



# **STIKINE ENERGY CORP.**

**(formerly Stikine Gold Corporation)**

## **INTERIM FINANCIAL STATEMENTS**

**For the Three and Nine Months Ended**

**November 30, 2010 and 2009**

**(Expressed in Canadian Funds)**

Prepared by Management Without Audit

## **UNAUDITED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the period ended November 30, 2010.

**Stikine Energy Corp.**  
(formerly Stikine Gold Corporation)

**Balance Sheets**

Canadian Funds

	As at November 30, 2010 (unaudited)	As at February 28, 2010
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 48,153	\$ 15,429
Receivables	88,158	4,771
Prepaid expenses	453,851	3,133
	<u>590,162</u>	<u>23,333</u>
<b>Resource Property Costs</b> – Schedule, (Note 3)	3,962,390	983,193
<b>Reclamation Bonds</b> (Note 6)	11,000	7,500
<b>Equipment</b> (Note 4)	2,608	3,352
	<u>\$ 4,566,160</u>	<u>\$ 1,017,378</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 419,919	\$ 54,981
Due to related parties (Note 8d)	30,067	30,478
	<u>449,986</u>	<u>85,459</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (Note 5a)	11,502,196	8,371,315
<b>Contributed Surplus</b> (Note 5d)	1,445,685	1,048,537
<b>Deficit</b>	(8,831,707)	(8,487,933)
	<u>4,116,174</u>	<u>931,919</u>
	<u>\$ 4,566,160</u>	<u>\$ 1,017,378</u>

Financial Instruments (Note 9)  
Subsequent Events (Note 11)

ON BEHALF OF THE BOARD:

“Scott Broughton”, Scott E. Broughton, Director

“David Skerlec”, David J. Skerlec, Director

# Stikine Energy Corp.

(formerly Stikine Gold Corporation)

## Statements of Loss, Comprehensive Loss and Deficit

Canadian Funds  
Unaudited

	For the Three Months Ended		For the Nine Months Ended	
	November 30, 2010	November 30, 2009	November 30, 2010	November 30, 2009
<b>Expenses</b>				
Stock-based compensation	\$ -	\$ -	\$ 120,629	\$ 9,483
Rent, Office and sundry	26,751	21,008	75,483	41,519
Audit, accounting and legal fees	14,860	13,295	62,177	28,961
Consulting fees and wages	12,450	23,043	36,538	34,150
Listing and filing fees	6,813	6,040	19,875	13,623
Advertising, promotion and shareholder relations	4,323	8,376	15,721	14,897
Travel	3,067	6,024	12,203	6,269
Bank charges and interest	590	94	1,237	360
Amortization	248	270	744	809
<b>Loss before under-noted</b>	<b>69,102</b>	<b>78,150</b>	<b>344,607</b>	<b>150,071</b>
Resource costs written-off	-	5,427	1,200	5,656
Tax credit on abandoned property	-	(476)	-	(476)
Interest Income	(1,651)	(66)	(2,033)	(158)
<b>Loss and Comprehensive Loss for the Period</b>	<b>67,451</b>	<b>83,035</b>	<b>343,774</b>	<b>155,093</b>
Deficit, beginning of period	8,764,256	8,419,423	8,487,933	8,347,365
<b>Deficit, End of Period</b>	<b>\$ 8,831,707</b>	<b>\$ 8,502,458</b>	<b>\$ 8,831,707</b>	<b>\$ 8,502,458</b>
<b>Loss per Share - Basic and Diluted</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>68,046,598</b>	<b>47,984,401</b>	<b>60,675,372</b>	<b>44,715,917</b>

