

ELECTRA GOLD LTD.

FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(Expressed in Canadian Dollars, unless otherwise noted)

Auditor's Report

**To the Shareholders of
Electra Gold Ltd.**

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of matter

We draw attention to Note 1 to the financial statements which describes the material uncertainty that may cast significant doubt about Electra Gold Ltd.'s ability to continue as a going concern. Our opinion is not qualified with respect to this matter.

**Vancouver, Canada
April 15, 2011**

**"MacKay LLP"
Chartered Accountants**

ELECTRA GOLD LTD.

BALANCE SHEETS (Expressed in Canadian Dollars)

	DECEMBER 31	
	2010	2009
ASSETS		
Current		
Cash	\$ 218,016	\$ 231,906
Accounts receivable	56,532	26,285
Marketable securities (Note 3)	43,000	-
Prepaid expenses	6,104	5,989
Inventory	-	151,000
	323,652	415,180
Reclamation Deposits (Note 4)	182,500	172,500
Equipment (Note 5)	10,510	31,382
Mineral Properties (Note 6)	639,381	685,307
	\$ 1,156,043	\$ 1,304,369
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 314,614	\$ 314,684
Deferred revenue	-	87,329
Due to related parties (Note 7)	337,937	398,445
	652,551	800,458
Royalties Payable (Note 8)	351,465	323,908
Asset Retirement Obligation (Note 9)	112,501	105,618
	1,116,517	1,229,984
SHAREHOLDERS' EQUITY		
Share Capital (Note 10)	16,105,142	15,569,822
Contributed Surplus (Note 10)	649,301	635,321
Deficit	(16,714,917)	(16,130,758)
	39,526	74,385
	\$ 1,156,043	\$ 1,304,369

Going concern (Note 1)
 Commitments (Note 6)
 Subsequent events (Note 15)

Approved on behalf of the Board of Directors:

"Johan Shearer"

 Director

"Mark Tommasi"

 Director

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

ELECTRA GOLD LTD.

STATEMENTS OF OPERATIONS

(Expressed in Canadian Dollars)

	YEARS ENDED DECEMBER 31	
	2010	2009
Sales	\$ 1,015,428	\$ 1,898,942
Cost Of Sales		
Cost of production	929,873	1,773,850
Royalties (Note 7)	110,225	179,882
Depletion and accretion	6,883	34,108
	1,046,981	1,987,840
Gross Profit	(31,553)	(88,898)
Expenses		
Amortization	2,872	50,251
Consulting fees (Note 7)	162,920	158,029
Directors' fees (Note 7)	5,500	12,000
Filing fees	29,616	34,679
Management fees	17,960	47,338
Office and general	29,265	55,175
Professional fees	67,138	70,675
Property investigation expenses	-	1,603
Stock-based compensation	-	15,210
	315,271	444,960
Other Income		
Interest income	129	5,305
Write off of equipment	-	(129,536)
Write off of mineral properties	(380,264)	(1,159,798)
Gain on debt settlement	142,800	118,089
	(237,335)	(1,165,940)
Loss Before Income Taxes	(584,159)	(1,699,798)
Future Income Taxes Recovered (Note 11)	-	57,500
Net and Comprehensive Loss For The Year	\$ (584,159)	\$ (1,642,298)
Basic And Diluted Loss Per Share	\$ (0.01)	\$ (0.04)
Weighted Average Number Of Shares Outstanding	63,573,017	45,570,116

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

ELECTRA GOLD LTD.

STATEMENTS OF SHAREHOLDERS' EQUITY

(Expressed in Canadian Dollars)

	SHARE CAPITAL		CONTRIBUTED SURPLUS	DEFICIT	TOTAL
	SHARES	AMOUNT			
Balance, December 31, 2008	39,952,963	\$ 14,719,299	\$ 620,111	\$(14,488,460)	\$ 850,950
Shares issued for property	4,250,000	240,000	-	-	240,000
Shares issued for debt at \$0.045	3,373,977	148,523	-	-	148,523
Shares issued for cash					
Private placement at \$0.05 per unit	2,600,000	130,000	-	-	130,000
Private placement at \$0.05 per unit	600,000	30,000	-	-	30,000
Finders' fees	-	(11,000)	-	-	(11,000)
Private placement at \$0.05 per unit	2,000,000	100,000	-	-	100,000
Private placement at \$0.05 per unit	6,000,000	300,000	-	-	300,000
Finders' fees	-	(29,500)	-	-	(29,500)
Fair value of vesting stock options	-	-	15,210	-	15,210
Tax benefit on flow-through shares	-	(57,500)	-	-	(57,500)
Net loss for the year	-	-	-	(1,642,298)	(1,642,298)
Balance, December 31, 2009	58,776,940	15,569,822	635,321	(16,130,758)	74,385
Shares issued for cash:					
Private placement at \$0.05 per unit	2,400,000	120,000	-	-	120,000
Finders' fees	-	(12,000)	-	-	(12,000)
Fair value of brokers warrants	-	(1,245)	1,245	-	-
Private placement at \$0.05 per unit	5,880,000	294,000	-	-	294,000
Finders' fees	-	(27,500)	-	-	(27,500)
Fair value of brokers warrants	-	(12,735)	12,735	-	-
Shares issued for property	1,000,000	32,000	-	-	32,000
Shares issued for debt at \$0.025	5,712,000	142,800	-	-	142,800
Net loss for the year	-	-	-	(584,159)	(584,159)
Balance, December 31, 2010	73,768,940	\$ 16,105,142	\$ 649,301	\$(16,714,917)	\$ 39,526

