

**JAZZ RESOURCES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2010**

## AUDITORS' REPORT

To the Shareholders of  
Jazz Resources Inc.

We have audited the consolidated balance sheets of Jazz Resources Inc. as at June 30, 2010 and 2009 and the consolidated statements of operations 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 financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit 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 Company as at June 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

October 4, 2010



**JAZZ RESOURCES INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT JUNE 30**

	2010	2009
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 11,795	\$ 146,908
Receivables	<u>137,734</u>	<u>4,522</u>
	149,529	151,430
<b>Security deposits</b>	8,500	6,000
<b>Equipment</b> (Note 4)	12,017	16,413
<b>Exploration advance</b> (Note 3)	-	573
<b>Mineral properties and deferred exploration costs</b> (Note 3)	<u>674,484</u>	<u>404,862</u>
	<u>\$ 844,530</u>	<u>\$ 579,278</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 202,767	\$ 18,730
Due to related parties (Note 5)	<u>352,932</u>	<u>126,522</u>
	<u>555,699</u>	<u>145,252</u>
<b>Shareholders' equity</b>		
Capital stock (Note 6)	3,672,921	3,558,921
Contributed surplus (Note 6)	563,713	445,132
Deficit	<u>(3,947,803)</u>	<u>(3,570,027)</u>
	<u>288,831</u>	<u>434,026</u>
	<u>\$ 844,530</u>	<u>\$ 579,278</u>

**Nature and continuance of operations** (Note 1)

**On behalf of the Board:**

\_\_\_\_\_  
*"Bryan Glen"* Director \_\_\_\_\_ *"Doug Philip"* Director \_\_\_\_\_

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

**JAZZ RESOURCES INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**YEARS ENDED JUNE 30**

	2010	2009
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Amortization	\$ 4,396	\$ 6,007
Consulting fees	51,500	24,000
Filing fees	8,143	1,895
Interest expense	27,825	-
Management fees	78,000	78,000
Office and miscellaneous	17,074	18,429
Professional fees	51,193	55,781
Salaries and benefits	7,693	8,720
Stock-based compensation (Note 6)	118,581	242,249
Transfer agent fees	11,077	9,074
Travel and entertainment	<u>2,294</u>	<u>3,600</u>
<b>Loss before other item</b>	<b>(377,776)</b>	<b>(447,755)</b>
<b>OTHER ITEM</b>		
Interest income	<u>-</u>	<u>2,375</u>
<b>Loss for the year</b>	<b>(377,776)</b>	<b>(445,380)</b>
<b>Deficit, beginning of year</b>	<b><u>(3,570,027)</u></b>	<b><u>(3,124,647)</u></b>
<b>Deficit, end of year</b>	<b>\$ (3,947,803)</b>	<b>\$ (3,570,027)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.03)</b>	<b>\$ (0.03)</b>
<b>Weighted average number of common shares outstanding</b>	<b>14,167,982</b>	<b>14,003,605</b>

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

**JAZZ RESOURCES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (377,776)	\$ (445,380)
Items not affecting cash:		
Amortization	4,396	6,007
Stock-based compensation	118,581	242,249
Changes in non-cash working capital items:		
Decrease (increase) in receivables	1,228	(3,110)
Increase (decrease) in due to related parties	27,210	(10,829)
Increase (decrease) in accounts payable and accrued liabilities	<u>2,003</u>	<u>(11,159)</u>
Net cash used in operating activities	<u>(224,358)</u>	<u>(222,222)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	-	(2,970)
Increase in security deposit	(2,500)	(1,000)
Mineral property and deferred exploration costs	(278,028)	(262,647)
Proceeds from government subsidies	69,573	53,863
Exploration advances	<u>-</u>	<u>(573)</u>
Net cash used in investing activities	<u>(210,955)</u>	<u>(213,327)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances from related parties	199,200	110,000
Proceeds from issuance of capital stock (net of issuance costs)	<u>101,000</u>	<u>-</u>
Net cash provided by financing activities	<u>300,200</u>	<u>110,000</u>
<b>Decrease in cash during the year</b>	(135,113)	(325,549)
<b>Cash, beginning of year</b>	<u>146,908</u>	<u>472,457</u>
<b>Cash, end of year</b>	<u>\$ 11,795</u>	<u>\$ 146,908</u>
<b>Cash paid during the year:</b>		
Interest	\$ -	\$ -
Income taxes	-	-

**Supplemental disclosure with respect to cash flows (Note 9)**

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

**JAZZ RESOURCES INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2010

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Jazz Resources Inc. (the “Company”) was incorporated under the laws of the Province of British Columbia and is in the business of the exploration and development of mineral properties. To date, the Company has not earned any revenues and is considered to be in the exploration stage.

