Lynn Lake at the MacLellan Minesite during the fall of 2010. The completion in November 2010 of a cut line grid, followed by a ground IP geophysical survey, will help the management define numerous drill targets for 2011 along strike — both to the east and to the west - over the MacLellan Mine area.

To management, the recently published NI 43-101 resource report was the most important event of the past year as it increased the previous resource estimate to approximately 273% of the previous estimate - the resource is now estimated to be nearly 1.16 million ounces in all categories (the full document is dated August 3, 2010 and is available on SEDAR). Separately from the significant increase in resource tonnes and ounces is the changed design of the potential operation from that of a completely underground mine to include a potential open pit operation. Nearly half of the new NI 43-101 resource is located in an open pit design down to a depth of 220 meters. This will be a much improved situation in future terms for both operating costs as well as capital costs. This is primarily the result of using a lower cut-off grade because of the dramatic rise in the price of gold.

Looking to the future, your Company is currently completing a Private Placement in a series of tranches, expecting to raise approximately \$10 to \$12 million in both flow-through and regular monies. The first tranche was recently completed, raising approximately \$5.8 million. This capital, plus other funds received from recent exercising of warrants issued in previous Private Placements, will provide the Company with sufficient funds to aggressively drill the MacLellan area including the western extension Dot and K Zones which carry an historical resource from drilling done in the early 1980's. As well, the Company will be looking to aggressively drill both the Burnt Timber and Farley Lake deposits which were both shallow open pit operations with historical resources that operated during the late 1990's.

In fact, there are 10 other satellite gold zones around the town of Lynn Lake which are owned by Carlisle. Those gold zones were previously identified through historic drilling. Management's intention is to now systematically explore and drill as many of these deposits as possible in the coming years and initially focus this year on the ones mentioned above.

Management of Carlisle Goldfields believes that your Company is now in excellent shape and we expect to be able to add to shareholder value through numerous positive initiatives planned to be undertaken throughout 2011.



Bruce Reid

President and Chief Executive Officer

February 7, 2011

NEW 43-101 COMPLIANT RESOURCE ESTIMATE

The Lynn Lake Greenstone Belt has tremendous potential for advanced exploration and development. Although actively mined from the 1950's through to the late 1990's for nickel, copper, gold and silver, the zone is considered underexplored and the Department of Mining of the Province of Manitoba has stated that the Lynn Lake Greenstone Belt remains the best opportunity within Manitoba for future mining development.

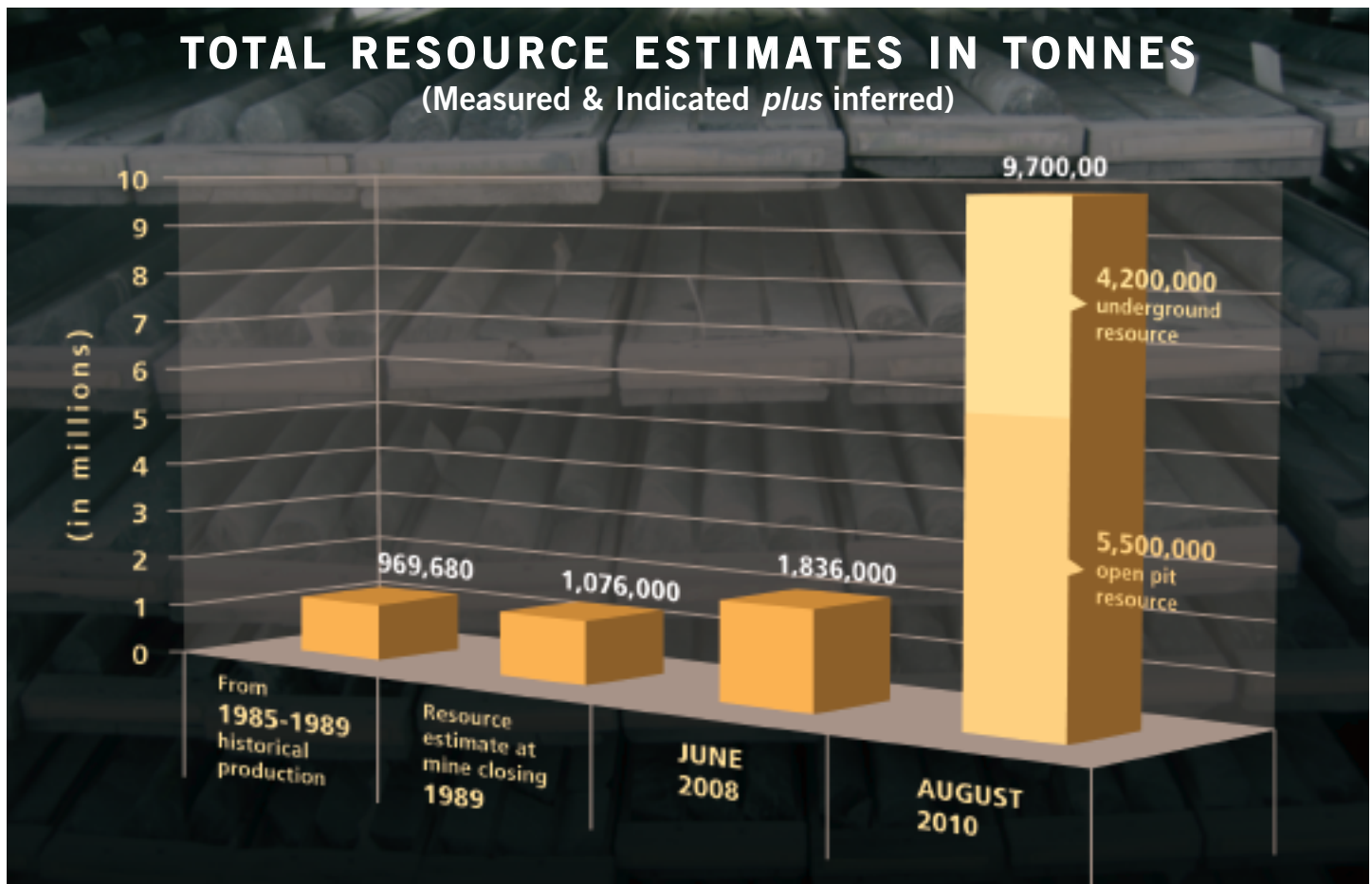
Carlisle Goldfields owns approximately 20,000 hectares within the Lynn Lake Greenstone Belt that includes three previously active mines. The MacLellan Mine, The Burnt Timber Mine and The Farley Lake Mine all closed due to the low value of gold during the 1980's and 1990's.

The MacLellan Mine is Carlisle's primary focus and the mine that offers the quickest timeline to active mining production. The following three bar charts demonstrate the dramatic increase in resource estimates that resulted from the August 2010 National Instrument 43-101 ("NI 43-101") resource estimate at MacLellan Mine.

The Total Resource Estimates in Tonnes chart shows the total tonnes mined from 1985 – 1989 and then the estimated remaining tonnes to be mined at mine closing. A NI 43-101 compliant resource estimate was released in June 2008 that included additional drill core results that increased the historical estimates. The recent NI 43-101 of August 2010 incorporated drill core results that were drilled after the June 2008 report. The introduction of open pit mining to a depth of 220 metres reduces the cost of mining. This combined with the dramatic increase in gold prices brings the lower cut-off grade ore into the evaluations. The current resource estimates indicate 9.7 million tonnes of ore that contains gold and silver.

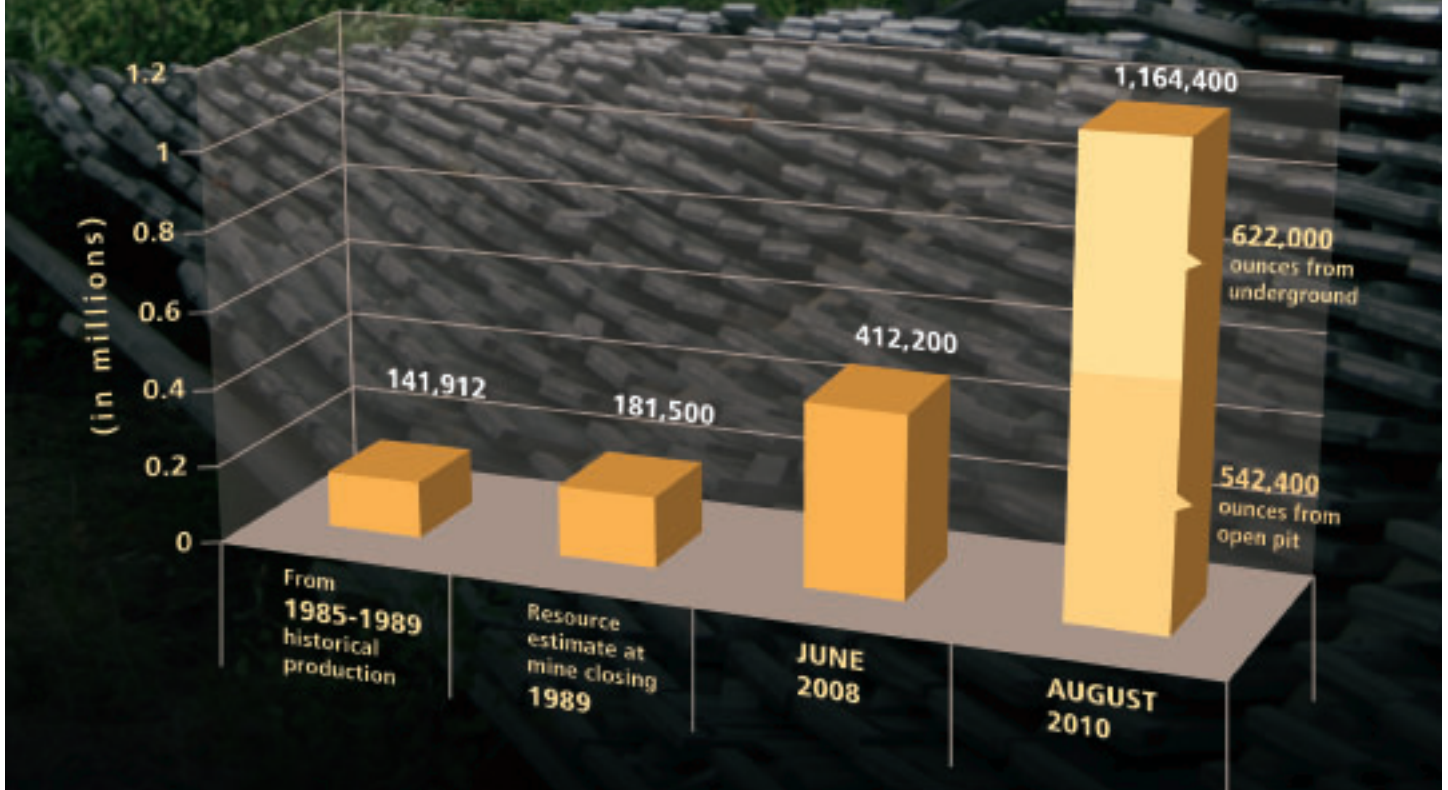
The bar chart at the top of page 7 indicates Total Gold Resource Estimates in Ounces and demonstrates the dramatic increase in estimates compared to the June 2008 report. The August 2010 resource estimate shows a 273% increase from the 2008 resource estimates.