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

ELECTRA GOLD LTD.
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	YEARS ENDED DECEMBER 31	
	2010	2009
Cash Flows (Used In) Provided By		
Operating Activities		
Net loss for the year	\$ (584,159)	\$ (1,642,298)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization	2,872	50,251
Accrued long-term royalties	27,556	44,971
Depletion and accretion	6,883	34,108
Future income taxes recovered	-	(57,500)
Gain on shares for debt settlement	(142,800)	(118,089)
Stock based compensation	-	15,210
Write off of equipment	-	129,536
Write off of mineral properties	380,264	1,159,798
	<u>(309,384)</u>	<u>(384,013)</u>
Changes in operating assets and liabilities:		
Decrease (Increase) in accounts receivable	(30,247)	133,545
Decrease (Increase) in prepaid expenses	(115)	(2,899)
Decrease (Increase) in inventory	151,000	(64,900)
Increase (Decrease) in accounts payable and accrued liabilities	266,517	146,708
Increase (Decrease) in deferred revenue	(87,329)	87,329
	<u>(9,558)</u>	<u>(84,230)</u>
Investing Activities		
Acquisition of equipment	-	(18,873)
Mineral property acquisition and exploration expenditures	(345,338)	14,776
Accounts payable related to mineral properties	37,014	(360,990)
Reclamation deposits	(10,000)	-
	<u>(318,324)</u>	<u>(365,087)</u>
Financing Activities		
Advances from to related parties	(60,508)	220,355
Proceeds from share issuances	374,500	519,500
Loan repayment	-	(72,098)
	<u>313,992</u>	<u>667,757</u>
Net (Decrease) Increase In Cash	(13,890)	218,440
Cash, Beginning Of Year	231,906	13,466
Cash, End Of Year	\$ 218,016	\$ 231,906
Supplemental Information		
Cash activities:		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

Supplemental Cash Flow Information (Note 12)

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

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS, ECONOMIC DEPENDENCE AND GOING CONCERN

Electra Gold Ltd. (the "Company") is a mining company, specializing in the development of and exploration for industrial minerals used in the cement industry. The Company was incorporated in the Province of British Columbia on December 1, 1981 as a result of the amalgamation of Electra Mining Corporation and Pacific North West Resources Ltd.

The Company is in the process of mining the Apple Bay mineral properties located on Vancouver Island near Port Hardy, British Columbia. 90% of the Company's entire mineral production in 2010 was sold to one customer (2009 – 61%) (the "Customer"). In addition, 5% of cost of sales (2009 - 32%) was performed by a private company owned by a shareholder of the Company. Another private company owned by a shareholder of the Company performed 26% of the cost of sales (2009 - 16%). The mineral claims are located on crown land within the traditional territory of Quatsino First Nation Band. The Company's operations are exposed to the financial and operating risks of these business partners.

The Company is in the process of exploring other industrial mineral properties and is considered to be an exploration company. The recoverability of the amounts shown for these other mineral exploration properties is dependent on the existence of economically recoverable reserves on these properties. Due to the historical losses generated by the operations of PEM 100 Quarry, discussions are taking place regarding the possibility of vending out the operation.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses since inception. The Company has accumulated a deficit of \$16,714,917 and has a working capital deficit of \$328,899 at December 31, 2010. The Company's ability to continue as a going concern is dependent upon its ability to obtain continued credit and operational support from its operational partners and management. Management plans to obtain increased net cash inflow from Customer revenues, additional customers for its products, lower operating costs, and share capital financing from shareholders and new investors. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as prescribed by the Canadian Institute of Chartered Accountants ("CICA").

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Use of Estimates and Measurement Uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods then ended. Due to the inherent uncertainty involved with making such estimates and assumptions, actual results reported in future periods could differ materially from those estimates. This could materially affect the carrying value and the ultimate recoverability of the amounts recorded for mineral properties.

Significant areas requiring the use of management estimates relate to the determination of impairment of long lived assets, the remaining mine life used to calculate the annual depletion of capitalized costs, royalties payable, estimates to account for the asset retirement cost of long-lived assets, variables in the use of the Black-Scholes option pricing valuation model to record the fair value ascribed to equity instruments, valuation allowance for future income tax assets; and determining whether contingent assets or liabilities exist. Management reviews significant estimates on a periodic basis and, where necessary, makes adjustments prospectively.

c) Financial Instruments – Recognition and Measurement

Under Section 3251, *Equity*, Section 3855, *Financial Instruments - Recognition and Measurement* and Sections 3862 & 3863, *Financial Instruments - Disclosure and Presentation*, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial assets are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet or another than temporary impairment is identified. Loans and receivables, held to maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, de-recognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financial instruments will be expensed in the period incurred.

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Financial Instruments – Recognition and Measurement (Continued)

The Company has designated its cash and marketable securities as held-for-trading, which are measured at fair value. Amounts receivable and reclamation deposits are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities, loans payable, amounts due to related parties, and royalties payable are classified as other financial liabilities, which is measured at amortized cost.

Credit Risk

The Company is exposed to credit risk with respect to accounts receivable if a customer fails to meet its contractual obligations. The Company undertakes credit evaluations on customers as necessary and has monitoring processes intended to mitigate credit risks and maintain appropriate provisions for potential credit losses. The Company has no significant allowance for doubtful accounts in 2010 and 2009. A significant proportion of the Company's accounts receivable balance is with customers in the cement industry and is subject to normal industry credit risks.

Credit risk also arises from cash and reclamation deposits held with financial institutions. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company's cash is held with the Bank of Montreal.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. The Company's growth strategy requires significant resources which are derived from cash flows provided by operations, additional debt, the issuance of equity or a combination thereof. As at December 31, 2010 the Company was holding cash of \$218,016. The Company plans to obtain increased net cash flow from operations and share capital financings. There can be no guarantee that management's efforts to raise additional funds will be successful.

Interest Rate Risk

The Company is not exposed to significant interest rate risks arising from financial instruments.

Commodity Price Risk

The Company is exposed to price risk with respect to commodity prices of industrial minerals. The Company monitors the price of commodities, as well as major input prices, and considers the risk exposure to fluctuating prices.

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Financial Instruments – Recognition and Measurement (Continued)

Currency Price Risk

The Company's functional currency is the Canadian dollar. There is no significant foreign exchange risk to the Company. The Company does not engage in any form of derivative or hedging instruments.

Fair value hierarchy

Financial instruments recorded at fair value on the Balance Sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- i. Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- ii. Level 2 – Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
- iii. Level 3 – Input for assets and liabilities that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The follow table outlines the Company's financial assets and liabilities measured at fair value by level with the fair value hierarchy described above.