- See Accompanying Notes -

**Stikine Energy Corp.**  
(formerly Stikine Gold Corporation)  
**Statements of Cash Flows**

Canadian Funds  
Unaudited

	For the Three Months Ended		For the Nine Months Ended	
	November 30, 2010	November 30, 2009	November 30, 2010	November 30, 2009
<b>Operating Activities</b>				
Loss for the period	\$ (67,451)	\$ (83,035)	\$ (343,774)	\$ (155,093)
Items not affected by cash:				
Resource costs written-off				
(recovered)	-	5,427	1,200	5,656
Stock-based compensation	-	-	120,629	9,483
Amortization	248	270	744	809
Changes in non-cash working capital:				
Receivables	150,704	(37,314)	(83,387)	(23,955)
Prepaid expenses	168,942	2,665	(450,718)	10,357
Accounts payable, related parties and accruals	(129,416)	26,334	(137,759)	21,828
Due to related parties	1,747	-	(411)	-
	<u>124,774</u>	<u>(85,653)</u>	<u>(893,476)</u>	<u>(130,915)</u>
<b>Investing Activities</b>				
Resource property costs	(933,552)	(608,869)	(2,242,790)	(670,081)
Reclamation Bond	-	-	(3,500)	2,500
BC METC receivable	-	-	-	5,060
	<u>(933,552)</u>	<u>(608,869)</u>	<u>(2,246,290)</u>	<u>(662,521)</u>
<b>Financing Activities</b>				
Equities issued for cash	5,000	750,000	3,458,500	960,000
Equity issuance costs	-	-	(286,010)	(1,750)
	<u>5,000</u>	<u>750,000</u>	<u>3,172,490</u>	<u>958,250</u>
<b>Net Increase in Cash and cash equivalents</b>	<b>(803,778)</b>	<b>65,478</b>	<b>32,724</b>	<b>164,814</b>
<b>Cash and cash equivalents - Beginning of Period</b>	<b>851,931</b>	<b>155,009</b>	<b>15,429</b>	<b>55,673</b>
<b>Cash and cash equivalents - End of Period</b>	<b>\$ 48,153</b>	<b>\$ 220,487</b>	<b>\$ 48,153</b>	<b>\$ 220,487</b>
<b>Supplemental Schedule of non-cash Transactions</b>				
Stock-based compensation included in resource costs	\$ -	\$ 4,140	\$ 234,910	\$ 63,782
Exploration expenditures included in accounts payable	\$ (136,611)	\$ 90,376	\$ 366,086	\$ 158,764

- See Accompanying Notes -

**Stikine Energy Corp.**  
(formerly Stikine Gold Corporation)  
**Schedule of Resource Property Costs**

Canadian Funds  
Unaudited

	For the Three Months Ended		For the Nine Months Ended	
	November 30, 2010	November 30, 2009	November 30, 2010	November 30, 2009
<b>BC Silica Project, BC, Canada</b>				
<b>Acquisition Costs</b>				
Staking, land and claim costs	\$ 690	\$ 347	\$ 41,880	\$ 41,108
<b>Deferred Exploration Costs</b>				
Aircraft Charter	126,140	322,137	1,147,911	361,487
Pilot plant	314,515	-	314,515	-
Environmental	45,383	5,071	301,702	5,071
Stock based compensation	-	-	234,910	50,159
Geological, Project Management	49,825	46,213	196,087	88,478
Freight	131,650	-	131,650	-
Accommodation and meals	39,515	26,490	129,318	28,705
Archaeological	58,541	-	107,588	-
Drilling	11,160	254,653	90,724	254,653
Testing and Assaying	10,535	19,574	82,246	20,394
Equipment	15,220	-	68,650	-
Travel	14,663	4,912	52,389	7,718
Sundry	15,090	3,875	41,968	3,875
Maps and reports	4,505	3,060	14,702	3,060
Engineering	6,975	5,753	14,465	5,753
Communication	3,005	2,092	8,492	2,885
<b>Total Costs for the Period</b>	<b>847,412</b>	<b>694,177</b>	<b>2,979,197</b>	<b>873,346</b>
Balance - Beginning of Period	3,114,978	179,169	983,193	-
<b>Balance - End of Period</b>	<b>\$ 3,962,390</b>	<b>\$ 873,346</b>	<b>\$ 3,962,390</b>	<b>\$ 873,346</b>

**Stikine Energy Corp.**  
(formerly Stikine Gold Corporation)  
**Notes to Financial Statements**  
**November 30, 2010 and 2009**

Canadian Funds  
Unaudited

---

**1. Nature of Operations**

Stikine Energy Corp. (the "Company") was incorporated on July 10, 2000 as Withit Capital Corp., changed its name to Stikine Gold Corporation on June 18, 2002, and changed its name to Stikine Energy Corp. on August 3, 2010. The Company engages principally in the acquisition, exploration and development of resource properties in Canada.