The bar chart showing Total Silver Resource Estimates provides very surprising results. The very low prices of silver during the 1980's and 1990's meant that silver was not considered a profitable resource and historical numbers were unavailable. The June 2008 resource estimate indicated 672,200 estimated ounces of silver. The dramatic increase in silver estimates in the August 2010 report are a result of the reduced cost of open pit mining and improved prices for silver combining to make silver extraction viable. A total silver resource estimate of more than 9.3 million ounces is a tremendous additional asset.



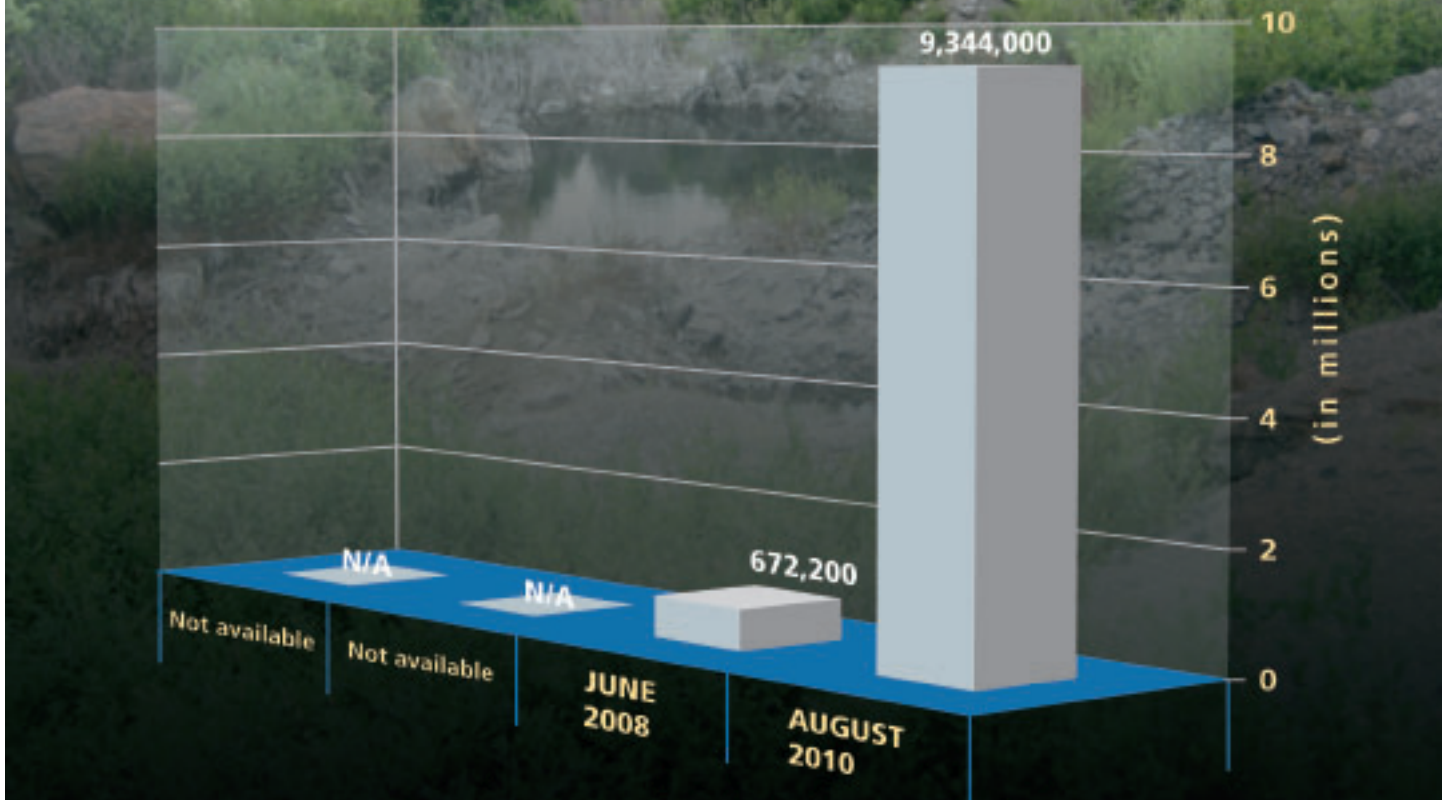
TOTAL GOLD RESOURCE ESTIMATES IN OUNCES

(Measured & Indicated *plus* inferred)



TOTAL SILVER RESOURCE ESTIMATES IN OUNCES

(Measured & Indicated *plus* inferred)



NEW 43-101 COMPLIANT RESOURCE ESTIMATE

The aerial photo below shows the MacLellan Mine site. The upper centre of the photo shows the original headframe and a number of buildings that are currently being evaluated for possible future use. The lower left of the photograph shows racks and racks of drill core samples that are still on site. We have approximately 200,000 metres of drill core samples and the historical evaluations of these samples. If we apply current drilling costs, this asset alone represents more than \$ 30 million in exploratory drilling costs.

It is interesting to note that every time the MacLellan strike is drilled the resource estimates increase substantially. Although approximately 200,000 metres of drill core have been extracted and tested, the actual strike remains 60% un-explored along strike to the east and west. In November 2010, a cut-line grid was completed and a ground IP geophysical survey was completed. The results of these projects will assist management in defining a number of drill targets along strike for 2011. Advanced exploration drilling is planned to begin in Q2 2011.

The next three charts displaying recent resource estimates are broken down into categories of measured, indicated, inferred and measured and indicated.



TOTAL OPEN PIT AND UNDERGROUND RESOURCE ESTIMATE AT 0.65 g/t AuEq CUT-OFF GRADE

CLASSIFICATION	TONNES	Au (g/t)	Ag (g/t)	AuEq (g/t)	Au (oz)	Ag (oz)	AuEq (oz)
MEASURED	1,618,000	3.53	11.6	3.70	183,700	604,000	192,100
INDICATED	3,696,000	3.61	22.7	3.92	428,900	2,697,000	466,100
MEASURED & INDICATED	5,314,000	3.59	19.3	3.85	612,600	3,301,000	658,200
INFERRED	4,428,000	2.97	42.4	3.56	422,600	6,043,000	506,200

OPEN PIT RESOURCE ESTIMATE AT 0.65 g/t AuEq CUT-OFF GRADE

CLASSIFICATION	TONNES	Au (g/t)	Ag (g/t)	AuEq (g/t)	Au (oz)	Ag (oz)	AuEq (oz)
MEASURED	987,000	2.74	12.0	2.91	87,000	380,000	92,300
INDICATED	2,146,000	2.84	29.1	3.24	195,800	2,009,000	223,500
MEASURED & INDICATED	3,133,000	2.81	23.7	3.14	282,800	2,389,000	315,800
INFERRED	2,392,000	2.09	62.1	2.95	160,000	4,776,000	226,600

UNDERGROUND RESOURCE ESTIMATE AT 2.5 g/t AuEq CUT-OFF GRADE

CLASSIFICATION	TONNES	Au (g/t)	Ag (g/t)	AuEq (g/t)	Au (oz)	Ag (oz)	AuEq (oz)
MEASURED	630,000	4.78	11.1	4.93	96,700	224,000	99,800
INDICATED	1,549,000	4.68	13.8	4.87	233,100	688,000	242,600
MEASURED & INDICATED	2,179,000	4.71	13.0	4.89	329,800	912,000	342,400
INFERRED	2,036,000	4.00	19.4	4.27	262,000	1,267,000	279,600

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Management Discussion and Analysis contains forward-looking statements that include risks and uncertainties. Some factors that could cause actual results to differ materially from those indicated in such forward-looking statements include changes in the prevailing price of resources, commodities and unforeseen difficulties in operations, which would affect future revenues and costs of production. Other factors that could affect actual results are uncertainties pertaining to government regulations, both domestic as well as foreign, and the changes within the capital markets (see Risk Factors below). Other risks may be detailed from time to time in Carlisle Goldfield's public filings, which are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com

MANAGEMENT'S DISCUSSION & ANALYSIS

DATE

This management discussion and analysis ("MD&A") covers the year ended August 31, 2010 and was prepared on December 29, 2010.

GENERAL

The following discussion and analysis of the operations, results and financial position of Carlisle Goldfields Limited ("**Carlisle**" or the "**Company**") for the year ended August 31, 2010, should be read in conjunction with the Company's annual audited consolidated Financial Statements, including the notes thereto, for the year ended August 31, 2010. Unless otherwise noted, all amounts are in Canadian dollars and based on Canadian Generally Accepted Accounting Principles.

COMPANY OVERVIEW AND OUTLOOK

The Company is a junior mining exploration and development company engaged in the acquisition, exploration and development of gold and silver projects in Northern Manitoba and Ontario, Canada. The Company's registered office is located at Suite 1801, 180 Dundas Street West, Toronto, Ontario M5G 1Z8 and its business office is located at 401 Bay Street, Suite 2702, Toronto, Ontario, M5H 2Y4.

In June of this year, the Company's shares were successfully relisted on the Canadian National Stock Exchange (CNSX), almost 11 months after the shares were delisted from another stock exchange in July 2009. The shares continue to trade under the 'CGJ' ticker symbol. At the time of writing, the shares have traded over 160,000 shares per day on average, with prices ranging from \$0.05 per share initially to \$0.27 per share more recently.