As at December 31, 2010 and 2009 the Company's financial instruments measured at fair value are as follows:

2010

Assets	Level 1	Level 2	Level 3	Total
Cash	\$ 218,016	\$ -	\$ -	\$ 218,016
Marketable securities	\$ 43,000	\$ -	\$ -	\$ 43,000

2009

Assets	Level 1	Level 2	Level 3	Total
Cash	\$ 231,906	\$ -	\$ -	\$ 231,906
Marketable securities	\$ -	\$ -	\$ -	\$ -

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Foreign Currency Translation

Foreign currency monetary assets and liabilities are translated into the Canadian dollar reporting currency at the rate of exchange at the balance sheet date. Non-monetary assets, liabilities and equity balances are translated at historical translation rates. Revenues and expense transactions are translated at the exchange rate in effect during the transaction period. Exchange gains and losses are included in the statement of operations.

e) Revenue Recognition

Sales are recognized and recorded as each barge is shipped at agreed prices, when title transfers, and the rights and obligations of ownership pass to the customer and collection is reasonably assured.

f) Inventory

Inventory is recorded at the lower of cost and net realizable value. Inventory consists of ore that has been extracted and hauled to the crushing and loading facility. Cost includes extraction and crushing costs. Hauling costs are expensed as incurred. Write downs to net realizable value may be reversed to the extent of the original write down, if there is clear evidence of an increase in value due to a change in circumstances.

g) Equipment

Equipment is recorded at cost and amortized over the estimated useful lives of the respective items using the declining balance method at rates of 20% to 30% per year.

h) Mineral Properties

Mineral properties comprise acquisition costs including option payments to maintain mineral property titles in good standing and exploration costs directly incurred on the properties. The Company records its interest in mineral properties and related expenditures at cost or at an ascribed amount if the consideration is common shares, less option payments received. From time to time, the Company acquires or sells property interests pursuant to the terms of option agreements. As options are exercisable entirely at the discretion of the optionee, the related amounts are recorded upon payment or receipt. Exploration expenditures are capitalized until the properties are sold, abandoned or brought into production.

Capitalized costs related to sold or abandoned properties are written off in the period of sale or abandonment. Capitalized costs related to producing properties are amortized to production on the unit-of-production method, based upon the depletion of estimated production capacity.

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Mineral Properties (Continued)

The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of particular properties. The recoverability of the carrying value of mineral properties is dependent upon the discovery of economically recoverable resources, the ability of the Company to obtain financing or other means to complete development of the properties, and the future profitable productions or proceeds from the disposition of the properties.

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

i) Impairment of Long-Lived Assets

Long-lived assets include equipment and mineral properties. Long-lived assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Carrying amounts are written off to the extent capitalized costs exceed expected undiscounted future net cash flows.

The Company follows the recommendations in CICA Handbook Section 3063 – “Impairment of Long-Lived Assets” and the CICA's Emerging Issues Committee (“EIC”) EIC-174 – “Mining Exploration Costs”. Section 3063 requires that the Company review long-lived assets, including mining properties for impairment. Long-lived assets are assessed for impairment at each reporting period when events and circumstances warrant. EIC-174 consensus is that a mining enterprise in the development stage is not obliged to conclude that capitalized costs have been impaired due to the absence of a projected estimated future net cash flow from the mining enterprise. Mineral properties in the exploration stage do not have established mineral reserves and a basis for the preparation of a projection of the estimated future net cash flow from the properties does not exist. However, a mining enterprise is required to consider the conditions in Section 3063 for impairment write-down. The conditions include significant unfavourable economic, legal, regulatory, environmental, political and other factors. In addition management's development activities towards its planned principal operations are a key factor considered as part of the ongoing assessment of the recoverability of the carrying amount of mineral properties. Whenever events or changes in circumstances indicate that the carrying amount of a mineral property in the exploration stage may be impaired the capitalized costs is written down to the estimated recoverable amount.

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Asset Retirement Obligations

The Company is required to recognize a liability for an asset retirement obligation on long-lived assets when a legal liability exists and the amount of the liability is reasonably determinable. Asset retirement obligations are calculated on discounted future payment estimates and the liability is accreted over the expected term of the obligation. Subsequent adjustments are made on a prospective basis when there are changes to the underlying assumptions. Corresponding amounts and adjustments are added to the carrying value of the related long-lived asset and amortized or depleted to operations in accordance with the mineral properties accounting policy. Upon settlement of the liability, a gain or loss is recorded to the extent that actual cost is more or less than the initial estimate.

k) Share Capital

- i) Non-monetary consideration - Agent's warrants, stock options and other equity instruments issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued as purchase consideration is based on the trading price of those shares on the TSX.V on the date of the agreement to issue shares as determined by the Board of Directors.
- ii) Compensatory stock option transactions with directors, officers, employees and outside consultants are charged to operations or capitalized to mineral properties with an offsetting credit to contributed surplus. Stock options which vest immediately are recorded at the date of grant. Non employee stock options are required to be revalued over the vesting period. Employee stock options that vest over time are valued at the grant date and recorded using the straight line method over the vesting period. Consideration received on the exercise of stock options together with the related portion previously recorded in contributed surplus is credited to share capital.
- iii) Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as prepaid expenses. Share issuance costs related to uncompleted share subscriptions are charged to operations.

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Share Capital (Continued)

- iv) The Company has adopted the Canadian Institute of Chartered Accountants' guidance on the accounting treatment of Canadian flow-through shares through its EIC 146. The Abstract recommends that upon renunciation to the shareholders, the Company will reduce share capital and record a temporary future income tax liability for the amount of the tax deduction renounced to shareholders. In instances where the Company has sufficient available tax loss carry forwards or other deductible temporary differences available to offset the renounced tax deductions, the realisation of the deductible temporary differences will be credited to income in the period of renunciation.

