Pebble Creek Mining Ltd.
(An Exploration Stage Company)

Consolidated Financial Statements
(Unaudited)

Three and nine months ended December 31, 2010

Pebble Creek Mining Ltd.

Consolidated Balance Sheets

December 31, 2010 and March 31, 2010

		December 31 2010 (Unaudited)		March 31 2010
ASSETS				
Current				
Cash	**$**	**922,296**	$	327,319
Accounts receivable		**8,854**		3,845
Inventory		**971**		971
Prepaid expenses		**12,323**		10,543
		944,444		342,678
Long-term Security Deposits		**42,703**		50,912
Mineral Property Interests (Statement)		**6,711,675**		5,857,659
Other Capital Assets, net of amortization of $202,006 (March 31, 2010 - $184,537)		**122,451**		140,573
	$	**7,821,273**	$	6,391,822
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**759,859**	$	278,120
Payable to officers (Note 5)		**649,755**		442,162
Loans payable to related parties (Note 5)		**55,441**		-
		1,465,055		720,282
SHAREHOLDERS' EQUITY				
Share Capital (Note 4)				
Authorized				
Unlimited number of preferred shares without par value				
Unlimited number of common shares without par value				
Issued and fully paid		**8,807,000**		8,172,100
Contributed Surplus (Note 4)		**3,917,076**		3,497,110
Deficit		**(6,367,858)**		(5,997,670)
		6,356,218		5,671,540
	$	**7,821,273**	$	6,391,822

These financial statements should be read in conjunction with the most recent annual audited financial statements. The accompanying notes are an integral part of these financial statements.

APPROVED BY THE BOARD

"Andrew E. Nevin" Director

"Gyan C. Singhai" Director

Pebble Creek Mining Ltd.

Consolidated Statements of Loss and Deficit

Three and nine months ended December 31, 2010 and 2009

EXPENSES	**3 months ended December 31, 2010 (unaudited)**	3 months ended December 31, 2009 (unaudited)	**9 months ended December 31, 2010 (unaudited)**	9 months ended December 31, 2009 (unaudited)
Amortization	**$ 1,603**	$ 1,548	**$ 4,807**	$ 4,660
Bank charges and interest	**889**	434	**1,967**	1,299
Corporate development	**2,797**	18,168	**33,084**	27,450
Foreign exchange	**(10,487)**	8,335	**2,823**	8,028
Insurance	**4,097**	4,057	**11,912**	13,381
Legal and audit	**15,606**	23,536	**44,318**	76,584
Management fees (Note 5)	**54,400**	56,900	**174,795**	165,567
Office	**899**	1,963	**10,359**	8,599
Rent	**3,675**	15,242	**12,307**	26,850
Salaries	**-**	-	**-**	1,384
Share-based compensation	**5,706**	13,758	**17,119**	175,259
Shareholder costs	**22,180**	7,319	**40,389**	22,300
Travel	**927**	13,356	**6,610**	27,875
Telephone	**2,380**	3,161	**7,645**	8,870
	104,672	167,777	**368,135**	568,106
Loss on sale of equipment	**-**	-	**2,062**	-
Interest income	**-**	-	**(9)**	(5)
NET LOSS AND COMPREHENSIVE LOSS	**104,672**	167,777	**370,188**	568,101
DEFICIT, Beginning of Period	**6,263,186**	5,125,667	**5,997,670**	4,596,110
Modification of Warrant Terms (Note 4)	**-**	473,176	**-**	602,409
DEFICIT, End of Period	**$ 6,367,858**	$ 5,766,620	**$ 6,367,858**	$ 5,766,620
Loss Per Share – Basic and Fully Diluted	**$ 0.01**	$ 0.01	**$ 0.01**	$ 0.03
Weighted Average Number Of Shares Outstanding	**51,132,633**	48,512,238	**50,719,788**	39,481,791

These financial statements should be read in conjunction with the most recent annual audited financial statements. The accompanying notes are an integral part of these financial statements.

Pebble Creek Mining Ltd.