In August of 2010, management announced completion of a new NI 43-101 resource report on its MacLellan project. The total resource was expanded by more than 150% (as compared to the 2008 NI 43-101 Report) to a total of 1.16 million ounces of "gold equivalent" at an average grade of 3.71 grams/tonne. Nearly half of this would be located in an open pit design. This new resource report is available on www.sedar.com (filing date: August 3, 2010).

In response to current economic circumstances, the Company has taken several steps to assist it to finalize and pursue its business plan. These steps include (i) significantly reducing general and administrative costs to allow only for essential expenditures, (ii) pursuing appeals of tax assessments to reduce amounts payable and seeking forbearance from CRA pending such appeal, (iii) suspending exploration activities until an improved balance sheet is attained, (iv) pursuing strategic equity financing opportunities through private placements to recapitalize the Company and enable it to resume exploration activities, (v) continuing to review the Company's assets and continuing a strategic review of the Company's prospects and opportunities in the ever-changing resource world and (vi) reorganize and expand the Company's management team in order to capitalize on its valuable gold and silver assets.

Management has been able to raise sufficient funds for the continuation of operations in order to take advantage of the improving favourable market for gold and silver and, accordingly, the improving attractiveness of gold and silver exploration companies, like Carlisle, that have existing resources together with the prospect for building on those resources.

The Company has taken steps to improve its balance sheet by completing several private placements and debt settlements. In October 2009, the Company settled \$17,500 of outstanding accounts payable by issuing 350,000 shares at \$0.05 each. In November 2009, one of the directors bought \$60,000 of outstanding debentures from a third party for \$70,000 then converted it to 2,000,000 common shares and 2,000,000 warrants and exercised all such warrants at \$0.05 each, paying \$100,000 to the Company for 2,000,000 common shares. Then, in January and February 2010, the Company completed a private placement in three tranches for aggregate gross proceeds of \$746,500 by issuing 14,930,000 units at \$0.05 each (each such unit being comprised of one common share and one share purchase warrant exercisable within one year to purchase one additional common share at \$0.10). In January 2010, the Company also settled \$34,000 of outstanding accounts payable by agreeing to issue 680,000 shares at \$0.05 each. In February 2010, the Company issued 2,375,000 units at \$0.08 per unit to settle outstanding liabilities of \$190,000. Each unit consisted of one common share and one common share warrant. Each warrant entitles the holder to acquire one common share at an exercise price of \$0.10 for one year from the date of issue. In addition, during the year ended August 31, 2010, 2,717,500 warrants and 1,200,000 options were exercised at \$0.10 for proceeds of \$391,750. Subsequent to the Company's year end, 4,637,500 more warrants have been exercised for proceeds of \$463,750.

The Company also reorganized and expanded its management team to further its efforts to analyze and reassess the Company's assets and to pursue a strategic review of the Company's prospects and opportunities. The Company's board of directors appointed Bruce Reid as President and Chief Executive Officer; Carl McGill transitioned to Vice-President, Corporate Development; Donald Alexander Sheldon was appointed as Chief Financial Officer. The board also appointed Chris Dougherty and Pierre Gagne as Vice-Presidents and Gilles Filion as Special Geological Advisor to the Board.

MANAGEMENT'S DISCUSSION & ANALYSIS

This management team has overseen substantial improvement in the Company's financial condition as described above. It also arranged for completion of a new resource report. It is now pursuing preliminary engineering, environmental and metallurgical studies to advance the Company's principal project, the MacLellan project at Lynn Lake, Manitoba. Additional exploration activities are also being planned, depending on the results of financing efforts.

The Company's principal mineral property is comprised of a group of gold and base metal exploration claims and leases in the Lynn Lake Greenstone Belt of Northern Manitoba ("**Lynn Lake**"), covering approximately 20,000 hectares. Included in the land package are the former producing Burnt Timber and Farley Lake Open Pit Mines and the underground MacLellan Mine where gold and silver were produced from 1986 to 1989. The total Lynn Lake properties are comprised of a diverse group of 128 gold and base metal exploration claims and 185 mining leases. Of this, the Company holds a 100% interest in various groups of properties comprised of 111 mining leases and 107 mining claims covering 16,466 hectares. In addition, the Company holds a 78.03% interest in the Nail-Franklin group of properties comprised of 73 mining leases and 14 mining claims covering 2,830 hectares, and a 50.31% interest in the Shoe-Lace group of properties comprised of 6 mining claims covering 576 hectares.

The Company also holds a 100% interest in the Goodfish Property consisting of 16 patented mining claims covering 245.8 hectares in Morrisette Township, Larder Lake Mining Division, near the town of Kirkland Lake, Ontario.

The Company's principal assets, though, are the MacLellan and Dot Properties at Lynn Lake. In total, 6 mining claims covering 597 hectares and 1 mining lease covering 288.73 hectares ("ha") comprise the MacLellan Property. The Dot Property covers the remaining 3 mining claims (205 ha) and 106 contiguous mining leases (2,358 ha). The primary focus is the former MacLellan Gold Mine where approximately 144,000 ounces of Gold ("Au") and 432,000 ounces of Silver ("Ag") were produced between 1986 and 1989.

The MacLellan Mine was acquired by the Company in December 2006. The Company completed an acquisition agreement with AMPX Corporation ("**AMPX**"), a private company, whereby AMPX was required to complete a "Going Public Transaction" on or before December 31, 2006 and concurrently complete a minimum financing of \$2,000,000. In this regard, AMPX changed its name to Carlisle Goldfields Limited and obtained a stock exchange listing (TSX - CGJ) by having its Final Prospectus approved and accepted on December 28, 2006. Carlisle raised gross proceeds of \$4,325,000 by way of its initial public offering. The Company also met the requirement to incur expenditures on the properties of a minimum of \$1,000,000 on or before February 1, 2007 and thus earned its complete interest in the properties under terms of the agreement. The Company granted a 2% net smelter returns royalty to the vendor (unless the spot price of gold in London falls below US\$300 per ounce, in which event the royalty reduces to 1% net smelter returns) which reduces to the extent that any other underlying royalties are concurrently payable on any part or parts of the property.

The Company completed a drill program during 2006-07 which has been called the Phase I work program. This was undertaken to evaluate and confirm the historic geological reserves (non-compliant with NI 43-101) stated to be in the order of 1,076,000 tonnes grading 6.51 grams per tonne, the equivalent of 210,000 ounces of gold.

In June 2008, the Company released details of a NI 43-101 compliant resource estimate based on this Phase I drilling program. This estimate included a Measured and Indicated Resource of 932,000 tonnes grading 6.81 g/t gold and 11.4 g/t silver (204,200 oz gold and 341,300 oz silver), as well as Inferred Resources of 904,000 tonnes grading 7.16 g/t gold and 11.4 g/t silver (208,000 oz gold and 330,900 oz silver). This was also the first time that the Company had been able to substantiate any definitive silver resource, noting that silver is evident in an approximate 3:1 ratio to gold. The complete 43-101 report containing the resource estimate is available on www.sedar.com (filing date: June 4, 2008).

The **Phase II** drilling program which was completed in May 2008 tested all of the known zones at the MacLellan Mine from the Nisku Zone on the east, to the Rainbow zone on the west, and below the mine workings. This phase of drilling was not included in the June 2008 resource.

Results of this further 8100 meters of drilling from the now completed Phase II work program has been compiled and have been added to the most current NI 43-101 compliant resource estimate with an effective date of May 5, 2010. The Company subsequently released details of a NI 43-101 compliant resource estimate based on this Phase II drilling program. The conclusions of this study indicate that the MacLellan gold deposit contains a significant open pit and underground mineral resource estimated to be **5.3 Mt grading at 3.59 g/t Au and 19.3 g/t Ag in the Measured and Indicated categories with an additional 4.4 Mt of Inferred Resources grading 2.97 g/t Au and 42.4 g/t Ag (422,600 ounces gold and 6,043,000 ounces silver)**. In all categories, that represents 1,035,200 ounces of gold and 9,344,000 ounces of silver or 1,164,400 ounces of "gold equivalent". A comment that should be made is that within the context of the entire Carlisle land holdings in the area, the MacLellan deposit occupies only a small portion. Therefore, there remains a significant potential for further expansion of the resource on a regional basis beyond the currently defined resource. Additionally, within the context of the MacLellan resource proper, this remains open to depth and along strike in both the east and west directions. There is significant potential to develop additional resources with additional drilling below and immediately adjacent to the area for which the resource is estimated.

It should be noted that mineral resources which are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing or other relevant issues. The quantity and grade of reported Inferred Resources in this estimation are uncertain in nature and there has been insufficient exploration to define these Inferred Resources as an Indicated or Measured Mineral Resource and it is uncertain if further exploration will result in upgrading them to an Indicated or Measured Mineral Resource category.

The current resource continues to meet management's ongoing objective of significantly increasing the resource figure with each successive phase of drilling. The resource model has proven to be robust and continues to provide optimum drill targeting within the resource envelope resulting in a high resource ounces gained per metre drilled.

FINANCIAL CONDITION

The results of operations for the year ended August 31, 2010 reflect costs incurred by the Company to maintain its properties in good standing and to ensure proper regulatory compliance with regulatory authorities, as well as administrative expenses to manage the exploration, operating, financing and other activities of the Company.

As of August 31, 2010, the Company had \$371,009 in cash (August 31, 2009 - \$48,087) and a working capital deficiency of \$1,230,514 (compared to August 31, 2009 working capital deficiency of \$1,918,184). This improvement (i.e. reduction) in working capital deficiency is a result of several factors - private placements, settlement of shares for debt, conversion of debentures to units and exercise of warrants and options. Elements currently comprising the bulk of the working capital deficiency are Income Taxes Payable (\$552,000) and accrued shareholders claims (\$855,000).

The Company has experienced a working capital deficiency due in large part to being assessed by Canada Revenue Agency ("CRA") for not spending sufficient funds on qualifying Canadian exploration expenses within the prescribed times to meet the Company's renunciation obligations for funds raised in the Company's 2006 and 2007 flow-through share financings. The Company's potential liability for taxes, penalties, interest and other related claims is approximately \$1,407,000 in the aggregate.

Additional funding is required for the Company to continue operations. Management believes it has the ability to raise the necessary funds for the continuation of operations given the currently improving favourable market conditions for gold and silver; however, there is no certainty of this or that such favourable market conditions will continue.