---

**2. Significant Accounting Policies**

a) **Basis of presentation**

These interim financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") and follow the same accounting policies and methods consistent with those used in the preparation of the most recent annual audited financial statements except as noted below. The interim financial statements do not include all information and note disclosures required by Canadian GAAP for annual financial statements, and therefore should be read in conjunction with the Company's audited financial statements for the year ended February 28, 2010. All amounts are presented in Canadian dollars unless otherwise indicated.

b) **Management's 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 dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from these estimates.

c) **Accounting Developments**

The CICA issued new Handbook Section 1582, "Business Combinations", Handbook Section 1600, "Consolidated Financial Statements" and Handbook Section 1601, "Non-controlling Interests" in January 2009 which establish a new section for accounting for a non-controlling interest in a subsidiary. These new standards are expected to align Canadian GAAP with the provisions of the International Financial Reporting Standards ("IFRS") equivalent IFRS3, "Business Combinations" and IAS 27, "Consolidated and Separate Financial Statements". The new standards will be effective for business combinations for which the acquisition date is on or after January 1, 2011. The Company is evaluating the impact of these new standards on the Company's consolidated financial statements as part of the Company's IFRS initiatives.

---

**3. Resource Property Costs**

Details are as follows:

	Acquisition	Deferred Exploration & Development	Total November 30, 2010	Total February 28, 2010
British Columbia, Canada BC Silica Project	\$ 82,988	\$ 3,879,402	\$ 3,962,390	\$ 983,193
	\$ 82,988	\$ 3,879,402	\$ 3,962,390	\$ 983,193

During the year ended February 28, 2010, the Company acquired a 100-per-cent interest in several British Columbia mineral claims by map staking known silica occurrences and prospective geology. The Company is in the process of evaluating the various silica sources for commercial frac sand potential.

---

## Stikine Energy Corp.

(formerly Stikine Gold Corporation)

### Notes to Financial Statements

November 30, 2010 and 2009

Canadian Funds

Unaudited

#### 4. Equipment

Details are as follows:

			November 30, 2010
	Cost	Accumulated Amortization	Net Book Value
Computer/Office equipment	\$ 20,335	\$ 17,727	\$ 2,608

  

			February 28, 2010
	Cost	Accumulated Amortization	Net Book Value
Computer/Office equipment	\$ 20,335	\$ 16,983	\$ 3,352

#### 5. Share Capital

a) Details are as follows:

	Number	Amount
Authorized:		
Unlimited common shares without par value		
<b>Balance as at February 29, 2009</b>	<b>42,892,917</b>	<b>7,430,137</b>
Issued and fully paid		
Private Placement – prorated value of common shares issued	2,000,000	144,995
Exercise of warrants	5,000,000	750,000
Exercise of stock options	100,000	10,000
Fair value of warrants exercised	-	30,526
Fair value of options exercised	-	7,289
Share Issuance costs	-	(1,632)
<b>Balance as at February 28, 2010</b>	<b>49,992,917</b>	<b>\$ 8,371,315</b>
Issued and fully paid		
Private Placement – prorated value of common shares issued	15,500,000	3,044,743
Exercise of warrants	2,000,000	300,000
Exercise of stock options	585,000	58,500
Fair value of warrants exercised	-	55,005
Fair value of options exercised	-	39,539
Share Issuance costs	-	(366,906)
<b>Balance as at November 30, 2010</b>	<b>68,077,917</b>	<b>\$ 11,502,196</b>

# Stikine Energy Corp.

(formerly Stikine Gold Corporation)

## Notes to Financial Statements

November 30, 2010 and 2009

Canadian Funds

Unaudited

### 5. Share Capital - *Continued*

During the nine months ended November 30, 2010, the Company completed a brokered private placement of flow-through common ("FT") shares and units at a price of \$0.20 for total gross proceeds of \$3,100,000. 13,775,000 FT shares and 1,725,000 units were issued, each unit consisting of one common share and one half of one common share purchase warrant. Each full warrant entitles the holder to acquire an additional common share until December 17, 2011 at price of \$0.25. In the event that the Company's common shares close at a price greater than \$0.50 cents for 20 consecutive trading days, the Company may accelerate the expiry date of the warrants by giving notice to the warrant holders that the warrants will expire on the 30th day after the date of notice. The agents of the financing received cash commissions of \$217,000.00 and 1,085,000 agent warrants, each exercisable until December 17, 2010 at a price of \$0.25.

The prorated fair value of the warrants issued was calculated to be \$55,257 on the grant date and is accounted for as a reduction to proceeds from the common shares with the offsetting entry to contributed surplus. The fair value of the agent warrants issued was calculated to be \$87,064 and is accounted for as share issuance costs with the offsetting entry to contributed surplus. A total of \$6,650 in issuance costs were attributable to the warrants which is accounted for as a reduction to share issuance costs with the offsetting entry to contributed surplus.