Consolidated Statements of Cash Flows

Three and nine months ended December 31, 2010 and 2009

	3 months ended December 31, 2010 (unaudited)	3 months ended December 31, 2009 (unaudited)	**9 months ended December 31 , 2010 (unaudited)**	9 months ended December 31, 2009 (unaudited)
Cash Flows From (Used In) Operating Activities				
Interest income	**$ -**	$ -	**$ 9**	$ 5
Cash paid for supplies and services	**25,247**	(184,122)	**(43,676)**	(371,460)
	25,247	(184,122)	**(43,667)**	(371,455)
Cash Flows From (Used In) Financing Activities				
Advances from directors	**-**	(12,156)	**-**	-
Loans from related parties	**15,000**	-	**55,000**	-
Share subscriptions	**(6,500)**	-	**-**	-
Shares issued, net of issue costs	**1,010,230**	-	**1,010,230**	940,567
	1,018,730	(12,156)	**1,065,230**	940,567
Cash Flows From (Used In) Investing Activities				
Long-term deposits	**-**	(11,560)	**8,209**	41,241
Mineral property interests				
Acquisiton costs	**(27,345)**	-	**(61,535)**	(567)
Exploration costs	**(135,356)**	(225,897)	**(371,850)**	(401,216)
Disposal (purchase) of other capital assets	**-**	(574)	**(1,410)**	313
	(162,701)	(238,031)	**(426,586)**	(360,229)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**881,276**	(434,309)	**594,977**	208,883
CASH AND CASH EQUIVALENTS, Beginning of Period	**41,020**	705,019	**327,319**	61,827
CASH AND CASH EQUIVALENTS, End of Period	**$ 922,296**	$ 270,710	**$ 922,296**	$ 270,710

Supplemental disclosure of non-cash transactions				
Share based compensation	**$ 5,706**	$ 13,758	**$ 44,635**	$ 175,259
Shares issued for finder's fees	**$ 10,220**	**$ -**	**$ 10,220**	**$ -**

These financial statements should be read in conjunction with the most recent annual audited financial statements. The accompanying notes are an integral part of these financial statements.

Pebble Creek Mining Ltd.

Consolidated Statement of Mineral Property Expenditures

Three and nine months ended December 31, 2010 and 2009

	Askot	Other	Total
Balance, March 31, 2009	$ 5,073,322	$ 36,038	$ 5,109,360
Expenditures during the year			
Acquisition costs			
Geological fees and travel expenses	54,519	386	54,905
Compliance costs	831	-	831
Exploration expenditures	-		
Geological fees and travel expenses	88,040	-	88,040
Engineering equipment and supplies	516	-	516
Office	321,097	-	321,097
Professional fees	3,456	-	3,456
Salaries	143,350	-	143,350
Telephone	6,777	-	6,777
Travel and promotion	18,754	-	18,754
Miscellaneous	449	-	449
Underground rehabilitation and exploration	110,124	-	110,124
Property write down		-	-
	747,914	386	748,300
Balance, March 31, 2010	5,821,235	36,424	5,857,659
Expenditures during the quarter			
Acquisition costs			
Geological fees and travel expenses	33,955	233	34,188
Compliance costs	2	-	2
Exploration expenditures	-		
Geological fees and travel expenses	112,658	-	112,658
Engineering equipment and supplies	1,048	-	1,048
Office	134,823	-	134,823
Professional fees	917	-	917
Salaries	78,965	-	78,965
Telephone	2,544	-	2,544
Travel and promotion	16,758	-	16,758
Miscellaneous	1,378	-	1,378
Underground rehabilitation and exploration	322,475	-	322,475
Property write down	-	-	-
	705,523	233	705,756
Balance, September 30, 2010 (unaudited)	6,526,758	36,657	6,563,415
Expenditures during the quarter			
Acquisition costs			
Geological fees and travel expenses	27,000	-	27,000
Compliance costs	345	-	345
Exploration expenditures	-		
Geological fees and travel expenses	10,962	-	10,962
Engineering equipment and supplies	-	-	-
Office	58,331	-	58,331
Professional fees	766	-	766
Salaries	36,700	-	36,700
Telephone	1,414	-	1,414
Travel and promotion	3,790	-	3,790
Miscellaneous	1,249	-	1,249
Underground rehabilitation and exploration	7,703	-	7,703
Property write down	-	-	-
	148,260	-	148,260
Balance, December 31, 2010 (unaudited)	$ 6,675,018	$ 36,657	$ 6,711,675