SELECTED FINANCIAL INFORMATION

	Year Ended August 31, 2010	Year Ended August 31, 2009	Year Ended August 31, 2008	Year Ended August 31, 2007
Statement of operations				
Total Revenues	\$ 0	\$ 0	\$ 28,552	\$ 47,876
Total Expenses	737,731	994,402	1,604,533	887,597
Net Income/(Loss) before income taxes	(737,731)	(994,402)	(1,575,981)	(859,988)
Net Income/(Loss) per share - Basic	(0.01)	(0.03)	(0.02)	(0.02)
Net Income/(Loss) per share - Fully Diluted	(0.01)	(0.03)	(0.02)	(0.02)
Balance Sheet				
Total Assets	\$ 7,816,219	\$ 7,268,555	\$ 7,150,743	\$ 6,026,360
Total Long Term Debt	–	83,205	0	0
Total Liabilities	2,214,697	2,815,351	1,956,267	1,413,311
Shareholders' Equity	5,601,522	4,453,204	5,194,206	4,613,049
Dividends	–	–	–	–

MANAGEMENT'S DISCUSSION & ANALYSIS

RESULTS OF OPERATIONS

As of August 31, 2010, the Company had spent \$7,255,036 on its mineral properties (compared to \$7,053,066 as at August 31, 2009), as follows:

	August 31, 2010	Additions	August 31, 2009
Acquisition Costs	650,982	–	650,982
Assaying	441,601	15,843	425,758
Drilling	3,103,170	–	3,103,170
Environmental studies	225,474	–	225,474
Field office expense	475,289	7,271	468,018
Geology	1,088,025	81,428	1,006,597
Lease payments and land taxes	215,140	67,428	147,712
Project management	503,018	–	503,018
Project Planning and Reports	226,556	30,000	196,556
Surveying	96,341	–	96,341
Other	229,440	–	229,440
	7,255,036	201,970	7,053,066

In the year ended August 31, 2010, the Company spent \$201,970 on its mineral properties, compared to \$116,508 during the fiscal year ended August 31, 2009. These expenditures increased slightly but remained relatively small due to unfavourable market conditions for financings and the relatively small amounts of funding available to the Company during the fiscal year, as well as the decision by current management and the board of directors to temporarily defer major exploration activities until an improved balance sheet is attained and pending a review of the Company's assets as well as a strategic review of the Company's prospects and opportunities.

GENERAL AND CORPORATE EXPENSES

Following is a summary of current general and corporate expenses of the Company for the years ended August 31, 2010 and 2009.

	August 31, 2010	August 31, 2009
Expenditures:		
Shareholder relations and exchange fees	35,163	116,015
Management fees	366,495	228,000
Professional fees	83,686	165,481
General and administration	(28,871)	87,276
Rent and relocation costs	21,371	130,390
Travel	12,255	22,262
Advertising and promotion	6,450	4,441
Financing expense	45,836	39,692
	542,385	793,557

The decrease of approximately \$250,000 resulted mainly from a decrease of approximately \$120,000 in general and administration expense due primarily to a write-down of incorrect accounts payable of \$90,000 and reduced general expenses of \$30,000, a reduction in rent expense of approximately \$140,000 due to reduced rent of approximately \$110,000, a decrease of approximately \$80,000 in shareholder relations and exchange fees and a decrease of approximately \$80,000 in professional fees less an increase of approximately \$140,000 in management fees.

SUMMARY OF QUARTERLY RESULTS

Following is a summary of selected financial data for the Company's last eight completed quarters:

	Aug. 31 2010	May 31 2010	Feb. 28 2010	Nov. 30 2009	Aug. 31 2009	May 31 2009	Feb. 28 2009	Nov. 30 2008
Revenue	–	–	–	–	–	–	–	–
Net Loss	18,063	68,255	371,680	120,763	828,958	256,599	244,255	23,000
Loss Per Share	–	–	0.01	–	0.02	0.005	0.005	–
Total Assets	7,816,219	7,513,292	7,773,934	7,143,385	7,268,555	7,148,853	7,088,626	7,123,752

LIQUIDITY

The Company is a junior resource exploration and development corporation and, accordingly, it does not have the ability to generate sufficient amounts of cash from earnings or asset sales to pay for its operating costs, even in the short term. The activities of the Company, principally the exploration and development of mineral properties, are therefore financed through the sale of equity securities. These equity offerings generally include private placements and the exercise of warrants and options. To meet its working capital deficiency obligations and to fund further exploration and development activities, the Company must utilize its current cash reserves and seek additional equity financings.

As of August 31, 2010, the Company had \$371,009 in cash (August 31, 2009 - \$48,087) and a working capital deficiency of \$1,230,514 (compared to August 31, 2009 working capital deficiency of \$1,918,184). This improvement (i.e. reduction) in working capital deficiency is a result of several factors - private placements, settlement of shares for debt, conversion of debentures to units and exercise of warrants and options. Elements currently comprising the bulk of the working capital deficiency are Income Taxes Payable (\$552,000) and accrued shareholders claims (\$855,000).

During 2006, the Company raised gross proceeds of approximately \$4.7 million of flow-through share financing from investors. The gross proceeds of the financing were renounced to the investors as at December 31, 2006 and were to be used by the Company to incur qualifying Canadian exploration expenses by December 31, 2007. Based on the Company's records, approximately \$1,200,000 of the gross proceeds renounced did not appear to have been used to incur qualifying Canadian exploration expenses by that date. As a result of this initial assessment, the Company has accrued \$252,000 for part XII.6 taxes and penalties on the \$1,200,000 shortfall. However, the Company has since that time determined that many of its expenditures should be eligible to be categorized as qualifying Canadian exploration expenses and, accordingly, the Company is proceeding to appeal CRA's tax assessment. On the other hand, CRA has issued an assessment notice claiming that approximately \$500,000 more of the Company's expenditures were not qualifying Canadian exploration expenses. The Company has objected to this additional assessment and, accordingly, has not accrued any liability for it; however, if the Company's objection is not successful, an additional \$103,000 of part XII.6 taxes and penalties could be owing.

During 2007, the Company raised gross proceeds of \$2,079,522 of flow-through share financing from investors. The gross proceeds of the financing were renounced to the investors as at December 31, 2007 and were to be used by the Company to incur qualifying Canadian exploration expenses by December 31, 2008. Based on the Company's records, approximately \$30,000 of the gross proceeds renounced do not appear to have been used to incur qualifying Canadian exploration expenses by that date. \$70,000 has therefore been accrued for Part XII.6 taxes and penalties related to this shortfall.

An additional \$200,000 was accrued in the fiscal year ended August 31, 2009, as well as a further \$30,000 in the year ended August 31, 2010 for additional interest on past tax claims arising from the 2006 and 2007 flow-through share financings.

In addition, \$855,000 has been accrued for potential claims which may arise as a result of possible re-assessments denying personal tax deductions to the investors. If the Company's objection to CRA's additional \$500,000 assessment relating to the 2006 flow-through share financing is not successful, the Company may accrue an additional \$240,000 for additional potential claims from investors.

In October 2009, the Company issued 350,000 common shares at \$0.05 per share to settle an outstanding liability of \$17,500.

In November 2009, the Company issued 2,000,000 units upon conversion of \$60,000 of convertible debentures. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.05 at any time on or before November 16, 2011, two years from the date of conversion. These warrants were valued at \$12,100, were exercised and the Company issued 2,000,000 common shares and received gross proceeds of \$100,000.

MANAGEMENT'S DISCUSSION & ANALYSIS

In January, 2010, the Company issued 680,000 common shares at \$0.05 per share to settle an outstanding liability of \$34,000.

In January and February, 2010, the Company issued 14,930,000 units for \$0.05 per unit for gross proceeds of \$746,500. Each unit consisted of one common share and one common share warrant. Each warrant entitles the holder to acquire one common share at an exercise price of \$0.10 for one year from the date of issue. The warrants were valued at \$44,790.

In February, 2010, the Company issued 2,375,000 units at \$0.08 per unit to settle outstanding liabilities of \$190,000. Each unit consisted of one common share and one common share warrant. Each warrant entitles the holder to acquire one common share at an exercise price of \$0.10 for one year from the date of issue. The warrants were valued at \$29,775.

In August 2010, the Company issued 1,666,666 units upon conversion of \$35,000 of convertible debentures. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant entitled the holder to acquire one common share at an exercise price of \$0.05 at any time on or before August 23, 2012, two years from the date of conversion. These warrants were valued at \$14,000.

In addition, during the year ended August 31, 2010, 2,717,500 warrants and 1,200,000 options were exercised at \$0.10 each for proceeds of \$391,750. Subsequent to the Company's year end, 4,637,500 more warrants have been exercised for proceeds of \$463,750.

CAPITAL RESOURCES

The discovery, development and acquisition of mineral properties are in many instances unpredictable events. Future metal prices, the success of exploration programs and other property transactions can have a significant impact on capital requirements. The Company does not expect to receive significant income from any of its properties within the foreseeable future. Should the Company decide to further develop any of its properties, the Company may fund its capital requirements by arranging further equity financing, issuing long-term debt, arranging joint ventures with other companies, or through a combination of the above. At present, there are no commitments obliging the Company to undertake any such capital expenditures other than annual mining lease payments of \$12 per hectare per year and mineral claim assessment work of \$25 per hectare per year.

OFF-BALANCE SHEET TRANSACTIONS

The Company has not entered into any off-balance sheet transactions.

TRANSACTIONS WITH RELATED PARTIES

Amounts due to the related parties are payable to entities controlled by shareholders, officers or directors of the Company as are transactions with these related parties. These transactions have been measured at their exchange amounts, being the amounts agreed upon between the Company and the related parties, and are summarized as follows:

	August 31, 2010	August 31, 2009
Balances:		
Due to a director and officer	\$ 45,060	\$ -
Due to Companies owned by directors and officers	155,695	44,100
	\$ 200,755	\$ 44,100
Transactions:		
Management fees	282,000	228,000
Legal fees	96,175	113,000
	\$ 378,175	\$ 341,000

During the year ended August 31, 2010, a director of the Company converted \$60,000 of convertible debentures into 2,000,000 common shares and 2,000,000 warrants (each warrant entitled the holder to purchase one common share of the Company for \$0.05 per common share for a period of two (2) years from the date of conversion). The director exercised the 2,000,000 warrants, paid \$100,000 to the Company and received 2,000,000 common shares.