Exploration costs renounced due to flow-through share subscription agreements remain capitalized; however, for corporate income tax purposes, the Company has no right to claim these costs as tax deductible expenses.

l) Income Taxes

The Company follows the future income tax asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized based on the estimated tax effects of temporary differences in the carrying value of assets and liabilities in the financial statements and their respective tax losses, using income tax rates substantively enacted on the balance sheet date. The effect of a change in income tax rates on the future income tax assets and liabilities is recognized in net earnings in the period of the change. A valuation allowance is provided to the extent that it is not more likely than not that future income tax benefits will be realized.

m) Basic and Diluted Loss Per Share

Basic loss per share is calculated by dividing net income (loss) by the weighted average number of shares issued and fully paid. The calculations of earnings per share on a diluted basis are calculated using the treasury stock method which considers the potential exercise of outstanding financial instruments with equity purchase or conversion features. Basic and diluted (loss) per share are equal as the assumed conversion of equity instruments would be anti-dilutive.

n) Variable Interest Entities

The CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", to provide accounting guidance related to variable interest entities ("VIE"). A VIE exists when the entity's equity investment is at risk. When a VIE is determined to exist the guidance requires the VIE to be consolidated by the primary beneficiary. The Company has determined that it does not have a primary beneficiary interest in any VIEs.

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Valuation of Equity Units Issued in Private Placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrants.

p) Mineral Exploration Investment Tax Credit

The Company does not recognize tax credits for its mining exploration expenditure claims until they are received or approved. Any investment tax credits recorded during the year are accounted for using the cost reduction method.

q) Future Accounting Pronouncements

The following accounting pronouncements are applicable to future reporting periods. The Company is currently evaluating the effects of adopting these standards:

International Financial Reporting Standards

The Canadian Accounting Standards Board ("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 January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. A changeover plan has been established to convert the new standards within the allotted timeline. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS has not been estimated at this time. The conversion to IFRS will require the Company to change certain accounting policies, systems, internal controls over financial reporting and disclosure controls. The Company will assess the impact of the transition to IFRS and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion. Effective January 1, 2011, the Company will adopt IFRS as the basis for preparing its consolidated financial statements.

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Future Accounting Pronouncements (Continued)

Business Combinations

In January 2009, the CICA issued Handbook Section 1582, Business Combinations, which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Estimated obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted.

Consolidated financial statements

In January 2009, the CICA issued Handbook Section 1601, consolidated financial statements, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

Non controlling interests

In January 2009, the CICA issued Handbook Section 1602, Non-controlling interests, which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

The Company is required to adopt Sections 1582, 1601 and 1602 concurrently; the Company did not adopt these sections prior to the adoption of IFRS and therefore there is no impact to the financial statements.

3. MARKETABLE SECURITIES

During the year ended December 31, 2010 the Company received 200,000 common shares of Claim Post Resources, as part of the compensation with respect to the RaceTrack Property option agreement. At December 31, 2010 the quoted market value of the Claim Post Resources shares was \$43,000.

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

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4. RECLAMATION DEPOSITS

The Company has posted reclamation term deposits with the Company's bankers in the amount of \$182,500 (2009 - \$172,500) as a condition of approval to a Work System and Reclamation Program Permit issued by B.C. Ministry of Energy, Mines and Petroleum Resources. These deposits bear interest at a weighted average of 0.6% per annum and mature between June and October 2011.

5. EQUIPMENT

	2010		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Computer equipment	\$ 10,381	\$ 9,013	\$ 1,368
Office trailer	17,107	7,965	9,142
	<u>\$ 27,488</u>	<u>\$ 16,978</u>	<u>\$ 10,510</u>

	2009		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Computer equipment	\$ 10,381	\$ 8,427	\$ 1,954
Office trailer	17,107	5,679	11,428
Grader	18,000	-	18,000
	<u>\$ 45,488</u>	<u>\$ 14,106</u>	<u>\$ 31,382</u>

Due to the impairment of the PEM 100 Quarry taken in 2009, the grader associated with the PEM 100 Quarry was returned to its vendor (a related party) during the year ended December 31, 2010 with no gain or loss. The vendor is still allowing the Company to use the grader without charge.

ELECTRA GOLD LTD.

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6. MINERAL PROPERTIES

	2010							BALANCE END OF YEAR
	BALANCE BEGINNING OF YEAR	ACQUISITION AND RETIREMENT COSTS	EXPLORATION EXPENDITURES	METC REFUND	OPTION PAYMENT	ACCUMULATED DEPRECIATION	WRITE-OFF	
Production Property								
Apple Bay	\$ -	\$ -	\$ 190,264	\$ -	\$ -	\$ -	\$ (190,264)	\$ -
Exploration Properties								
Apex Dot	-	27,000	34,988	-	-	-	-	61,988
Clone	190,000	-	-	-	-	-	(190,000)	-
Lang Bay	113,607	-	6,000	-	-	-	-	119,607
Suquash	381,700	-	39,086	-	-	-	-	420,786
Racetrack	-	100,000	-	-	(63,000)	-	-	37,000
	<u>\$ 685,307</u>	<u>\$ 127,000</u>	<u>\$ 270,338</u>	<u>\$ -</u>	<u>\$ (63,000)</u>	<u>\$ -</u>	<u>\$ (380,264)</u>	<u>\$ 639,381</u>

	2009							BALANCE END OF YEAR
	BALANCE BEGINNING OF YEAR	ACQUISITION AND RETIREMENT COSTS	EXPLORATION EXPENDITURES	METC REFUND	OPTION PAYMENT	ACCUMULATED DEPRECIATION	WRITE-OFF	
Production Property								
Apple Bay	\$ 930,669	\$ -	\$ 227,845	\$ (50,990)	\$ -	\$ (22,490)	\$ (1,085,034)	\$ -
Exploration Properties								
Clone	-	190,000	-	-	-	-	-	190,000
Hankin	50,000	-	-	-	-	-	(50,000)	-
Point Harvey	-	-	12,764	-	12,000	-	(24,764)	-
Cove								
Lang Bay	107,607	-	6,000	-	-	-	-	113,607
Suquash	195,725	-	185,975	-	-	-	-	381,700
	<u>\$1,284,001</u>	<u>\$ 190,000</u>	<u>\$ 432,584</u>	<u>\$ (50,990)</u>	<u>\$ 12,000</u>	<u>\$ (22,490)</u>	<u>\$ (1,159,798)</u>	<u>\$ 685,307</u>

ELECTRA GOLD LTD.