These financial statements should be read in conjunction with the most recent annual audited financial statements. The accompanying notes are an integral part of these financial statements.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). However, they do not include all the information and disclosures required by Canadian GAAP for annual financial statements. They have been prepared using the same accounting policies and methods of application as the latest annual consolidated financial statements. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results for the entire year. ***The information contained in the interim financial statements should be read in conjunction with the Company’s latest audited consolidated financial statements for the year ended March 31, 2010.***

1. OPERATIONS AND GOING CONCERN UNCERTAINTY

Pebble Creek Resources Ltd. (“PCR”) was incorporated in the Province of British Columbia on April 29, 1993 and, to 1996, investigated opportunities in the energy sector under the name Pebble Creek Power Company Ltd. Since that time, PCR has investigated mining prospects in India for the purposes of acquisition, exploration, development and mining of gold, copper, silver and other precious and base metals and diamonds.

PCR incorporated two subsidiary companies in India to acquire rights to the properties under Indian law. One of the subsidiary companies, Adi Gold Mining Private Ltd (“Adi”), was incorporated in 1996 for the purposes of acquiring and holding the interests in the Askot Tenure and in the Gadarwara Tenure. The second subsidiary, Hirakund Diamond Exploration Private Ltd. (“Hirakund”), was incorporated in 2003 for the purpose of acquiring and holding the interest in the Banda Prospect.

PCR entered into an agreement with Broadcast Capital Corp. (“Broadcast”) dated October 6, 2006 and amended on October 24, 2006, pursuant to which the shareholders of PCR acquired control of Broadcast, a company listed for trading on the TSX Venture Exchange, through a “reverse take over” (“RTO”). PCR and Broadcast completed the plan of arrangement on December 15, 2006, following which Broadcast and PCR were amalgamated under the name Pebble Creek Mining Ltd. (the “Company”).

On January 8, 2008, two officers incorporated Narsinghpur Gold Mining Private Ltd. (“NGM”) under Indian law on behalf of the Company to hold future property acquisitions. During the year ended March 31, 2010 the Company purchased a controlling equity in NGM. The officers continue to own a minority interest in NGM to facilitate the execution of documents on behalf of the Company in India and, when requested, will transfer the minority interest to the Company.

The Company is in the process of exploring its mineral properties. The Company has not earned any revenues from its mineral properties and is considered to be in the exploration stage.

These financial statements have been prepared on the basis that the Company is a going concern, which presumes that the company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has a net loss of $370,188 for the nine months ended December 31, 2010 and a working capital deficiency of $520,611 at December 31, 2010. The ability of the Company to continue as a going concern is in substantial doubt and is dependent upon the continued support from its directors and its ability to continue to raise adequate financing. Management is currently seeking equity financing and joint venture opportunities, the outcome of which cannot be predicted at this time. These financial statements do not reflect the adjustments or reclassifications which would be necessary if the Company were unable to continue operations.

2. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties. The Company measures its capital as its shareholders' equity when considering the management of capital.

The Company manages and adjusts its capital structure when changes to the risk characteristics of the underlying assets or changes in economic conditions occur. To maintain or adjust the capital structure, the Company may attempt to issue new shares or acquire, dispose of or joint venture certain of its assets.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest any excess cash in liquid short-term interest-bearing instruments with maturities of 90 days or less. When utilized, these instruments are selected with regard to the expected timing of expenditures for continuing operations.

The Company will have to raise additional capital resources to meet its planned future operations and administrative overhead expenses. The future exploration and development of the Company's mineral properties in the near and long term will depend on the Company's ability to obtain additional funding through equity or debt financing or through the joint venture of projects. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and development activities. The Company believes it will be able to raise capital as required in the long term, but recognizes there will be risks involved that may be beyond its control.

3. MANAGEMENT OF FINANCIAL RISK

The Company's financial instruments are exposed to certain risks, which include currency risk, credit risk, interest rate risk and liquidity risk.

Currency Risk

Currency risk is the risk of a loss due to the fluctuation of foreign exchange rates and the effects of these fluctuations of foreign currency denominated monetary assets and liabilities. The Company currently operates in Canada and India. The Company manages its currency risk through the preparation of short and long term expenditure budgets in different currencies and converting Canadian dollars to Indian rupees whenever exchange rates are favourable.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash and short term investments are on deposit at major financial institutions. Accounts receivable consist primarily of goods and services tax refunds due from the Government of Canada. As such, the Company considers this risk to be minimal.