The Company is in the process of exploring and developing its mineral properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure continuation of the Company’s operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

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	2010	2009
Working capital (deficiency)	\$ (406,170)	\$ 6,178
Deficit	(3,947,803)	(3,570,027)

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**2. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements are stated in Canadian dollars unless otherwise noted. They have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) and reflect consideration of the following significant policies:

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Jazz Mining 05 Inc., which is incorporated under the laws of British Columbia, Canada.

Significant inter-company transactions were eliminated upon consolidation.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Estimates**

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

**Equipment**

Equipment is recorded at cost less accumulated amortization. Amortization is being provided for using the following rates and methods:

Vehicles	30% declining balance
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**Mineral properties**

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

**Asset retirement obligations**

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

**Flow-through shares**

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

**JAZZ RESOURCES INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Flow-through shares (cont'd...)**

When flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, are recognized as a recovery of income taxes in the statement of operations.

**Financial instruments**

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

The Company has classified its cash as held-for-trading. Receivables are classified as loans and receivables. Security deposits are classified as held-to-maturity. Accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities, which are measured at amortized cost.

During 2009, CICA Handbook Section 3862 “Financial Instruments – Disclosures” was amended to require enhanced disclosure of financial instrument fair value measurements and liquidity risks. Financial instruments must be classified at one of three levels within a fair value hierarchy according to the relative reliability of the inputs used to estimate their values. The three levels of the fair value hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3: Inputs that are not based on observable market data.

Financial instruments measured at fair value on the balance sheet are summarized under the three levels of fair value hierarchy as follows:

**As at June 30, 2010**

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
Cash	11,795	-	-	11,795

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Financial instruments (cont'd...)**

Cash as shown in the consolidated balance sheets as at June 30, 2010 and 2009 is measured using Level 1. The Company does not have any financial instruments that are measured using Level 2 or Level 3 inputs.

During the years ended June 30, 2010 and 2009, there were no transfers between Level 1, Level 2, and Level 3 classified assets and liabilities.

**Impairment of long-lived assets**

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

**Government subsidies**

Government assistance is recorded as a reduction of the cost of the applicable assets as determined by the terms and conditions of the agreement under which the assistance is provided to the Company.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

Basic loss per share is calculated using the weighted-average number of common shares outstanding during the year.

**Future income taxes**

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Stock-based compensation**

The Company accounts for all grants of options to employees, non-employees and directors in accordance with the fair value method for accounting for stock-based compensation. The fair value of stock-based compensation awards are calculated using the Black-Scholes option pricing model. Under the fair value method, stock-based payments are recorded as an expense over the vesting period or when awards or rights are granted, with a corresponding increase to contributed surplus. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to share capital.

**Adoption of new accounting policies**

*CICA Handbook Section 3064 - Goodwill and other intangibles assets*

This new section replaces Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new Section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. The Company adopted the new standard on July 1, 2009, which did not have a material impact on their financial statements.

**Future changes in accounting policies**

*Business Combinations, Non-controlling Interest and Consolidated Financial Statements*

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after July 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning July 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

*International financial reporting standards*

In addition to the above new accounting standards, the Accounting Standards Board ("AcSB"), in 2006, published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**JAZZ RESOURCES INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS**

The Company owns two mineral properties, the Teddy Glacier Property and the Spider Property, both located in the Province of British Columbia ("B.C."). The Teddy Glacier Property is located in the Revelstoke Mining Division in B.C., comprising of claims that are 100% owned by the Company through staking. The Spider Property is comprised of certain Crown granted mineral claims and several land lots in fee simple within the township of Camborne, B.C.

During the year ended June 30, 2010, the Company entered into an agreement to earn a 100% interest in eight mining claims contiguous to the Teddy Glacier Property. Consideration for the claims was as follows:

- Payment of \$12,500, due on signing (paid); and
- Issuance of 25,000 common shares due on signing (issued – valued at \$13,000 or \$0.52 per share).

All acquisition and deferred exploration costs have been grouped with the Teddy Glacier Property costs for presentation purposes.

The following table summarizes mineral property costs, by property.