In February 2010, the Company issued 2,375,000 units at \$0.08 per unit to settle outstanding liabilities of \$190,000 for compensation owed to officers and directors of the Company (or corporations controlled by them). Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share for \$0.10 at any time until February 24, 2011.

PROPOSED TRANSACTIONS

There are no proposed transactions that will materially affect the performance or operations of the Company in the near term. However, the lack of revenue requiring the Company to rely on the issue of treasury shares to fund its operations could have a material effect on its performance and operations.

SHARE DATA

The Company's authorized capital is an unlimited number of common shares and an unlimited number of special shares issued in series. As at December 29, 2010, there were 80,905,157 shares issued and outstanding. The Company has 12,316,666 share purchase warrants outstanding. Each warrant entitles the holder to purchase one common share at prices varying from \$0.05 to \$0.10 per share with expiry dates varying from January 15, 2011 until August 23, 2012. Stock options outstanding as of December 29, 2010 total 6,700,000 and are exercisable to purchase common shares at \$0.10 to \$0.15 per share until September 29, 2015 or such earlier dates as may be determined pursuant to the Company's stock option plan.

FINANCIAL INSTRUMENTS

The Company estimates the fair value of its financial instruments based on current interest rates, quoted market values or the current price of financial instruments with similar terms. Unless otherwise disclosed herein, the carrying value of financial instruments, especially those with current maturities such as cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities are considered to approximate their fair values.

A Promissory Note was issued March 31, 2009 for \$75,000 payable on demand and bearing interest at 4% per annum payable March 31, June 30, September 30 and December 31. On November 6, 2009, \$50,000 of this note was repaid and the balance of \$25,000 was repaid on October 8, 2010.

Convertible debentures having an aggregate principal amount of \$165,000 were issued on June 4, 2009. They are non-interest-bearing, unsecured and due April 3, 2011. Prior to maturity, each holder has the right to convert his, her or its convertible debenture into units at a conversion rate of \$0.03 per unit. Each unit is comprised of one common share and one share purchase warrant. Each share purchase warrant provides the holder with the right to purchase one additional common share at a price of \$0.05 at any time within two years after conversion. These share purchase warrants were valued at the time of financing at a fair value of \$0.00605 each. The cost of this financing was \$35,354, which has been capitalized as a reduction of the funds raised and will be amortized as a financing expense during the term of the loan. As part of the financing costs, broker warrants with a fair value of \$182 were issued providing the broker with the right to purchase \$13,200 of convertible debentures at any time within 2 years after closing. During the year ended August 31, 2009, convertible debentures with a face value of \$70,000 were converted into units. The carrying value of the outstanding debentures as at August 31, 2009 was \$83,205. During the year ended August 31, 2010, the balance of \$95,000 of convertible debentures were converted into units, resulting in the Company issuing 3,166,166 common shares and an equal number of share purchase warrants, each such warrant being exercisable to purchase one common share for \$0.05 at any time within 2 years after the date of conversion. In addition, 2,000,000 share purchase warrants issued on the conversion were exercised in November 2009 for gross proceeds of \$100,000.

SIGNIFICANT ACCOUNTING POLICIES

Income Taxes

Income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in the period that substantive enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the amount.

MANAGEMENT'S DISCUSSION & ANALYSIS

Mineral Properties and Deferred Exploration Costs

The Company defers the costs of exploration on existing projects and carries them as assets until production commences. The amounts at which mineral properties and deferred exploration expenditures are recorded do not necessarily reflect present or future values. If a project is successful, the related mineral properties and deferred exploration costs will be amortized over the estimated economic life of the project. If a project is unsuccessful, or if exploration has ceased because continuation is not economically feasible, the mineral properties and related exploration expenditures are written off.

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board ("**AcSB**") confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("**IFRS**") for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company's reporting no later than in the first quarter of 2012 ending November 30, 2011, with restatement of comparative information presented. The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency and hedging activities, certain contractual arrangements, debt covenants, capital requirements and compensation arrangements. The Company has begun assessing the impact of the adoption of IFRS on its financial statements has now purchased a computer program to assist management in the adoption of IFRS. The Company has made a commitment to designate the appropriate resources to the project to develop an effective plan and to continue to assess resource and training requirements as the project progresses. The Company has identified the following four phases of its conversion plan: scoping and planning, detailed assessment, operations implementation and post implementation. The scoping and planning phase involves establishing a project management team, mobilizing organizational support for the conversion plan, obtaining stakeholder support for the project, identifying major areas, and developing a project charter, implementation plan and communication strategy. The Company is currently in the scoping and planning phase. The detailed assessment phase ("**Phase 2**") will result in accounting policies and transitional exemptions decisions, quantification of financial statement impact, preparation of shell financial statements and identification of business processes and resources impacted. The operations implementation phase ("**Phase 3**") includes the design of business, reporting and system processes to support the compilation of IFRS compliant financial data for the opening balance sheet at September 1, 2010 and the Company's financial statements thereafter. Phase 3 also includes ongoing training, testing of the internal control environment and updated processes for disclosure controls and procedures. Post implementation ("**Phase 4**") will include sustainable IFRS compliant financial data and processes for fiscal 2011 and beyond. The Company will continue to monitor changes in IFRS throughout the duration of the implementation process and assess their impacts on the Company and its reporting.

Other Accounting Policies

This MD&A, together with the Company's Annual Audited Financial Statements, which include additional information relating to the Company's accounting policies, is available on the Company's SEDAR Page Site accessed through www.sedar.com.

INCENTIVE STOCK OPTION PLAN

The Company has established a stock option plan to provide incentive compensation to the Company's directors, officers, employees and consultants (the "**Stock Option Plan**"). The Stock Option Plan is administered by the board of directors of the Company. Stock options may be granted at any time to any director, senior officer, key employee or other person providing services to the Company, taking into consideration his or her contribution to the success of the Company and any other factor which the board of directors of the Company may deem proper and relevant. The aggregate number of Common Shares which may be reserved for issuance pursuant to the Stock Option Plan and any other share compensation arrangements of the Company will not exceed 10% of the total number of issued and outstanding Common Shares (calculated on a non diluted basis) from time to time. Stock options granted under the Stock Option Plan are exercisable over a period not exceeding five years, subject to earlier cancellation upon the optionee ceasing to be an employee, senior officer, director or consultant of the Company, as applicable, or upon the optionee retiring, becoming permanently disabled or dying. The stock options are non-assignable and non-transferable. The Stock Option Plan contains provisions for adjustment in the number of shares issuable in the event of a subdivision, consolidation, reclassification or change of the common shares, or a merger or other relevant changes in the Company's capitalization. The Stock Option Plan does not contain any provision for financial assistance by the Company in respect of stock options granted.

RISKS AND UNCERTAINTIES

The following is a brief description of some of the risks that investors should be aware of. This discussion should not be considered complete and, therefore, the Company, its directors and officers would like to recommend that shareholders, lenders, investors and readers of this MD&A, and other documents that the Company may disseminate, review their investments directly with their own financial advisors:

- (a) investment in the common shares of the Company is highly speculative given nature of the Company's business and additional funding requirements to continue operations;
- (b) directors and officers of the Company will only devote a portion of their time to the business and affairs of the Company and some of them are or will be engaged in other projects or businesses such that conflicts of interest may arise from time to time; and
- (c) there can be no assurance that an active and liquid market for the Company's common shares will develop and an investor may find it difficult to resell the Company's common shares.

Nature of Operations

The Company is an exploration company. Its mineral properties are currently being explored and the Company has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of the amount shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and upon future profitable production or proceeds from disposition of such properties. The Company tries to maximize its exposure to promising exploration opportunities, to manage the risks inherent in exploration and to make appropriate use of financial management resources. The Company intends to hire several employees who worked the properties in the past and, accordingly, are familiar with the legacy workings and historic infrastructure; further, such individuals are familiar with the historic mine data and government reports that identify some of the positive attributes of the properties. This experience and knowledge base would mitigate the risks associated with otherwise unknown properties.

Nature of Mineral Exploration and Mining

At the present time, the Company does not hold any interest in a mining property in production. The Company's viability and potential success lie in its ability to discover, develop, exploit and generate revenue out of mineral deposits. The exploration and development of mineral deposits involve significant financial risks over a significant period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. While discovery of a mine may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that the current or proposed exploration programs on exploration properties in which the Company has an interest will result in a profitable commercial mining operation.

The operations of the Company are subject to all of the hazards and risks normally incidental to exploration and development of mineral properties, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all damage. The activities of the Company may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which the Company has interests. Hazards, such as unusual or unexpected formation, rock bursts, pressures, cave-ins, flooding or other conditions may be encountered in the drilling and removal of material. While the Company may obtain insurance against certain risks in such amounts as it considers adequate, the nature of these risks is such that liabilities could exceed policy limits or could be excluded from coverage. There are also risks against which the Company cannot insure or against which it may elect not to insure. The potential costs which could be associated with any liabilities not covered by insurance or in excess of insurance coverage or compliance with applicable laws and regulations may cause substantial delays and require significant capital outlays, adversely affecting the future earnings and competitive position of the Company and, potentially, its financial position.

Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as its size and grade, proximity to infrastructure, financing costs and governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting and environmental protection. The effect of these factors cannot be accurately predicted, and the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Fluctuating Prices

Factors beyond the control of the Company may affect the marketability of any gold, silver or other minerals discovered. Resource prices have fluctuated widely and are affected by numerous factors beyond the Company's control. The effect of these factors cannot accurately be predicted.

MANAGEMENT'S DISCUSSION & ANALYSIS

Permits and Licences

The operations of the Company may require licences and permits from various governmental authorities. The Company believes that it presently holds all necessary licences and permits required to carry on with activities which it is currently conducting under applicable laws and regulations and the Company believes it is presently complying in all material respects with the terms of such laws and regulations. However, such laws and regulations are subject to change. There can be no assurance that the Company will be able to obtain all necessary licences and permits required to carry out exploration, development and mining operations at its projects.

No Assurance of Titles

The acquisition of title to mineral projects is a very detailed and time consuming process. Although the Company has taken precautions to ensure that legal title to its property interests is properly recorded in the name of the Company where possible, there can be no assurance that such title will ultimately be secured. Furthermore, there is no assurance that the interest of the Company in any of its properties may not be challenged or impugned. Some of the Company's properties may be subject to claims from aboriginal peoples which may affect exploration, development or operating activities and the costs thereof.