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6. MINERAL PROPERTIES (Continued)

a) Apple Bay

The Company has agreements under which it has acquired industrial mineral and metal rights to one mining lease and a surrounding block of contiguous mineral claims known as Apple Bay, lying southwest of the town of Port Hardy on northern Vancouver Island in British Columbia. The total area covered is about 1,900 hectares.

The Company signed lease and sublease agreements dated September 30, 2002 with a director and an officer of the Company, a company controlled by this individual and an unrelated party. Pursuant to the agreements, the Company leased the mineral rights to the Apple Bay property located near Port Hardy on Vancouver Island for an initial term expiring February 7, 2031. In consideration, the Company issued 3,000,000 shares at \$0.10 per share and agreed to pay two royalties to each of the related and unrelated parties which total \$1.00 per metric tonne of industrial product sold on the property. The Company may purchase one half of each of the royalties for \$500,000. Both royalty holders have provided a right of first refusal to the Customer to purchase these royalties. The Company also agreed to spend \$100,000 in exploration expenditures during the first year of the agreement (spent) and an aggregate of \$300,000 (spent) within five years. The Company will also pay a 3% net smelter returns royalty ("NSR") for all base and precious metals produced from the property.

Pursuant to an agreement dated June 25, 2003, the Company purchased additional Apple Bay claims from a director and an officer of the Company, for \$13,140 which represented the related party's carrying cost, plus a 0.5% NSR on all base and precious metals produced from the property.

The Company entered into an agreement dated February 3, 2005 with a company for the exploration development and mining of base and precious mineral resources within the Apple Bay property. The company may earn a 100% interest in the property by making a total of \$200,000 in cash payments over time to the Company, and upon a production decision, paying an additional \$800,000 in cash or shares. The Company retains the right to explore and exploit the property for non-metallic industrial minerals, and in addition, was granted the right to explore certain of the company's mineral claims for non-metallic industrial minerals.

In late 2007 a permit was received from the Ministry of Energy, Mines and Petroleum Resources to construct an access road. The road was completed in March 2008 for expanded access beyond the currently producing quarry. In light of a recent valuation of the quarry completed in January 2010 the Company decided to write-down the asset in the amount of \$190,264 (2009 - \$1,085,034) due to the negligible value and drain on cash flow.

ELECTRA GOLD LTD.

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6. MINERAL PROPERTIES (Continued)

b) Suquash Project

On August 7, 2008, the Company entered into a purchase agreement with an unrelated party to buy all of its rights to obtain coal leases covering the Suquash coal mine near Fort Rupert with the BC Ministry of Energy, Mines and Petroleum Resources, and to explore and develop the Suquash Coalfield. The agreement calls for a purchase price of \$8,800 (paid) and the allotment of 3,000,000 common shares of the Company, as per the following schedule:

- 500,000 shares upon the issue of a mine exploration permit and the written support for the project by the Fort Rupert Band Council (issued);
- 500,000 shares by April 30, 2009 (issued);
- 1,000,000 shares on the completion of a NI 43-101 Technical Report documenting in-situ reserves of at least 5 million tonnes of 11,000 B.T.U coal (issued); and
- 1,000,000 shares on the extraction and sale of a 10,000 tonne bulk sample with 50,000 tonnes developed.

A permit was granted on September 30, 2008 by the Ministry of Energy, Mines and Petroleum Resources for three coal lease permit applications totaling 1,038 hectares.

The Company commenced mineral exploration on the property in November 2008. During the year ended December 31, 2009 the Company incurred \$185,975 in exploration expenditures and the development of a NI 43-101 report on this property. Further work has taken place in the amount of \$39,086 during the year ended December 31, 2010.

c) Lang Bay

On June 25, 2003, the Company acquired 32 claims from directors of the Company in exchange for 500,000 shares of the Company at \$0.10 per share. These claims are located approximately 15 kilometers south east of Powell River, British Columbia, covering 800 hectares (approximately 2,000 acres). During the years ended December 31, 2010 and 2009, the Company incurred \$6,000 in exploration expenditures each year on this property.

d) Hankin Point

On April 11, 2003, the Company purchased 100% of the interest in the Hankin Point claims from a director and an officer of the Company and a company controlled by this individual, all of which are situated in the Nanaimo Mining Division, British Columbia. In consideration, the Company issued 500,000 shares at \$0.10 per share, and agreed to a royalty equal to \$0.60 for each metric tonne of limestone produced or removed from the claims. Due to uncertainty of future events, the Company had decided to write off the property as of December 31, 2009 to a \$Nil balance.

ELECTRA GOLD LTD.

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6. MINERAL PROPERTIES (Continued)

e) RaceTrack Property

On March 10, 2010, the Company announced the acquisition of a gold property in the West Timmins area of Ontario. The property consists of 103 claim units and 12 patented claims located in the southeast corner of Ogden Township approximately 10km south south-west from downtown Timmins. The property was acquired from two vendors and to earn 100% interest in the mineral rights of the property the Company must satisfy the following for each of the two vendors:

- Issue 800,000 shares (issued);
- Pay \$80,000 (paid);
- Incur a total of \$100,000 in expenditures on the property by February 23, 2012; and
- Incur an additional \$100,000 in expenditures on the property by February 23, 2013.

The Company may elect to purchase from one of the vendors at any time 2/3 (2%) of the 3% NSR Royalty, upon the payment to the vendor of one million dollars (\$1,000,000) per 1%, and from the second vendor 1/2 (1%) of the 2% NSR Royalty, upon the payment to the vendor of one million dollars (\$1,000,000) per 1%.