	Teddy Glacier	Spider	Total
<b>Balance, June 30, 2008</b>	\$ 154,515	\$ 27,563	\$ 182,078
Contractors	149,768	69,140	218,908
Camp operation	2,871	-	2,871
Property and mining taxes	1,970	2,766	4,736
Site exploration	-	50,132	50,132
Government assistance and subsidies	<u>(33,863)</u>	<u>(20,000)</u>	<u>(53,863)</u>
<b>Balance, June 30, 2009</b>	275,261	129,601	404,862
Acquisition costs	25,500	-	25,500
Contractors	375,291	-	375,291
Property and mining taxes	-	2,713	2,713
Site exploration	60,997	9,135	70,132
Government assistance and subsidies	<u>(200,460)</u>	<u>(3,554)</u>	<u>(204,014)</u>
<b>Balance, June 30, 2010</b>	<u>\$ 536,589</u>	<u>\$ 137,895</u>	<u>\$ 674,484</u>

Title to mining properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

**Exploration advance**

The Company has advanced \$Nil (2009 - \$573) for site exploration on the properties as at June 30, 2010.

**JAZZ RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)**

**Government subsidies**

During the year ended June 30, 2010, the Company received \$69,573 (2009 - \$13,863) in B.C. mining tax credits for exploration work completed on its properties. These government subsidies are recorded as a reduction of deferred exploration costs.

As at June 30, 2010, the Company has accrued a total of \$134,440 (2009 - \$Nil) as B.C. mining tax credits receivable for exploration work completed during the year ended June 30, 2010.

**4. EQUIPMENT**

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Vehicles	\$ 47,553	\$ 35,536	\$ 12,017	\$ 47,553	\$ 31,140	\$ 16,413

**5. RELATED PARTY TRANSACTIONS**

As at June 30, 2010, \$352,932 (2009 - \$126,522) is due to related parties. Of this amount \$55,000 (2009 - \$Nil) is owed to a shareholder of the Company and \$224,500 (2009 - \$110,000) is owed to two directors of the Company. The remaining \$73,432 (2009 - \$16,522) is owed to a company owned by a director of the Company. The amounts are non-interest bearing and have no fixed terms of repayment.

During the year ended June 30, 2010, the Company paid or accrued accounting fees of \$13,337 (2009 - \$12,176) to an officer of the Company.

During the year ended June 30, 2010, the Company paid management fees of \$78,000 (2009 - \$78,000) pursuant to a management agreement with a company controlled by the Company's President. The Company has agreed to pay \$6,500 per month to the Company as remuneration for services, commencing on the date the Company is listed on the TSX Venture Exchange, January 28, 2008.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and in certain cases, by signed agreements. These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

**JAZZ RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**6. CAPITAL STOCK**

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common voting shares, no par value			
Common shares issued			
Balance, June 30 2008	14,003,605	\$ 3,558,921	\$ 202,883
Stock-based compensation	<u>-</u>	<u>-</u>	<u>242,249</u>
Balance, June 30, 2009	14,003,605	3,558,921	445,132
Stock-based compensation	-	-	118,581
Property acquisition	25,000	13,000	-
Private placement	<u>252,500</u>	<u>101,000</u>	<u>-</u>
Balance, June 30, 2010	<u>14,281,105</u>	<u>\$ 3,672,921</u>	<u>\$ 563,713</u>

During the year ended June 30, 2010, the Company:

- Completed a private placement whereby they sold a total of 252,500 units at a price of \$0.40 per unit for gross proceeds of \$101,000. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable at a price of \$0.50 for a period of 18 months from closing.
- Issued 25,000 common shares with a value of \$13,000 (\$0.52 per share) pursuant to the property agreement described in Note 3.

No common shares were issued during the year ended June 30, 2009.

**Escrow shares**

Of the issued and outstanding common shares, 2,690,129 shares are held in escrow pursuant to the requirements of the TSX Venture Exchange, to be released in accordance with Exchange policies.

**Share purchase warrants**

Share purchase warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2008 and 2009	232,320	\$ 0.45
Issued	252,500	0.50
Expired	<u>(232,320)</u>	<u>(0.45)</u>
Balance, June 30, 2010	<u>252,500</u>	<u>\$ 0.50</u>
Exercisable at June 30, 2010	<u>252,500</u>	<u>\$ 0.50</u>

**JAZZ RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**6. CAPITAL STOCK (cont'd...)**

**Share purchase warrants (cont'd...)**

As at June 30, 2010 the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
252,500	\$ 0.50	June 4, 2011

**Stock options**

During the year ended June 30, 2009, the Company adopted a new stock option plan (the "Stock Option Plan") under which it can grant up to a maximum of 2,800,700 options. The purpose of the Stock Option Plan is to encourage ownership of the Company's common shares by persons who are directors, senior officers and employees of, as well as consultants, and employees of management companies providing services to the Company. The term of any option granted under the Stock Option Plan may not exceed 10 years. The vesting periods for all options granted pursuant to the Stock Option Plan will be determined at the discretion of the Board of Directors at the time of the grant. The vesting schedule shall provide for a vesting period of at least 18 months and that the options will vest equally on a quarterly basis over the vesting period. The number of options granted to any one person may not exceed 5% of the outstanding listed common shares in a 12 month period.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2008 and 2009	1,775,000	\$ 0.45
Granted	<u>150,000</u>	0.45
Balance, June 30, 2010	1,925,000	\$ 0.45
Exercisable at June 30, 2010	1,812,500	\$ 0.45
Weighted average fair value of options granted during the year	\$ 0.25	(2009 - \$Nil)