Environmental Regulations

The operations of the Company are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mineral exploration and mining operations, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards and enforcement; fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

Dividends

The Company has not paid any dividends on its common shares since incorporation and does not anticipate paying any dividends on its common shares in the foreseeable future. The Company has a limited operating history and there can be no assurance of its ability to operate its projects profitably.

Conflicts of Interest

The directors and officers of the Company may serve as directors or officers of other public resource companies or have significant shareholdings in other public resource companies. Situations may arise in connection with potential acquisitions and investments where the other interests of these directors and officers may conflict with the interest of the Company. In the event that such a conflict of interest arises at a meeting of the directors of the Company, a director is required by the Business Corporations Act (Ontario) to disclose the conflict of interest, to be absent from the discussions and to abstain from voting on the matter.

Joint Ventures and Other Structures

From time to time several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

Key Executives

The Company is dependent on the services of key executives and a small number of highly skilled and experienced consultants and personnel. Locating mineral deposits depends on a number of factors, not the least of which is the technical skill of the exploration personnel involved. Due to the relatively small size of the Company, the loss of these persons or the Company's inability to attract and retain additional highly skilled employees may adversely affect its business and future operations. The Company does not currently carry any key man life insurance on any of its executives. The directors and officers of the Company will initially devote only part of their time to the affairs of the Company.

Additional Funding Requirements

As discussed above, the mineral properties of the Company are in the exploration stage and, as a result, the Company has no source of operating cash flow. The Company intends to raise such additional funds to continue its operations. The Company does not currently have the financial resources necessary to undertake such activities. The Company anticipates raising cash in the next fiscal quarter although there is no assurance that the Company will be successful in obtaining required funding necessary to execute its operating plan.

FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company, and its projects, the exploration expenditures, costs and timing of future exploration, requirements for additional capital, government regulation of mining operations, environmental risks, limitations of insurance coverage, tax assessments and appeals related thereto and regulatory matters. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; the future price of gold and silver; possible variations of ore grades or recovery rates; failure of the plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities. A detailed description of risk factors can be found in the Company's filings available on SEDAR at www.sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained in such documents are made as of their respective dates and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The Company undertakes no obligation to update forward-looking statements if circumstances, management's estimates or opinions should change, except as required by securities legislation. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements.

ADDITIONAL INFORMATION

Additional information relating to the Company is available on SEDAR at www.sedar.com

APPROVAL

This MD&A was reviewed and approved by the Board of Directors of the Company and is effective as of December 29, 2010.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements, including the notes thereto, were prepared by Management and are in accordance with Canadian generally accepted accounting principles. The financial statements, where necessary, include amounts that are based on the best estimates and judgements of Management. Financial information presented throughout the Annual Report has likewise been prepared by Management and is consistent with the data in the financial statements.

Management is responsible for the integrity and the objectivity of the financial reporting process and maintain the necessary accounting and administrative controls that provide reasonable assurance that transactions are authorized, assets are safeguarded, records are properly maintained and reliable financial information is produced. Management is also responsible for selecting accounting principles and methods that are appropriate to the Company's circumstances, and for making decisions affecting the measurement of transactions in which estimates or judgements are required in determining amounts to be reported.

External auditors appointed by the shareholders have audited the financial statements. Their report outlines the scope of their audit and gives their opinion on the financial statements. The auditors have full and free access to, and meet periodically with, the Audit Committee to discuss their audit findings.

The Board of Directors is responsible for overseeing Management's performance of the above-noted responsibilities and is ultimately responsible for reviewing and approving the financial statements. The Board exercises this responsibility principally through the Audit Committee, which meets periodically with Management and the external auditors to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee reviews the annual financial statements and recommends them to the Board for approval. The Audit Committee also reviews and monitors weaknesses in the Company's internal controls as reported by Management or the external auditors.



Bruce Reid

President and Chief Executive Officer



D.A. Sheldon

Chief Financial Officer

December 29, 2010

December 29, 2010

AUDITORS' REPORT

To the Shareholders of
Carlisle Goldfields Limited

We have audited the consolidated balance sheet of Carlisle Goldfields Limited (the "Corporation") as at August 31, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These 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 audit.

We conducted our audit in accordance with 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 includes 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 Corporation as at August 31, 2010 and 2009 and the results of its operations and the changes in its financial position for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
December 29, 2010

Palmer Reed
Chartered Accountants
Licensed Public Accountants

CONSOLIDATED BALANCE SHEETS

For the years ended August 31, 2010 and 2009

Assets

Current

Cash	\$ 371,009	\$ 48,087
Accounts receivable	178,393	145,496
Prepaid expenses	11,781	12,960
	561,183	206,543

Fixed Assets (Note 5)

Mineral Properties and deferred exploration costs (Note 6)

	–	8,946
	7,255,036	7,053,066
	\$ 7,816,219	\$ 7,268,555

Liabilities and Shareholders' Equity

Current Liabilities

Accounts payable and accruals	\$ 359,697	\$ 747,727
Income taxes payable (Note 8)	552,000	522,000
Promissory note	25,000	25,419
Accrued shareholders claim (Note 8)	855,000	855,000
	1,791,697	2,150,146

Long Term Liabilities

Convertible debenture (Note 9d)	–	83,205
Future income tax liability (Note 8)	423,000	582,000

Total Liabilities

	2,214,697	2,815,351
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Shareholders Equity

Common shares (Note 9a)	8,399,086	7,001,474
Warrants (Note 9b)	190,110	8,673
Contributed surplus (Note 9c)	337,930	189,930
Deficit	(3,325,604)	(2,746,873)

Total Equity

	5,601,522	4,453,204
	\$ 7,816,219	\$ 7,268,555

Contingencies (Note 11)

Nature of operations and going concern (Note 1)

Approved on behalf of the Board



Bruce Reid
Director



D.A. Sheldon
Director

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

For the years ended August 31, 2010 and 2009

	2010	2009
Expenditures		
Shareholders' claim	–	271,000
Shareholder relations and exchange fees	35,163	116,015
Management fees	366,495	228,000
Professional fees	83,686	165,481
General and administration (Note 10)	(28,871)	87,276
Rent and relocation costs	21,371	130,390
Stock based compensation	186,400	(93,600)
Travel	12,255	22,262
Advertising and promotion	6,450	4,441
Financing expense	45,836	39,692
Amortization	8,946	23,445
	737,731	994,402
Net loss before income taxes	(737,731)	(994,402)
Provision for income taxes		
Current (Note 8)	–	220,000
Future	(159,000)	(61,590)
	(159,000)	158,410
Net and comprehensive loss	(578,731)	(1,152,812)
Deficit, beginning of period	(2,746,873)	(1,594,061)
Deficit, end of period	\$ (3,325,604)	\$ (2,746,873)
Loss per share - basic and diluted	\$ (0.01)	\$ (0.03)
Weighted average number of shares outstanding during the period – basic and diluted	62,943,136	44,110,854

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2010 and 2009

	2010	2009
Cash derived from (applied to)		
Operating activities		
Loss for the year	\$ (578,731)	\$ (1,152,812)
Less: Operating items not involving cash		
Depreciation	8,946	23,445
Accretion of convertible debenture	11,795	23,559
Non-cash interest payments reversal	(419)	–
Future income taxes	(159,000)	(61,590)
Stock-based compensation	186,400	(93,600)
Change in non cash working capital		
(Increase) Decrease accounts receivable	(32,897)	–
(Increase) Decrease in prepaid expenses	1,179	26,409
Increase (decrease) in accounts payable	(388,030)	407,383
Accrued shareholder claims	–	271,000
Increase in income taxes payable	30,000	220,000
	(920,757)	(336,206)
Financing activities		
Issuance of common shares (net of issuance costs)	1,371,084	229,000
Issuance of warrants	74,565	–
Issuance of convertible debenture (net of issuance costs)	–	129,646
	1,445,649	358,646
Investing activities		
Purchase of office equipment	–	(1,300)
Deferred exploration costs	(201,970)	(116,508)
	(201,970)	(117,808)
Net change in cash during the year	322,922	(95,368)
Cash at beginning of year	48,087	143,455
Cash at end of year	\$ 371,009	\$ 48,087
Supplemental Information		
Interest paid	141	1914
Income taxes paid	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND GOING CONCERN

Carlisle Goldfields Limited ("**Carlisle**" or the "**Company**") was incorporated under the laws of the Province of **Ontario** on March 15, 2005 under the name AMPX Corporation. On May 19, 2006, AMPX Corporation filed Articles of Amendment changing its name to Carlisle Goldfields Limited. The Company is a development stage company as defined by the Canadian Institute of Chartered Accountants (the "CICA") Accounting Guideline 11 and currently has interests in exploration and development properties in Manitoba and Ontario. Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in mineral properties contain mineral reserves which are economically recoverable.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence are dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, under which the Company is assumed to be able to realize its assets and discharge its liabilities in the normal course of business. Adverse conditions cast doubt on the validity of the assumption.

As presented in note 8, the Company has been assessed tax and penalties in respect of flow-through share financings and related expenditures regarding its 2006 and 2007 fiscal years. Liabilities in respect of income tax and penalties and related potential shareholder claims have been accrued in the accounts, representing an aggregate liability of \$1,407,000. The Company does not currently have the liquidity to pay these amounts.

Management believes that the Company can continue as a going concern based on the following strategies implemented or pursued by the Company:

- i) The Company expects to receive additional proceeds through private placements;
- ii) The ongoing rate of general and administrative costs has been significantly reduced;
- iii) Sufficient additional financing to support the Company through a period of reduced activity can be obtained; and
- iv) The Company expects forbearance will be granted by Canada Revenue Agency and the shareholders in respect of the matter presented in note 8.

Management believes that the use of accounting principles applicable to a going concern is appropriate based on the above strategies pursued. If the going concern assumption is not appropriate then material adjustments may be necessary in the carrying amounts and/or classifications of assets and liabilities in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles ("GAAP") and their basis of application is consistent with that of the previous year. Outlined below are those policies considered particularly significant.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and short-term liquid investments with original maturities of three months or less. The deposits are held in a Canadian chartered bank or a financial institution controlled by a Canadian chartered bank.