On September 15, 2010, the Company announced it had signed a letter of intent with Claim Post Resources for the continued development of the RaceTrack gold property in Timmins, Ontario. The terms of the option agreement are below:

Completion Date	Claim Post Ownership %	Electra Ownership %	Cash/Share Issuance and Work committed
Upon signing	Nil	100	\$20,000 cash pmt and issuance of 200,000 shares
Nine months after signing	Nil	100	\$120,000 work expenditures
Two years after signing	50	50	\$50,000 cash payment or issuance of 200,000 shares
Three years after signing	50	50	\$200,000 cash payment or issuance of 500,000 shares
Four years after signing	100	Nil	\$750,000 cash payment or issuance of 1,500,000 shares

f) Apex Dot Property

On February 1, 2010, the Company entered into an agreement to purchase a 100% interest for the Apex Dot claim group which are five mineral claims located 25km northwest of the community of Boston Bar in southwestern British Columbia. The claim group covers 1,887 hectares and is a gold silver property. The terms of the option agreement are as set out below:

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

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(Expressed in Canadian Dollars)

6. MINERAL PROPERTIES (Continued)

f) Apex Dot Property (continued)

Completion Date	Shares	Cash payments	Work Expenditures
Upon signing	100,000 (issued)	\$15,000 (paid)	-
February 1, 2011	100,000 (issued)	20,000 (paid subsequent)	\$30,000 (spent)
February 1, 2012	100,000	25,000	130,000
February 1, 2013	100,000	40,000	-
February 1, 2014	100,000	60,000	140,000
TOTAL	500,000	\$160,000	\$300,000

Mr. Cardinal retains a 2% cent net smelter royalty of which 1% can be bought back by the Company paying \$1,000,000.

g) Other Properties

On October 1, 2009 the Company acquired the Canasia Clone claims from an arm's length party for a fee of \$25,000 cash (paid) and 2,750,000 common shares (issued) valued at \$165,000. Under this agreement, the Company was committed to incur exploration expenditures of \$25,000 by July 1, 2010 and a further \$200,000 by December 1, 2010. The Net Smelter Return agreement states a royalty of 3% is earned but the Company has a right to purchase back 1% of the royalty for a fee of \$1,000,000. During the year ended December 31, 2010 the terms of the agreement were not met and as such the property has been written off to \$Nil.

7. RELATED PARTY TRANSACTIONS AND AMOUNTS OWING

The Company acquired and leased mineral properties from related parties as disclosed in the mineral properties note and issued shares for indebtedness to related parties as disclosed in the share capital note. In addition during the years ended December 31, 2010 and 2009, the Company carried out a number of transactions with related parties in the normal course of business.

Related Party Transactions in the Normal Course of Business

- The Company paid or accrued consulting fees of \$20,000 (December 31, 2009 - \$Nil) to a director of the Company for managerial services.
- The Company paid or accrued consulting fees of \$60,725 (December 31, 2009 - \$52,237) to both a related company and/or company of an officer, the former CFO and Corporate Secretary of the Company.
- The Company accrued geological fees and expenses of \$99,400 (December 31, 2009 - \$224,868) to a company controlled by the Company's president that were included in exploration costs.

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

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(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS AND AMOUNTS OWING (Continued)

Related Party Transactions in the Normal Course of Business (Continued)

- d) The Company paid or accrued directors' fees performed by directors of \$5,500 (December 31, 2009 - \$12,000).
- e) Royalties totaling \$22,045 (December 31, 2009 - \$35,977) were paid or accrued to a company controlled by the President.
- f) Royalties totaling \$33,068 (December 31, 2009 - \$53,965) were paid or accrued to the spouse of a director.

Due to Related Parties

As at December 31, 2010, amounts due to directors, officers and companies with a common director or officer for royalties, fees and expenses aggregated \$337,937 (2009 - \$398,445). Amounts due to related parties are unsecured and non-interest bearing with no fixed terms of repayment accordingly fair value is not readily determinable.

Transactions with related parties have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

8. ROYALTIES PAYABLE

The Company entered into a Participation and Royalty Agreement with the Quatsino First Nation, dated August 20, 2003, which grants the Company the exclusive right to mine certain claims over the term of the agreement expiring June 30, 2013. As consideration, Homegold Resources Ltd. (owned by the President of the Company) transferred 400,000 common shares of the Company to the Quatsino First Nation and a member has been appointed as director of the Company. A royalty of \$1.00 per metric tonne is also payable. Payment for one half of the royalty is deferred until production exceeds 200,000 metric tonnes in a calendar year. As at December 31, 2010, an amount of \$351,465 (2009 - \$323,908) is owed under this deferral arrangement. On March 13, 2006, the Company received a long-term permit from the B.C. Ministry of Energy and Mines to mine up to 249,000 metric tonnes annually. The Company has not produced in excess of 200,000 metric tonnes in any year and does not expect to produce in excess of 200,000 metric tonnes in 2011 and, therefore, the amount owing under the deferral arrangement has been classified as a non-current liability at December 31, 2010.

ELECTRA GOLD LTD.

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9. ASSET RETIREMENT OBLIGATION

As of December 31, 2010, the Company has recorded an estimate for the future cost of reclaiming the Apple Bay mine in the amount of \$112,501 (2009 - \$105,618). The Company recorded \$6,883 (2009 - \$34,107) of accretion during the year. The estimate reflects the present value to reclaim the quarry and mitigation system, involving re-sloping, re-contouring and re-vegetation of the property, on approximately seven hectares of land area. The Company anticipates the cost of reclamation work commencing in 2017 at \$170,000 and has used a credit adjusted risk free rate of 6.0%.

The estimate is subject to measurement uncertainty with respect to costs in the local market for third parties to perform the work, the actual timing of reclamation, the inflation and discount rate used.

10. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value

Unlimited number of class A preference shares without par value; none issued

b) Issued and Outstanding

Common Shares

Year Ended December 31, 2010

- i) On March 5, 2010, the Company issued 2,400,000 share capital units at a price of \$0.05 per unit, pursuant to a non brokered private placement, for total proceeds of \$120,000. Each unit consists of one share and one share purchase warrant. The warrants are exercisable for 2 years from the date of grant of \$0.10 each. A finder's fee of \$12,000 and 240,000 broker warrants exercisable at \$0.10 for a period of two years was paid in relation to this financing.
- i) On August 10, 2010, 5,712,000 shares were issued in exchange for debt in the amount of \$285,600. The common shares had a fair value of \$0.025 per share, resulting in a gain of \$142,800.
- ii) On August 10, 2010, 400,000 shares were issued pursuant to the RaceTrack Property agreement and were valued at \$10,000.
- iii) On September 24, 2010 400,000 shares were issued pursuant to the RaceTrack Property agreement and were valued at \$10,000.