The total fair value of warrants and agent warrants was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Number of warrants and agent warrants	1,947,500
Average risk-free interest rate	1.76%
Expected dividend yield	Nil
Expected stock price volatility	95.1%
Average expected life	1.4 years

Flow-through securities are securities issued by a company that incurs certain resource expenditures and renounces them for tax purposes thereby allowing the expenditures to flow-through to the subscriber who purchased the securities. Subscribers may in turn claim the expenditure as a deduction on their personal or corporate tax returns. The \$2,755,000 raised by the Company through the sale of the FT shares will be spent on qualified mineral expenditures during the current year and renounced, for income tax purposes effective December 31, 2010.

During the year ended February 28, 2010, the Company completed a non-brokered private placement for proceeds of \$200,000. Two million units were issued at a price of \$0.10 per unit, each consisting of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire an additional common share until August 13, 2010 at price of \$0.15. A director of the Company purchased a total of 120,000 units.

The prorated fair value of the warrants issued was calculated to be \$55,005 on the grant date and is accounted for as a reduction to proceeds from the common shares with the offsetting entry to contributed surplus. The total fair value of warrants was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Number of warrants	2,000,000
Average risk-free interest rate	1.21%
Expected dividend yield	Nil
Expected stock price volatility	111%
Average expected life	0.88 years

**Stikine Energy Corp.**  
(formerly Stikine Gold Corporation)  
**Notes to Financial Statements**  
**November 30, 2010 and 2009**  
*Canadian Funds*  
**Unaudited**

**5. Share Capital - Continued**

**b) Stock Options**

The company has established a share purchase option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. The maximum number of shares issuable under the stock option plan shall not exceed 10% of the issued and outstanding shares. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the board of directors. The exercise price of an option is not less than the closing price on the TSX Venture Exchange on the last trading day preceding the grant date. Options vest on the grant date unless determined otherwise by the board of directors.

At November 30, 2010 there were 4,910,000 options outstanding at a weighted average exercise price of \$0.21. A summary of the changes during the nine months ended November 30, 2010 is as follows:

Number at February 28, 2010	Granted	Exercised	Expired or Cancelled	Number at November 30, 2010	Exercise Price Per Share	Expiry
490,000	-	-	(490,000)	-	\$0.55	March 4, 2010
625,000	-	-	(125,000)	<b>500,000</b>	\$0.30	Feb. 20, 2012
1,700,000	-	(450,000)	-	<b>1,250,000</b>	\$0.10	June 18, 2013
1,195,000	-	(135,000)	-	<b>1,060,000</b>	\$0.10	June 10, 2014
-	2,100,000	-	-	<b>2,100,000</b>	\$0.30	May 3, 2015
<b>4,010,000</b>	<b>2,100,000</b>	<b>(585,000)</b>	<b>(615,000)</b>	<b>4,910,000</b>	<b>\$0.21</b>	

During the nine months ended November 30, 2010, the Company granted 2,100,000 incentive stock options exercisable at a price of \$0.30 per share for a period of five years. The total fair value of the options granted was calculated to be \$355,539 on the grant date. Of this amount, \$120,629 was expensed and \$234,910 was capitalized to mineral properties. The offsetting entries are to contributed surplus. The fair value of stock options used to calculate the compensation expense was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Average risk-free interest rate	2.69%
Expected dividend yield	Nil
Expected stock price volatility	89%
Average expected option life	4.0 years

Also during the nine months ended November 30, 2010, a total of 615,000 outstanding stock options expired unexercised and a total of 585,000 stock options were exercised for proceeds of \$58,500. The fair value of \$39,539 relating to this exercise of stock options has been transferred to share capital from contributed surplus.