Mineral properties

Interest in mineral properties consists of exploration and mining concessions, options and contracts. Acquisition, exploration and development costs are capitalized and deferred until such time as the property is put into production, or the property is disposed of either through sale or abandonment. If put into production, the costs of acquisition and exploration will be depleted over the life of the property

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

based on estimated economic reserves on a unit of production basis. Proceeds received from the receipt of option payments or the sale of any interest in a property will be credited against the carrying value of the property, with any excess included in operations for the year. If a property is abandoned, the deferred acquisition, exploration and development costs will be written off to operations in the year of abandonment.

Costs include the cash consideration and the fair market value of the shares issued for the acquisition of mineral properties. Properties acquired under option agreements whereby payments are made at the sole discretion of the Company are recorded in the accounts at the time of payment.

The Company reviews its mineral properties to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the mineral properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. An impairment loss is recognized when the carrying amount of the mineral properties is not recoverable and exceeds its fair value. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near term could require a change in the determination of the need for and amount of any write down.

Asset retirement obligations

Asset retirement obligations are legal obligations associated with the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. A liability for an asset retirement obligation will be recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made. Furthermore, a corresponding asset retirement cost will be recognized by increasing the carrying amount of the related long-lived asset. The asset retirement cost is subsequently allocated in a rational and systematic method over the underlying asset's useful life. The initial fair value of the liability is accreted, by charges to operations, to its estimated normal future value. Management is not aware of any asset retirement obligations related to the Company's interest in mineral properties as at August 31, 2010 or 2009.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the enacted or substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Flow-through financing

The Company may finance a portion of its exploration and development activities through the issuance of flow-through common shares. Under the terms of the flow-through share agreements, the resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The Company provides for the future effect on income taxes related to flow-through shares as a charge to deficit and future income tax liability when the renunciation forms are filed with the tax authorities.

Loss per share

Loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. Total shares issuable from warrants, totaling 10,520,000 (2009 - 9,020,000), were excluded from the computation of diluted loss per share because they were anti-dilutive for the years ended August 31, 2010 and 2009.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reported period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, and estimates

for asset retirement obligations and reclamation costs and the amount and timing of impairment allowances. Significant areas where management judgment is applied include factors affecting valuations of warrants, common shares, income tax accounts and investments. The Company regularly reviews its estimates and assumptions; however, actual results could differ from these estimates and such differences could be material.

Financial instruments - recognition and measurement

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

- Financial assets and liabilities classified as held-for-trading are required to be measured at fair value, with changes in fair value recognized in net earnings.
- Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized cost using the effective interest method of amortization.
- Available-for-sale financial assets are required to be measured at fair value, with unrealized gains and losses recognized in Other Comprehensive Income (loss). Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market should be measured at cost.

The Company has adopted the following classification:

- Cash and cash equivalents are classified as "Financial Assets Held for Trading".
- Receivables are classified as "Loans and Receivables"
- Accounts payables and accrued liabilities are classified as "Other Financial Liabilities", all of which are measured at amortized cost.

Fair value hierarchy and liquidity risk disclosure

In June 2009, the Canadian Accounting Standards Board issued an amendment to CICA Section 3862, "Financial Instruments Disclosures" in an effort to make Section 3862 consistent with IFRS Section 7 - Disclosures ("IFRS 7"). The purpose was to establish a framework for measuring fair value in Canadian GAAP and expand disclosures about fair value measurements. To make the disclosures, an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Future accounting changes

Business combinations, 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. The Company is in the process of evaluating the requirements of the new standards. 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. The section applies 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 January 1, 2011. Sections 1601 and 1602 together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. 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 and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of these standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with International Financial Reporting Standards ("IFRS") for Canadian enterprises with public accountability. On February 13, 2008, the AcSB confirmed that the use of IFRS would be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will be required to have prepared, in time for its first quarter of fiscal 2012, ending November 30, 2011, with comparative financial statements in accordance with IFRS for the three months ended November 30, 2010. The Company has begun assessing the impact of the adoption of IFRS on its financial statements and believes that the financial reporting impact of the transition to IFRS will not be substantial and has now purchased a computer program to assist management in the adoption of IFRS.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, 632164 BC Ltd. Effective December 31, 2005, Carlisle acquired 100% of the outstanding common shares of 632164 BC Ltd., a previously inactive company. Following the decision in 2008 to allow the properties held by 632164 BC Ltd. to lapse, this subsidiary became inactive.

Stock-based compensation plan

The Company has an incentive stock option plan. The Company has adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 - "Stock Based Compensation and Other Stock Based Payments" to account for stock based transactions with employees, directors and outside consultants. Accordingly, the fair value of stock options is charged to operations with an offsetting credit to contributed surplus. The fair value of stock options which vest immediately is recorded at the date of grant and the fair value of options that vest in the future is recognized on a graded basis over the vesting period. Any consideration received on exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is assessed using the Black-Scholes Option Pricing Model.

Related party transactions

Related party transactions occurred in the normal course of business and were recorded at the exchange value, reflecting the consideration determined and agreed to by the parties.

3. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended August 31, 2010. The Company is not subject to externally-imposed capital requirements.

4. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to short-term investments and receivables included in other assets. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents consist of bank deposits which have been invested with or purchased from reputable financial institutions, from which management believes the risk of loss to be remote.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. As at August 31, 2010, the Company had enough funds available to satisfy its obligations under accounts payable and accrued liabilities.

In the past few years, the Company financed its liquidity needs primarily by issuing equity securities. As the Company is currently incurring operating losses, additional capital will be required to continue exploration activities on the properties (note 1).

Market risk

(a) Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. From time to time, the Company funds certain operations, exploration and administrative expenses in US dollars on a cash-call basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

(c) Price risk

The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of developing the Company's mineral properties. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Price risk is remote since the Company is not a revenue producing entity.

Fair value

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying value of cash and equivalents, amounts receivable, accounts payable and accruals approximates fair value due to the relatively short-term maturity of these financial instruments. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists.

Sensitivity analysis

The Company has designated its cash and cash equivalents and short-term investments as held-for-trading, which are measured at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

Price risk is remote since the Company is not a revenue-producing entity.

5. FIXED ASSETS

As at August 31, 2010, the Company's Fixed Assets have been fully amortized. Amortization expense for the year ended August 31, 2010 was \$8,946.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

The following is a summary of the Company's mining assets:

	Lynn Lake Property	Goodfish Property	Total
Balance, August 31, 2008	\$ 6,866,944	\$ 69,614	\$ 6,936,558
Deferred exploration costs	116,508	–	116,508
Balance, August 31, 2009	6,983,452	69,614	7,053,066
Deferred exploration costs	200,929	1,041	201,970
Balance, August 31, 2010	\$ 7,184,381	\$ 70,655	\$ 7,255,036

Lynn Lake Properties

The Lynn Lake properties are comprised of a diverse group of 128 gold exploration claims and 185 mining leases in the Lynn Lake Greenstone Belt of Northern Manitoba, covering approximately 20,000 hectares. The Company holds a 100% interest in various groups of properties comprised of 111 mining leases and 107 mining claims covering 16,466 hectares. In addition, the Company holds a 78.03% interest in the Nail-Franklin group of properties comprised of 73 mining leases and 14 mining claims covering 2,830 hectares, and a 50.31 % interest in the Shoe-Lace group of properties comprised of 6 mining claims covering 576 hectares. These properties are subject to a 1.0 to 3.0% net smelter return royalty.

Goodfish Property

The Company holds a 100% interest in a gold exploration property consisting of 16 patented mining claims covering 245.8 hectares in Morrisette Township, Larder Lake Mining Division, near the town of Kirkland Lake, Ontario.

7. RELATED PARTY TRANSACTIONS

These consolidated financial statements include expenditures (either expensed or included with deferred exploration costs) incurred with shareholders, directors and/or companies controlled by them. These transactions have been measured at their exchange amounts, being the amounts agreed upon between the Company and the related parties, and are summarized as follows:

	August 31, 2010	August 31, 2009
Balances:		
Due to a director and officer	\$ 45,060	\$ –
Due to companies owned by directors and officers	155,695	44,100
	\$ 200,755	\$ 44,100
Transactions:		
Management fees	282,000	228,000
Legal fees	96,175	113,000
	\$ 378,175	\$ 341,000

During the year ended August 31, 2010, a director of the Company converted \$60,000 of convertible debentures into 2,000,000 common shares and 2,000,000 warrants (each warrant entitled the holder to purchase one common share of the Company for \$0.05 per common share for a period of two (2) years from the date of conversion). The director exercised the 2,000,000 warrants, paid \$100,000 to the Company and received 2,000,000 common shares. (Also see Note 9).

8. INCOME TAX

Income tax provision

A reconciliation of income tax recovery at statutory rates is as follows:

	2010	2009
Loss before income taxes	737,731	994,402
Income tax rate	31.67%	33.17%
Current income tax recovery computed at statutory rates	(233,639)	(329,840)
Tax rate reduction on future tax liability	–	–
Statutory permanent and temporary differences	65,139	9,290
Recovery of future taxes related to flow-through under-spending	–	169,070
Part XII.6 taxes and penalties	9,500	220,000
Non-deductible damages accrued or shareholder claims	–	89,890
	<u>(159,000)</u>	<u>158,410</u>

Future income taxes

Details of the Company's future income tax liabilities are as follows:

	2010	2009
Non-capital losses	1,186,000	945,000
Mineral properties	(1,829,000)	(1,829,000)
Share issuance costs	73,000	129,000
Field and office equipment	5,000	4,000
Flow-through under-spending	169,000	169,000
Future income tax liability	<u>(423,000)</u>	<u>(582,000)</u>

The Company has available against future taxable income, non-capital losses of \$3,995,743. The expiration dates are as follows:

Year	Amount
2026	200,000
2027	899,564
2028	1,120,975
2029	1,025,781
2030	749,423
	<u>3,995,743</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Flow-through shares

During 2006, the Company raised gross proceeds of approximately \$4.7 million of flow-through share financing from investors. The gross proceeds of the financing were renounced to the investors as at December 31, 2006 and were to be used by the Company to incur qualifying Canadian exploration expenses by December 31, 2007. However, based on the Company's records, approximately \$1,200,000 of the gross proceeds renounced did not appear to have been used to incur qualifying Canadian exploration expenses by that date. As a consequence, the Company has accrued \$252,000 for Part XII.6 taxes, interest and penalties on the \$1,200,000 shortfall (Note 11(a)).