As at June 30, 2010 the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
280,000	\$ 0.45	February 21, 2013
1,495,000	0.45	April 28, 2013
150,000	0.45	February 9, 2015

**JAZZ RESOURCES INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**6. CAPITAL STOCK (cont'd...)**

**Stock-based compensation**

For stock options granted to employees, officers, directors and consultants, the Company recognizes as an expense the estimated fair value of the stock options granted. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model.

The total stock-based compensation calculated for fiscal 2010 option grants under the fair value method was \$38,211 (2009 - \$Nil), and a total of \$118,581 (2009 - \$242,249) was recorded in the financial statements for the year ended June 30, 2010 as stock-based compensation with the offset credited to contributed surplus. The balance of the amount will be recorded throughout the option vesting period. The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year:

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	2010	2009
Risk-free interest rate	2.54%	-
Expected life of options	5 years	-
Annualized volatility	135%	-
Dividend rate	\$Nil	-

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**7. FINANCIAL INSTRUMENTS AND RISKS**

The Company's financial instruments consist of cash, receivables, security deposits, accounts payable and accrued liabilities and due to related parties. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

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

*Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2010, the Company had a cash balance of \$11,795 to settle current liabilities of \$555,699. There is a risk that the Company may not be able to fulfill its obligation when a liability is due. All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

**7. FINANCIAL INSTRUMENTS AND RISKS (cont'd...)**

*Market risk*

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

(a) Interest rate risk

The Company does not have any interest-bearing debt as of June 30, 2010. The \$8,500 of security deposits earn interest at an average rate of 0.26% per annum.

(b) Foreign currency risk

The Company does not have assets or liabilities in foreign currency and therefore is not exposed to foreign currency risk.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**8. SEGMENTED INFORMATION**

The Company primarily operates in one reportable operating segment, being the acquisition and development of mineral properties in Canada.

**9 SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The significant non-cash transactions during the year ended June 30, 2010 were as follows:

- a) Recognition of stock-based compensation of \$118,581 on options granted in the current and prior years.
- b) Issuance of 25,000 common shares with a fair value of \$13,000 (\$0.52 per share) pursuant to the property option agreement described in Note 3.
- c) As at June 30, 2010, deferred exploration costs totalling \$182,034 are included in accounts payable and accrued liabilities.
- d) As at June 30, 2010, the company has accrued a total of \$134,440 in B.C. mining tax credits receivable that offset deferred exploration costs incurred during the year.

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**9 SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd...)**

The significant non-cash transaction during the year ended June 30, 2009 was as follows:

- a) Recognition of stock-based compensation of \$242,249 on options granted in prior years.

**10. INCOME TAXES**

Income tax expense (recovery) varies from the amount that would be computed by applying the combined federal and provincial income tax rates as follows:

	2010	2009
Loss before income taxes	\$ (377,776)	\$ (445,380)
Expected income tax recovery at statutory rates	\$ (110,499)	\$ (134,727)
Non-deductible expenses	36,306	91,936
Deductible financing costs	(25,071)	(25,928)
Unrecognized benefits of non-capital losses	<u>99,264</u>	<u>68,719</u>
Future income tax recovery	\$ -	\$ -

The tax effects of temporary differences that give rise to significant components of future income tax assets and liabilities are as follows:

	2010	2009
Future tax assets (liabilities):		
Losses available for future periods	\$ 300,000	\$ 217,000
Capital assets	9,000	7,000
Financing costs	37,000	241,000
Mineral properties and deferred exploration costs	<u>(23,000)</u>	<u>56,000</u>
	323,000	521,000
Valuation allowance:	<u>(323,000)</u>	<u>(521,000)</u>
Net future tax assets (liabilities)	\$ -	\$ -

The Company has available for deduction against future taxable income non-capital losses of approximately \$1,200,000 (2009 - \$867,000). These losses, if not utilized, will expire through to 2030. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses, resource expenditures and other tax assets have not been recognized in these financial statements and have been offset by a valuation allowance.

**11. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern.

In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (ie. share capital, contributed surplus and deficit).

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the 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 common shares through private placements. The Company is not exposed to any externally imposed capital requirements. The Company's overall strategy remains unchanged from the year ended June 30, 2009.