Interest rate risk

Interest rate risk is the risk that the fair value of or future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The Company is exposed from time to time to interest rate risk as a result of holding fixed rate cash equivalent investments of varying maturities. The risk that the Company will realize a loss as a result of a decline in the fair value of these investments is limited as the Company only invests in highly liquid securities with short-term maturities.

3. MANAGEMENT OF FINANCIAL RISK (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure (Note 2).

4. SHARE CAPITAL

Share Capital

Issued and allotted	Number of Common Shares		Amount
Balance, March 31, 2009	33,242,376	$	7,291,357
Issued for cash on private placement, net of share issue costs of $6,414 (cash) and $454 (issue of warrants)	269,862		8,984
Issued for cash on private placement, net of share issue costs of $118,450 (cash) and $418,770 (issue of warrants)	15,000,000		512,780
Issued for cash on exercise of warrants, including transfer from contributed surplus of $58,979	2,000,000		358,979
Balance, March 31 and September 30, 2010	**50,512,238**	**$**	**8,172,100**
Issued for cash on private placement, net of share issue costs of $99,988 and $375,331 (issue of warrants)	**10,000,000**		**624,680**
Issued as finders fee on private placement	**92,909**		**10,220**
Balance, December 31, 2010	**60,605,147**	**$**	**8,807,000**

Of the issued and outstanding shares of the Company, 1,600,660 were held in escrow at December 31, 2010 in connection with the RTO (Note 1), to be released upon the approval of regulatory authorities in stages, to be completed by December 28, 2012.

4. SHARE CAPITAL (continued)

Contributed Surplus

Balance, March 31, 2009	$ 2,345,440
Allocated to warrants on the issue of shares for cash	419,223
Share-based compensation expense	189,017
Transferred to share capital on the exercise of warrants	(58,979)
Modification of warrant terms	602,409
Balance, March 31, 2010	**3,497,110**
Share-based compensation expense	**38,929**
Balance, September 30, 2010 (unaudited)	**3,536,039**
Share-based compensation expense	**5,706**
Allocated to warrants on the issue of shares for cash	**375,331**
Balance, December 31, 2010 (unaudited)	**$ 3,917,076**

The Company has estimated the fair value of options, warrants and broker options using the Black-Scholes option pricing model. The fair value of options granted during the period were $0.11 and the fair value of warrants issued during the period were $0.07 and $0.09. The following weighted-average assumptions were used in estimating the fair value:

	December 31, 2010 (9 months)	March 31, 2010 (12 months)
Average risk-free interest rate	**1.67%**	1.42%
Expected share price volatility	**148%**	101%
Expected years of option life	**1.09 years**	2.4 years
Expected dividend yield	**$nil**	$nil

Options

The following share purchase option transactions occurred during the period:

	December 31, 2010 (9 months)			March 31, 2010 (12 months)		
	Number of Shares		**Weighted Average Exercise Price**	Number of Shares		Weighted Average Exercise Price
Balance, beginning of period	**4,850,000**	**$**	**0.12**	3,010,000	$	0.12
Granted	**200,000**		**0.12**	2,355,000		0.12
Exercised	**-**		**-**	-		-
Expired	**-**		**-**	(515,000)		0.14
Balance, end of period	**5,050,000**	**$**	**0.12**	4,850,000	$	0.12
Options exercisable, end of period	**5,000,000**	**$**	**0.12**	4,370,000	$	0.12

4. SHARE CAPITAL (continued)

The contractual weighted average remaining life of the outstanding options at December 31, 2010 is 3.02 years (March 31, 2010 – 3.77 years).

The following share purchase options are outstanding at December 31, 2010:

	Number of Shares	Exercisable Options	Price Per Share	Expiry Date	Date Granted or Issued
Options	745,000	745,000	$0.12	August 10, 2012	August 10, 2007
Options	25,000	25,000	$0.12	January 18, 2013	January 18, 2008
Options	1,625,000	1,625,000	$0.12	August 25, 2013	August 25, 2008
Options	2,355,000	2,355,000	$0.12	September 29, 2014	September 29, 2009
Options	100,000	100,000	$0.12	January 29, 2011	August 25, 2008
Options	200,000	150,000	$0.12	April 8, 2015	April 8, 2010
	5,050,000	5,000,000			

Subsequent to the period end on January 24, 2011, 100,000 of the options issued on August 25, 2008 were exercised at a price of $0.12 for gross proceeds of $12,000.