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NOTES TO FINANCIAL STATEMENTS

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10. SHARE CAPITAL (Continued)

b) Issued and Outstanding (Continued)

- iii) On December 14, 2010, the Company issued 5,880,000 $\frac{3}{4}$ flow through share capital units at a price of \$0.05 per unit, pursuant to a non brokered private placement, for total proceeds of \$294,000. Each unit consists of one share ($\frac{3}{4}$ flow through and $\frac{1}{4}$ non flow through) and one share purchase warrant. The warrants are exercisable for 2 years from the date of grant at \$0.10 for the first year and \$0.12 for the second year. Finder's fees in connection with this financing were \$27,500 and 550,000 broker warrants exercisable at \$0.10 for a period of one year.
- iv) On December 14, 2010, the Company issued 200,000 shares pursuant to the Apex Dot Property agreement valued at \$12,000.

Year Ended December 31, 2009

- ii) On June 30, 2009, 500,000 shares were issued pursuant to the Suquash property agreement at a value of \$30,000.
- iii) On July 17, 2009, 2,600,000 flow through shares were issued for proceeds of \$130,000. Finders' fees of \$11,000 were issued in conjunction with the placement.
- iv) On July 17, 2009, 600,000 units were issued for proceeds of \$30,000. Each unit consisted of one common share and one half share purchase warrant exercisable at \$0.08 in the first year and \$0.10 in the second year.
- v) On August 18, 2009, 3,373,977 shares were issued in exchange for debt in the amount of \$269,918. The common shares had a fair value of \$0.045 per share, resulting in a gain of \$118,089.
- vi) On August 18, 2009, 2,000,000 flow through shares were issued for proceeds of \$100,000.
- vii) On October 14, 2009, 2,750,000 shares were issued pursuant to the Canasia Clone property agreement at a value of \$165,000.
- viii) On October 23, 2009, 6,000,000 units were issued for proceeds of \$300,000. Each unit consisted of one common share and one half share purchase warrant exercisable at \$0.10 for a period of two years. Finders' fees of \$29,500 and 28,500 brokers' warrants were issued in conjunction with this placement. The brokers' warrants are exercisable at \$0.10 for a period of two years, expiring October 23, 2011.
- ix) On November 30, 2009, 1,000,000 shares were issued pursuant to the Suquash property agreement at a value of \$45,000.

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

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10. SHARE CAPITAL (Continued)

c) Stock Options

The Company maintains a stock option plan for directors, officers, employees and consultants and may issue share purchase options up to 10% of the issued share capital of the Company at the market price of the Company's shares on the date of grant. The options can be granted for a maximum term of 5 years and vesting is determined by the directors.

The following table summarizes the Company's stock option activity during the years ended December 31, 2010 and 2009. The options issued vested immediately and have a one or a two year term. The remaining weighted average life of outstanding options at December 31, 2010 is Nil and December 31, 2009 is 0.95 years.

	2010		2009	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of year	800,000	\$ 0.10	1,000,000	\$ 0.10
Granted	-	-	650,000	0.10
Exercised	-	-	-	-
Expired/cancelled	(800,000)	0.10	(850,000)	0.10
Outstanding, end of year	-	\$ -	800,000	\$ 0.10

There were no stock options outstanding and exercisable as at December 31, 2010.

The following table summarizes the Company's stock options outstanding and exercisable at December 31, 2009:

2009		
NUMBER	EXERCISE PRICE	EXPIRY DATE
150,000	\$ 0.10	February 13, 2010
650,000	\$ 0.10	February 23, 2011
800,000		

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

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10. SHARE CAPITAL (Continued)

c) Stock Options (Continued)

Stock Based Compensation

Total stock based compensation recognized in the year was \$Nil (2009 - \$15,120), based on a risk free interest rate of Nil (2009 – 1.66%), an expected life of Nil (2009 – 2 years), expected volatility of Nil (2009 – 178%) and a dividend yield rate of \$Nil for both years.

d) Share Purchase Warrants

The following table summarizes the Company's share purchase warrant activity during the years ended December 31, 2010 and 2009.

	<u>2010</u>		<u>2009</u>	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of year	7,953,500	\$ 0.10	4,625,000	\$ 0.10
Issued at \$0.08 each	-	-	300,000	0.08
Issued at \$0.10 each	9,070,000	0.10	3,028,500	0.10
Expired	(4,625,000)	0.10	-	-
Outstanding, end of year	<u>12,398,500</u>	<u>\$ 0.10</u>	<u>7,953,500</u>	<u>\$ 0.10</u>

The following tables summarize the Company's warrants outstanding for the years ended December 31, 2010 and 2009.

<u>2010</u>		
NUMBER	EXERCISE PRICE	EXPIRY DATE
300,000	\$ 0.08/.10	July 16, 2011
3,028,500	\$ 0.10	October 22, 2011
240,000	\$ 0.10	March 5, 2011
2,400,000	\$ 0.10	March 5, 2012
550,000	\$ 0.10	December 14, 2011
5,880,000	\$ 0.10/.12	December 14, 2012
<u>12,398,500</u>		

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10. SHARE CAPITAL (Continued)

d) Share Purchase Warrants (Continued)

790,000 broker warrants were issued in relation to financings and were valued using black scholes and the following variables:

Date of grant 2010	Mar 5, 2010	Dec 17, 2010	Total or Average
Number of brokers warrants	240,000	550,000	790,000
Estimated life	2 years	1 years	1.3 years
Share price at date of grant	\$0.04	\$0.08	\$0.06
Option exercise price	\$0.10	\$0.10	\$0.10
Risk free interest rate	1.53%	1.66%	1.62%
Estimated annual volatility	95.56%	101.84%	99.93%
Option fair value	\$0.01	\$0.02	\$0.02
Compensation cost	\$1,245	\$12,735	\$13,980

11. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	2010	2009
Rate	28.5%	30.0%
Income tax recovery at statutory rates	\$ (166,000)	\$ (510,000)
Non-deductible differences	-	5,000
Effect of change in tax rates	11,000	136,000
Non-capital losses expired	89,000	-
Future income tax assets recognized (not recognized)	66,000	311,500
Income tax expense (recovery)	\$ -	\$ (57,500)

ELECTRA GOLD LTD.