At February 28, 2010 there were 4,010,000 options outstanding at a weighted average exercise price of \$0.19. A summary of the changes during the year ended February 28, 2010 is as follows:

**Stikine Energy Corp.**  
(formerly Stikine Gold Corporation)  
**Notes to Financial Statements**  
**November 30, 2010 and 2009**

Canadian Funds  
Unaudited

**5. Share Capital - Continued**

Number at February 28, 2009	Granted	Exercised	Cancelled	Number at February 28, 2010	Exercise Price Per Share	Expiry
490,000	-	-	-	<b>490,000</b>	\$0.55	March 4, 2010
100,000	-	-	(100,000)	-	\$0.30	June 1, 2011
700,000	-	-	(75,000)	<b>625,000</b>	\$0.30	Feb. 20, 2012
1,800,000	-	(100,000)	-	<b>1,700,000</b>	\$0.10	June 18, 2013
-	1,195,000	-	-	<b>1,195,000</b>	\$0.10	June 10, 2014
3,090,000	1,195,000	(100,000)	(175,000)	<b>4,010,000</b>	\$0.19	

During the year ended February 28, 2010, the Company granted 1,195,000 incentive stock options exercisable at a price of \$0.10 per share for a period of five years. The total fair value of the options granted was calculated to be \$59,641 on the grant date. Of this amount, \$9,483 was expensed and \$50,158 was capitalized to mineral properties. The offsetting entries are to contributed surplus. The fair value of stock options used to calculate the compensation expense was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Average risk-free interest rate	2.37%
Expected dividend yield	Nil
Expected stock price volatility	82%
Average expected option life	4.2 years

Also during the year ended February 28, 2010, a total of 175,000 outstanding stock options were cancelled upon termination of consulting agreements. A total of 100,000 stock options were exercised for proceeds of \$10,000. The fair value of \$7,289 relating to this exercise of stock options has been transferred to share capital from contributed surplus.

c) **Warrants**

During the nine months ended November 30, 2010, 2 million warrants were exercised for proceeds of \$300,000. The fair value of \$55,005 relating to these warrants has been transferred to share capital from contributed surplus. Also during the period, 862,500 warrants and 1,085,000 agent warrants were issued with an exercise price of \$0.25. A summary of the Company's warrants outstanding at August 31, 2010 and the changes for the period are as follows:

Number Outstanding February 28, 2010	Issued	Exercised	Number Outstanding November 30, 2010	Exercise Price	Expiry Date
2,000,000	-	(2,000,000)	-	\$0.15	August 13, 2010
-	1,085,000	-	<b>1,085,000</b>	\$0.25	December 17, 2011
-	862,500	-	<b>862,500</b>	\$0.25	*December 17, 2011
2,000,000	1,947,500	(2,000,000)	<b>1,947,500</b>	\$0.25	

\* In the event that the closing sale price of the Company's common shares is greater than \$0.50 for a period of 20 consecutive trading days, the Company may accelerate the expiry date of these warrants by giving notice to the warrant holders, and in such case the warrants will expire on the 30th day after the date on which such notice is given.

## Stikine Energy Corp.

(formerly Stikine Gold Corporation)

### Notes to Financial Statements

November 30, 2010 and 2009

Canadian Funds

Unaudited

#### 5. Share Capital - Continued

During the year ended February 28, 2010, 5 million warrants were exercised for proceeds of \$750,000. The fair value of \$30,526 relating to these warrants has been transferred to share capital from contributed surplus. A summary of the Company's warrants outstanding at February 28, 2010 and the changes for the fiscal year are as follows:

Number Outstanding February 28, 2009	Issued	Exercised	Number Outstanding February 28, 2010	Exercise Price	Expiry Date
5,000,000	-	(5,000,000)	-	\$0.15	October 14, 2009
-	2,000,000	-	<b>2,000,000</b>	\$0.15	August 13, 2010
5,000,000	2,000,000	(5,000,000)	<b>2,000,000</b>	\$0.15	

#### d) Contributed Surplus

Details are as follows:

	November 30, 2010	February 28, 2010
Balance – Beginning of Period	\$ 1,048,537	\$ 971,825
Private placement proceeds allocated to warrants	55,257	55,005
Issuance costs attributed to warrants	(6,650)	(481)
Issuance costs for warrants exercised	481	362
Fair value of warrants exercised	(55,005)	(30,526)
Fair value of Agent's warrants issued	87,064	
Fair value of options exercised	(39,539)	(7,289)
Fair value of stock-based compensation	355,540	59,641
Balance – End of Period	\$ 1,445,685	\$ 1,048,537

#### 6. Reclamation Bonds

At November 30, 2010, reclamation bonds totalling \$11,000 (2009 - \$7,500) were held with the British Columbia Ministry of Energy, Mines and Petroleum Resources as summarized below:

	November 30, 2010	February 28, 2010
Grant Gold Project	\$ 4,000	\$ 4,000
BC Silica claims	7,000	-
Catalan Copper Project	-	3,500
Total	\$ 11,000	\$ 7,500