Warrants

Warrant transactions during the nine months ended December 31, 2010 and warrants outstanding at December 31, 2010 are:

Number of Shares						
March 31, 2010	Granted	Exercised	Expired	December 31, 2010	Price Per Share	Expiry Date
425,000	-	-	-	425,000	$0.15	March 24, 2011
134,931	-	-	-	134,931	$0.15	April 9, 2011
1,285,500	-	-	-	1,285,500	$0.65	June 22, 2011 [1]
289,500	-	-	-	289,500	$0.65	July 13, 2011 [1]
1,285,500	-	-	-	1,285,500	$1.00	June 22, 2011 [1]
289,500	-	-	-	289,500	$1.00	July 13, 2011 [1]
1,415,045	-	-	-	1,415,045	$0.15	August 28, 2011
11,584,955	-	-	-	11,584,955	$0.15	September 22, 2011
2,635,000	-	-	-	2,635,000	$0.75	December 14, 2011[2]
2,635,000	-	-	-	2,635,000	$1.50	December 14, 2011
-	3,567,272	-	-	3,567,272	$0.20	December 23, 2011
-	1,432,728	-	-	1,432,728	$0.20	December 31, 2011
21,979,931	5,000,000	-	-	26,979,931		

4. SHARE CAPITAL (continued)

[1] During the nine months ended December 31, 2009 the Company received approval from the TSX to modify the original terms of these warrants and extend their expiry dates by two years. All remaining terms and conditions of the warrants remain unchanged. The Company has calculated the incremental fair value of the warrant extensions using the Black-Scholes option pricing model and assuming a weighted-average risk-free interest rate of 1.21%, expected volatility of 192%, an expected life of 2.04 years and a dividend yield of 0%. The resulting increase in fair value of $602,409 has been recorded as a charge to deficit and a corresponding increase to contributed surplus.

[2] If the closing trading price is $1.00 per share or higher for any 20 consecutive trading days, the Company may elect to accelerate the term to expire within 30 days of notice to the holders

5. RELATED PARTY TRANSACTIONS

The Company paid fees of $47,351 for the nine months ended December 31, 2010 (December 31, 2009 - $55,733) for legal expenses and share issue costs to a legal firm of which one of the partners is an officer of the Company. As at December 31, 2010 accounts payable included $20,417 payable to this legal firm (March 31, 2010 - $18,406).

The Company also accrued management, accounting and consulting fees of $174,795, included in general and administrative expenses, and geological and engineering fees of $179,864, included in mineral property acquisition and exploration costs, to officers during the nine months ended December 31, 2010 (December 31, 2009 - $165,567 and $86,433, respectively). At December 31, 2010, $649,755 is payable to officers (March 31, 2010 - $442,162).

During the nine months ended December 31, 2010, an officer of the company and a member of his immediate family loaned the Company $20,000 and $35,000 respectively, for a total of $55,000. The loans bear interest at 5% per annum and there are no specific terms of repayment.

These transactions have been measured at the exchange amounts agreed to by the parties.

6. SEGMENTED INFORMATION

The Company's worldwide operations are all conducted in one industry segment, the exploration and development of mineral property interests.

The Company's assets by geographic segment are:

	December 31, 2010 (unaudited)		March 31, 2010	
	Canada	**India**	Canada	India
Cash and cash equivalents	**$ 659,670**	**$ 262,626**	$ 254,618	$ 72,701
Mineral property interests	**-**	**6,711,675**	-	5,857,659
Other capital assets	**21,229**	**101,222**	25,316	115,257
Accounts receivable, inventory, prepaid expenses, and long-term deposits	**17,792**	**47,059**	7,208	59,063
	$ 698,691	**$ 7,122,582**	$ 287,142	$ 6,104,680

7. PREMISES LEASES

The Company relocated to a new office in New Westminster, BC, Canada during the nine months ended December 31, 2010 and entered into a lease agreement expiring April 30, 2011 with an estimated minimum annual rental payment of $14,700.