During 2007, the Company raised gross proceeds of approximately \$2.1 million of flow-through share financing from investors (Note 11(b)). The gross proceeds of the financing were renounced to investors as at December 31, 2007 and were to be used by the Company to incur qualifying Canadian exploration expenses by December 31, 2008. However, based on the Company's records, it appears that an insufficient amount was spent by the Company on qualifying Canadian exploration expenses by that date. Accordingly, an additional \$70,000 has been accrued to account for Part XII.6 taxes, interest and penalties related to the shortfall.

The Company has also accrued \$200,000 in 2009 on account of additional, tax, penalties and interest on past tax claims arising from the 2006 and 2007 flow-through financings and \$30,000 in the current fiscal year for additional interest. In addition, \$855,000 has been accrued for potential claims which may arise as a result of possible reassessments denying personal tax deductions to the investors (Notes 11(a) and 11(b)).

9. SHARE CAPITAL

(a) Authorized

The Company is authorized to issue an unlimited number of common shares and an unlimited number of special shares issued in series. Each common share and special share is entitled to one vote.

Issued: **76,367,658 common shares**

	2010		2009	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	48,948,492	\$ 7,001,474	40,035,159	\$ 6,404,737
Issued on private placements	14,930,000	597,200	4,580,000	222,344
Conversion of debentures	3,166,666	57,000	2,333,333	67,983
Exercise of warrants - cash	4,717,500	371,750	2,000,000	100,000
Exercise of warrants - book value	–	65,238	–	–
Debt settlement	3,405,000	182,125	–	–
Exercise of options - cash	1,200,000	120,000	–	–
Exercise of options - expense value	–	38,400	–	–
Share issue costs	–	(34,101)	–	–
Reversal of renouncement of future tax benefits	–	–	–	206,410
Balance, end of year	76,367,658	\$ 8,399,086	48,948,492	\$ 7,001,474

In October 2009, the Company issued 350,000 common shares at \$0.05 per share to settle an outstanding liability of \$17,500.

In November 2009, the Company issued 2,000,000 units upon conversion of \$60,000 of convertible debentures. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant entitled the holder to acquire one common share at an exercise price of \$0.05 at any time on or before November 16, 2011, two years from the date of conversion. These warrants were valued at \$24,000, were exercised and the Company issued 2,000,000 common shares and received gross proceeds of \$100,000.

In January 2010, the Company issued 680,000 common shares at \$0.05 per share to settle an outstanding liability of \$34,000.

In January and February 2010, the Company issued 14,930,000 units for \$0.05 per unit for gross proceeds of \$746,500. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of \$0.10 for one year from the date of issue. The warrants were valued at \$149,000.

In February 2010, the Company issued 2,375,000 units at \$0.08 per unit to settle outstanding liabilities of \$190,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of \$0.10 for one year from the date of issue. The warrants were valued at \$59,375.

In August 2010, the Company issued 1,666,666 units upon conversion of \$35,000 of convertible debentures. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant entitled the holder to acquire one common share at an exercise price of \$0.05 at any time on or before August 23, 2012, two years from the date of conversion. These warrants were valued at \$14,000.

(b) Warrants

Warrant transactions:

Issued: 17,367,499 warrants

	2010		2009	
	Number of Warrants	Amount	Number of Warrants	Amount
Balance, beginning of year	1,613,333	\$ 8,673	652,686	\$ 13,000
Issued on private placements	14,930,000	149,300	1,280,000	6,656
Conversion of debentures	3,166,666	38,000	2,333,333	2,017
Exercised	(4,717,500)	(65,238)	(2,000,000)	–
Debt settlement	2,375,000	59,375	–	–
Expired	–	–	(652,686)	(13,000)
Balance, end of year	17,367,499	\$ 190,110	1,613,333	\$ 8,673

The Company had the following common share purchase warrants outstanding as at August 31, 2010:

Number of Warrants	Exercise Price	Expiry Date
1,280,000	\$ 0.12	05-Dec-10
333,333	0.05	04-Jun-11
6,600,000	0.10	15-Jan-11
4,000,000	0.10	29-Jan-11
2,550,000	0.10	24-Feb-11
1,437,500	0.10	24-Feb-11
1,166,666	0.05	23-Aug-12
17,367,499		

The fair value of the warrants issued during the periods was obtained by calculating at the grant date using the Black-Scholes method and utilizing the following assumptions:

	2009	2010
Risk free interest rate	0.05%	1.00%
Expected dividend yield	0%	0%
Volatility	100%	100%
Expected life	2 years	2 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(c) Contributed Surplus

Balance, August 31, 2008	\$ 270,530
Warrants expired	13,000
Stock based compensation reversed on cancellation of options	(93,600)
Balance, August 31, 2009	189,930
Stock based compensation reversed on cancellation of options	(31,200)
Stock based compensation	217,600
Stock based compensation of options exercised	(38,400)
Balance, August 31, 2010	<u>\$ 337,930</u>

(d) Debentures

On June 4, 2009, the Company issued convertible debentures for the subscription of a total principal amount of \$165,000. They are non-interest bearing, unsecured and fall due for repayment on April 3, 2011. Prior to maturity, the holders have the right to convert these securities into units at a conversion rate of \$0.03 per unit. Each unit is comprised of one common share and one share purchase warrant. Each share purchase warrant provides the holder with the right to purchase one additional common share at a price of \$0.05 at any time within two (2) years from the date of conversion. These share purchase warrants were valued at the time of financing at a fair value of \$0.00605 each.

The cost of the financing totalling \$35,354 was capitalized as a reduction of the funds raised and will be amortized as financing expense during the term of the loan. As part of the financing costs, broker warrants with a value of \$182 were issued providing the broker with the right to purchase \$13,200 of convertible debentures at any time within two years after closing. The debentures issuable upon exercise of the broker warrants are convertible into 440,000 common shares and 440,000 warrants and each such warrant may be exercised to purchase one common share of the Company for \$0.05 at any time within two years after the date of conversion.

During the year ended August 31, 2009, convertible debentures with a face value of \$70,000 were converted into units.

During the year ended August 31, 2010, convertible debentures with a face value of \$95,000 were converted into units.

(e) Stock Options

During fiscal 2007, the Company issued 1,200,000 incentive stock options to directors at an exercise price of \$0.305 per share. The incentive stock options had an expiry date in April 2012 subject to earlier expiry under the terms of the Company's stock option plan. The fair value of these incentive stock options granted was estimated using an option-pricing model. Assumptions used in the Black-Scholes pricing model are as follows: risk free interest rate of 4%, dividend yield of 0%, volatility of 40% and an expected life of 3.5 years. The fair value of these incentive stock options was recorded as \$124,800 and this was expensed during fiscal 2007 and credited to contributed surplus.

During fiscal 2009, 900,000 incentive stock options were cancelled, at an exercise price of \$0.305 per share. The related amount was credited to expense and debited to Contributed Surplus. The 300,000 incentive options outstanding on August 31, 2009 were cancelled on January 15, 2010. At that time, no options remained outstanding.

On January 28, 2010, options on 6,800,000 common shares were granted to various officers, directors and consultants pursuant to the Company's stock option plan. Each such option entitles the holder to purchase one common share for \$0.10 at any time within five years subject to earlier termination under the terms of the stock option plan. The fair value of these incentive stock options granted was estimated using the Black-Scholes option-pricing model. Assumptions used in the pricing model are as follows: risk free interest rate of 1%, dividend yield of 0%, volatility of 100% and an expected life of 5 years. The fair value of these incentive stock options was recorded as \$122,400.

Options Transactions

	2010		2009	
	Number	Weighted average exercise price per share	Number	Weighted average exercise price per share
	#	\$	#	\$
Options outstanding, beginning of year	300,000	0.305	1,200,000	0.305
Granted	6,800,000	0.10	–	–
Exercised	(1,200,000)	0.10	(900,000)	0.305
Cancelled	(300,000)	0.305	–	–
Options outstanding, end of year	5,600,000	0.10	300,000	0.305

10. GENERAL AND ADMINISTRATION EXPENSE WRITE-OFF

During the year ended August 31, 2010, the Company wrote down its accounts payable by \$90,808 for amounts that the Company determined were incorrect. This amount was credited to general and administration expenses.

11. CONTINGENCIES

(a) 2006 flow-through shares penalty taxes

In addition to the approximate \$1,200,000 shortfall referred to in Note 7, Canada Revenue Agency has assessed an additional approximate \$500,000 expenditure shortfall for a total shortfall of approximately \$1,700,000. The Company has objected to the additional \$500,000 assessment on the basis that qualifying Canadian exploration expenses were incurred. If the Company is not successful in its objection, there will be an additional \$103,000 of Part XII.6 taxes and penalties and an additional approximate \$240,000 of accrued shareholder claims. As management believes the objection will be successful, these amounts have not been recorded in these financial statements.

(b) 2007 flow-through shares penalty taxes

The Company, as at the balance sheet date, has a shortfall of qualifying Canadian exploration expenses relating to the \$2.1 million of flow-through financing referred to in Note 7. Accordingly, \$70,000 of Part XII.6 taxes and penalties and an additional \$271,000 of potential shareholder claims have been accrued.

(c) Premises

The Company leased premises with a term ending in January 31, 2013. During the previous fiscal year, the Company had difficulties meeting all of the conditions within the lease agreement and the landlord refused further access. Under the terms of the lease the landlord has a potential claim of approximately \$160,000, of which \$30,000 has been accrued.

12. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified from those previously presented to conform to the presentation of the current period's financial statement presentation.

13. SUBSEQUENT EVENT

Subsequent to year end, 4,637,500 common share purchase warrants were exercised at \$0.10 for proceeds of \$463,750 and \$7,587 of the \$13,200 convertible debenture warrants were exercised for proceeds of \$7,587.



CORPORATE DIRECTORY

DIRECTORS

Bruce Reid
Donald A. Sheldon
Carl McGill
Steven Mintz
Frank C. Smeenk

MANAGEMENT TEAM

Bruce Reid
President & CEO

Donald A. Sheldon
Chief Financial Officer

Carl McGill
VP Corporate Development

Pierre Gagne
VP Operations

Chris Dougherty
VP Engineering

Peter Karelse P. Geo.
VP Exploration & Qualified Person

SHARE LISTING

CNSX
Trading Symbol: CGJ

CAPITALIZATION

Common Shares Issued: 93,425,703
Fully Diluted: 102,077,550

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