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11. INCOME TAXES (Continued)

The significant components of the Company's net future income tax assets were approximately as follows:

	<u>2010</u>	<u>2009</u>
Exploration and development deductions	\$ 489,000	\$ 392,000
Equipment	261,000	260,000
Non-capital losses carried forward	420,000	446,000
Other temporary differences	14,000	8,000
	<hr/>	<hr/>
Total future tax assets	1,184,000	1,106,000
Valuation allowance	(1,184,000)	(1,106,000)
	<hr/>	<hr/>
Net future income tax assets	\$ -	\$ -

As at December 31, 2010, the Company's significant future income tax assets and liabilities comprise:

- a) Non-capital losses carried forward of approximately \$1,680,000 which may be used to reduce future taxable income, and if unused, will expire between fiscal 2011 and 2030. No provision has been made in these financial statements for the potential income tax savings on the application of these losses.
- b) Canadian and foreign acquisition, exploration and development expenses amounting to approximately \$2,484,000 which may be used indefinitely to offset future taxable income.
- c) Flow-Through Shares

In fiscal 2010, the Company was committed to exploration expenditures of \$150,000 for the year ended December 31, 2009 and \$220,500 for the year ended December 31, 2010. As at December 31, 2010, the Company had incurred in excess of the required flow-through expenditures. The Company recorded tax benefits of \$Nil (2009 - \$57,500) on renounced exploration expenditures as a reduction of share capital.

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

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12. NON-CASH INVESTING AND FINANCING ACTIVITIES

The Company recorded non-cash investing and financing activities as follows:

During the year ended December 31, 2010

- The Company issued 5,712,000 shares in exchange for debt in the amount of \$0.025 per share. A gain of \$142,800 was attributed to this transaction.
- The Company issued 1,000,000 shares for property payments in the amount of 800,000 shares at \$0.025 per share and 200,000 shares at \$0.06 per share for a total value of \$32,000.

During the year ended December 31, 2009

- The Company issued 3,332,657 shares in exchange for debt in the amount of \$0.045 per share. A gain of \$118,089 was attributed to this transaction.
- The Company issued 3,250,000 shares for property payments in the amount of \$0.06 per share and 1,000,000 shares for property payments in the amount of \$0.045 per share for a total value of \$240,000.

13. SEGMENTED INFORMATION

The Company currently conducts substantially all of its operations in Canada in one business segment, being the mining of industrial mineral properties.

During the year, 100% of revenue was from two customers of which \$913,885 or 90% (2009 - \$1,111,300) of the Company's sales was to one customer. These sales are pursuant to a purchase agreement dated April 1, 2004, which is for an initial term of five years and was renewed for an additional 5 years in 2009 by mutual agreement.

ELECTRA GOLD LTD.

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14. MANAGEMENT OF CAPITAL

The Company considers its management of capital to include all components of debt and shareholders' equity. Its objectives are to ensure that the Company continues to operate as a going concern, if possible, in order to pursue the operation of its mine property and the development of its mineral properties, to sustain future development and growth as well as to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, seek debt financing, or acquire or dispose of assets. The Company, upon approval from its Board of Directors, makes changes to its capital structure as deemed appropriate under the specific circumstances.

There were no changes to the Company's approach to Capital Management during the year ended December 31, 2010. The Company is not subject to any external covenants.

15. SUBSEQUENT EVENTS

Subsequent to December 31, 2010:

- a) On January 19, 2011, the Company was issued TSX Venture Exchange acceptance of a agreement whereby the Company acquired nine claims totaling approximately 4,500 hectares of ground near Creston, British Columbia. The Company paid \$5,000 in cash and issued 2,000,000 shares for the property.
- b) On January 19, 2011, the Company was issued TSX Venture Exchange acceptance of a agreement whereby the Company acquired ten claims totaling approximately 5,152 hectares of ground near Creston, British Columbia. The Company paid \$4,000 in cash and issued 1,500,000 shares for the property.
- c) On January 21, 2011, the Company was issued TSX Venture Exchange acceptance for a non brokered private placement which was announced on December 17, 2010. The placement consisted of 1,900,000 units issued at a price of \$0.05 per share for total gross proceeds of \$95,000. Each unit consists of one common share and one share purchase warrant enabling the holder to purchase one additional common share at a price of \$0.10 per share for a period of 24 months.
- d) On March 2, 2011, the Company was issued TSX Venture Exchange acceptance for a non brokered private placement which was announced on February 14, 2011. The placement consisted of 8,333,333 units issued at a price of \$0.06 per share for total gross proceeds of \$500,000. Each unit consists of one common share and one share purchase warrant enabling the holder to purchase one additional common share at a price of \$0.10 per share for a period of 24 months. Finder's fees in the transaction amounted to \$23,750 cash and 791,666 warrants exercisable for a period of 24 months at \$0.10.

ELECTRA GOLD LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(Expressed in Canadian Dollars)

15. SUBSEQUENT EVENTS (Continued)

- e) During fiscal 2010 a former contractor of the Company issued a Notice of Civil Claim in the BC Supreme Court. The Company has retained counsel to defend against the claim and has filed a Counterclaim for damages in respect of the contractor's breach of contract and negligence in performance of contract work. The Company is of the opinion that a significant portion of the contractor's claim is without merit as not having been made in accordance with the contract which the contractor elected to abandon. The Company has proposed a settlement of \$84,000 with respect to the work performed, this amount is accrued at December 31, 2010. Any adjustment necessary to reflect the final settlement will be accounted for when known.