The Company has also entered into leases in New Delhi, India, for office premises and staff accommodation, expiring in August 2010, May 2011 and May 2013, which require estimated minimum annual rental payments of:

2011	$	169,350
2012		97,904
2013		85,352
2014		14,225

8. RECENT ACCOUNTING PRONOUNCEMENTS

Convergence with International Financial Reporting Standards

In 2006, the Accounting Standards Board of the Canadian Institute of Chartered Accountants ratified a strategic plan that will result in Canadian GAAP, as used by public companies, evolving and being converged with International Financial Reporting Standards ("IFRS") over a transitional period currently expected to be completed by 2011. The International Accounting Standards Board also has projects currently under way which should result in new pronouncements which will be included in the convergence process.

The Company will have to implement its transition to IFRS by April 1, 2011. The Company is conducting a detailed assessment of the requirements of the transition to IFRS, with the intention of identifying the timing of the implementation of the various stages of the transition, major differences in accounting policies and selecting the policies which are appropriate for the Company, identifying the appropriate disclosure in financial statements prepared under IFRS and developing a final implementation plan.

Business Combinations – Section 1582

In January 2009, the CICA issued Handbook Section 1582, Business Combinations, which will provide the Canadian equivalent to IFRS 3, Business Combinations, and replace the existing Handbook Section 1581, Business Combinations. The new standard will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also be required to early adopt Handbook Section 1601, Consolidated Financial Statements and Handbook Section 1602, Non-controlling Interests. This new standard will apply if and when the Company enters into a business combination on or after January 1, 2011.

Consolidated Financial Statements – Section 1601

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements, which establishes standards for the preparation of consolidated financial statements and will replace the existing Handbook Section 1600, Consolidated Financial Statements. The new standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also be required

8. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

to early adopt Handbook Section 1582, Business Combinations, and Handbook Section 1602, Non-Controlling Interests. This new standard will apply if and when the Company enters into a business combination on or after January 1, 2011.

Non-Controlling Interests – Section 1602

In January 2009, the CICA issued Handbook Section 1602, Non-Controlling Interests, which 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 International Accounting Standard IAS 27, Consolidated and Separate Financial Statements. The new standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also be required to early adopt Section 1582, Business Combinations, and Section 1601, Consolidated Financial Statements. This new standard will apply if and when the Company enters into a business combination on or after January 1, 2011.

9. CONTINGENCY

The Company had previously reported that the Government of Uttaranchal (now Uttarakhand) may claim an 11% carried interest in the Askot project. This possible claim arose from a Memorandum of Understanding ("MOU") executed between the Company and the government-owned Uttar Pradesh State Mineral Development Corporation ("UPSMDC") in 1997, before the state of Uttaranchal was formed from part of Uttar Pradesh on November 9, 2000. UPSMDC had certain obligations under the MOU in return for its proposed 11% carried interest.

After formation of Uttaranchal, Askot was located in the new state. Both the Company and UPSMDC believed that whatever benefits and obligations that would accrue to UPSMDC under the MOU would transfer to Uttaranchal or its government-owned development company. Officers of the Company and UPSMDC jointly met with the Uttaranchal government and its government-owned development corporation on December 6, 2003. Uttaranchal rejected any involvement in the Askot project at that time. That action, and two legal opinions obtained by the Company stating that the MOU gave no other party any rights, resulted in the Company believing that the matter was closed. In addition, UPSMDC never performed any of its duties as described in the MOU.

However, on April 24, 2008, UPSMDC wrote to the Company demanding that the Company follow up the MOU with an agreement granting UPSMDC an 11% carried interest in the Askot project.

The Company has engaged legal counsel and responded to the demand, citing the "UP Reorganization Act, 2000" and other legal arguments, and believes that this demand has no merit. However, after several exchanges with the parties, the Company has offered to gift UPSMDC 11% of the Company's shares subject to the condition that if a higher authority such as a court or the Government of India orders the transfer of some or all of the gifted shares to Uttarakhand that UPSMDC will willingly comply. The Company is awaiting UPSMDC's response. At this time the outcome of this request and offer is not determinable and no amount has been accrued in the financial statements.