**Stikine Energy Corp.**  
(formerly Stikine Gold Corporation)  
**Notes to Financial Statements**  
**November 30, 2010 and 2009**

Canadian Funds  
Unaudited

**7. Related Party Transactions**

Except as noted elsewhere in these financial statements, related party transactions are measured and recorded at fair market value as follows:

- a) During the nine months ended November 30, 2010, consulting fees of \$44,000 (2009 - \$14,800) were paid or accrued to the Company's President and Chief Executive Officer. Services provided include general corporate, exploration and acquisition strategy, planning and management work, contract negotiations, and investment presentations
- b) During the nine months ended November 30, 2010, consulting fees of \$17,850 (2009 - \$10,850) were paid or accrued to the Company's Secretary and Chief Financial Officer. Services provided include corporate finance initiatives, fund raising, contract negotiations, accounting, office and general management.
- c) During the nine months ended November 30, 2010, rent costs of \$33,899 (2009 - \$30,499) were paid or accrued to a company with directors of the Company in common.
- d) At November 30, 2010 current liabilities include \$30,067 (2009 - \$45,567) payable to related parties. These transactions were incurred in the ordinary course of business, are non-interest bearing, and without specific repayment terms. The transactions are measured at the exchange amount, which is the fair value consideration established and agree to by the related parties.

**8. Income Taxes**

- a) Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

For the years ended:	<b>February 28, 2010</b>	February 28, 2009
Earnings (Loss) before income taxes	<b>\$ (157,287)</b>	\$ (1,769,922)
Canadian federal and provincial income tax rates	<b>29.76%</b>	30.75%
Income tax expense (recovery)	<b>(46,809)</b>	(544,251)
Increase (decrease) due to:		
Non-deductible expenses for tax purposes	<b>19,275</b>	37,727
Share issuance costs	<b>(438)</b>	(1,486)
Difference in long term tax rates	<b>4,404</b>	130,487
Expiry of losses and others	<b>13,211</b>	(10,673)
Changes in valuation allowance	<b>(6,362)</b>	388,196
Income tax expense (recovery)	<b>\$ (16,719)</b>	\$ -

**Stikine Energy Corp.**  
(formerly Stikine Gold Corporation)  
**Notes to Financial Statements**  
**November 30, 2010 and 2009**  
Canadian Funds  
Unaudited

**8. Income Taxes - Continued**

b) The significant components of future income tax assets and liabilities are as follows:

As at:	February 28, 2010	February 28, 2009
<i>Future income tax asset</i>		
Non-capital loss carry forwards	\$ 453,335	\$ 416,394
Shares issue costs	5,226	12,177
Equipment	4,246	3,976
Resource property costs	1,048,475	1,068,378
Future income tax assets	1,511,282	1,500,925
Less: Valuation allowance	(1,494,563)	(1,500,925)
Total future income tax asset	\$ 16,719	\$ -
<i>Future income tax liability</i>		
Mineral properties	\$ 16,719	\$ -
Total future income tax liability	\$ 16,719	\$ -
Net future income tax liability	\$ -	\$ -

c) At February 28, 2010, the Company has non-capital losses of \$1,793,205 that may be available to offset future taxable income. These loss carry-forwards expire as follows:

	Amount
2011	\$ 335,570
2015	332,157
2026	206,730
2027	308,060
2028	234,950
2029	175,202
2030	200,536
	\$ 1,793,205

The Company has cumulative resource expenditures of approximately \$5,160,000 that may be carried forward indefinitely and used to reduce taxable income in future years.

**9. Financial Instruments**

a) **Fair Values**

The Company has designated its financial instruments as follows:

- Cash and cash equivalents are classified as “*Held-For-Trading*” and recorded at fair value with changes in fair value recorded in net income;
- Reclamation bond amounts are classified as “*Available-for-Sale*” and recorded at fair value with temporary changes in fair value recorded in other comprehensive income; and
- Accounts payable, accrued liabilities, and due to related parties are classified as “*Other Financial Liabilities*”. These financial liabilities are recorded at amortized cost using the effective interest method.

# Stikine Energy Corp.

(formerly Stikine Gold Corporation)

## Notes to Financial Statements

November 30, 2010 and 2009

Canadian Funds

Unaudited

### 9. Financial Instruments - *Continued*

There are three levels of fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with level 1 inputs having the highest priority. The levels and the valuation techniques used to value the Company's financial assets and liabilities are described below:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 – Unobservable (supported by little or no market activity) prices.

The carrying amounts of financial instruments approximate fair value as of November 30, 2010 as shown below:

	Fair Value Hierarchy Level	Carrying and Fair Values
<b>Financial Assets</b>		
Cash and cash equivalents	2	\$ 48,153
Reclamation bonds	2	\$ 11,000
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	N/A	\$ 419,919
Due to related parties	N/A	\$ 30,067

The fair values of the Company's accounts payable and accrued liabilities and due to related parties are estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

#### b) Capital Risk Management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders, and to have sufficient funds on hand for business opportunities as they arise. The Company considers the components of shareholders' equity as capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue equity, sell assets, or return capital to shareholders as well as issue or repay debt. The Company is not subject to externally-imposed capital requirements. The Company invests its cash in short-term interest-bearing investments, having maturity dates of three months or less from the date of acquisition, that are readily convertible to known amounts of cash.

There were no changes to the Company's approach to capital management during the nine months ended November 30, 2010. As at November 30, 2010, the Company had no foreign currency hedges or commodity hedges in place, and consequently, hedge accounting is not used.

# Stikine Energy Corp.

(formerly Stikine Gold Corporation)

## Notes to Financial Statements

November 30, 2010 and 2009

Canadian Funds

Unaudited

---

### 9. Financial Instruments – *Continued*

#### c) Financial Risk Management

The Company is exposed to potential loss from various risks including credit risk, interest rate risk, currency risk, liquidity risk, market risk and commodity price risk.

##### *i) Credit Risk*

A concentration of credit risk in accounts receivable resides with the Canada Revenue Agency. Management has considered payment history and other factors and estimated that no allowances are required to allow for potential credit losses, as the risk of non-performance is remote. The Company maintains its cash and cash equivalents in Canadian Chartered Banks. The Company's maximum exposure to credit risk is the carrying value of its financial assets.

##### *ii) Foreign Exchange Risk*

The Company's operations are exclusively conducted in Canada and the operating results and the financial position of the Company are reported in Canadian dollars. The Company is not subject to foreign exchange risk at November 30, 2010.

##### *iii) Interest Rate Risk*

The Company is exposed to interest rate risk on its cash and cash equivalents. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher yielding cash equivalents and short-term investments mature and the proceeds are invested at lower interest rates. A 1% change in interest rates would have an insignificant impact on the Company's financial statements or operating results.

##### *iv) Liquidity Risk*

The Company is exposed to liquidity risk. The Company seeks to manage liquidity risk by maintaining sufficient cash and short-term investment balances for settlement of its obligations. Liquidity requirements are managed based on expected cash flow to ensure there is sufficient capital in order to meet short-term obligations. At November 30, 2010, the liquidity risk of the Company was considered high due to limited funds and general uncertainty in the world economy.

##### *v) Pledged Financial Assets*

The Corporation has financial assets that are pledged for reclamation obligations. Reclamation deposits are maintained to satisfy the Corporation's obligation for future reclamation expenditures at its various exploration properties.

##### *vi) Market and Commodity Price Risk*

The Company is exposed to market risk and commodity price risk. Declines in the market price of commodities can affect the Company's ability to raise capital to fund its ongoing exploration and development activities.

---

### 10. Segmented Information

The Company's principal activity is the exploration and development of mineral properties with these properties located in Canada.

---

## **Stikine Energy Corp.**

(formerly Stikine Gold Corporation)

### **Notes to Financial Statements**

**November 30, 2010 and 2009**

*Canadian Funds*

**Unaudited**

---

#### **11. Subsequent Events**

Subsequent to November 30, 2010, the Company closed a private placement raising gross proceeds \$5,865,000 through the issuance of 19,550,000 units at a price of \$0.30 per unit. Each unit consisted of one common share and one half of a purchase warrant, each whole warrant entitling the holder to acquire one common share of the Company at an exercise price of \$0.40 until December 30, 2011, and at an exercise price of \$0.50 until December 30, 2012. In consideration for their services, the Company paid the agents cash commissions of 7 per cent of the gross proceeds, and issued the agents non-transferable common share purchase warrants to acquire up to 7 per cent of the units sold. Each agent's warrant entitles the holder to purchase one common share of the Company until December 30, 2012, at an exercise price of \$0.40.

---