

Interim Consolidated Financial Statements  
(Unaudited)  
(Stated in Canadian Dollars)



March 31, 2010

**NOTICE TO SHAREHOLDERS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2010**  
**PREMIER GOLD MINES LIMITED**

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim consolidated financial statements of Premier Gold Mines Ltd. were prepared by management in accordance with Canadian generally accepted accounting principles. The most significant of these accounting principles have been set out in the December 31, 2009 audited financial statements. Only changes in accounting policies have been disclosed in these unaudited interim consolidated financial statements. Management acknowledges responsibility for the preparation and presentation of the unaudited interim consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Corporation's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim consolidated financial statements and (ii) the unaudited interim consolidated financial statements fairly present in all material respects the financial position, results of operations and cash flows of the Corporation, as of the date of and for the periods presented by the unaudited interim consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited interim consolidated financial statements together with other financial information of the Corporation and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim consolidated financial statements together with other financial information of the Corporation. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim consolidated financial statements together with other financial information of the Corporation for issuance to the shareholders.

Management recognizes its responsibility for conducting the Corporation's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.



(Incorporated under the laws of Ontario)

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

As at March 31, 2010  
(with comparative figures as at December 31, 2009)  
(Stated in Canadian Dollars)

	2010 \$	2009 \$
<b>ASSETS</b>		
Current		
Cash and cash equivalents <i>[note 3]</i>	49,426,181	21,226,978
Accounts receivable	200,988	259,188
Prepays and deposits	487,176	28,887
<b>Total current assets</b>	<b>50,114,345</b>	<b>21,515,053</b>
Investments <i>[note 4]</i>	219,885	1,490,150
Property, plant and equipment <i>[note 5]</i>	41,142	44,478
Mineral properties <i>[note 6]</i>	67,815,837	65,700,001
Mineral properties held for sale <i>[note 7]</i>	102,064	102,064
	<b>118,293,273</b>	<b>88,851,746</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	2,743,288	1,622,016
Taxes payable	69,636	146,610
<b>Total current liabilities</b>	<b>2,812,924</b>	<b>1,768,626</b>
Long term tax payable	93,643	124,829
Future tax liability	11,071,464	7,060,144
<b>SHAREHOLDERS' EQUITY</b>		
Share capital		
Issued		
Common shares <i>[note 8]</i>	103,812,536	78,528,083
Share purchase warrants <i>[note 9]</i>	224,436	224,436
Contributed surplus <i>[note 11]</i>	7,190,654	7,104,904
Obligation to issue shares <i>[note 14]</i>	1,180,300	7,980
Deficit	(8,092,684)	(5,967,256)
<b>Total shareholders' equity</b>	<b>104,315,242</b>	<b>79,898,147</b>
	<b>118,293,273</b>	<b>88,851,746</b>

*Commitments [note 14]*

See accompanying notes to the consolidated financial statements

On behalf of the Board:

"John Seaman"  
Director

"Ewan Downie"  
Director



(Incorporated under the laws of Ontario)

## CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

(Unaudited)

For the three months ended March 31  
(Stated in Canadian Dollars)

	2010	2009
	\$	\$
<b>REVENUE</b>		
Investment income	9,222	30,242
Other income	8,150	3,500
	17,372	33,742
<b>EXPENSES</b>		
Amortization	3,336	4,443
Stock-based compensation	1,349,600	189,750
Flow-through interest penalty	94,732	67,920
General and administrative	660,491	533,383
Professional fees	24,581	29,337
	2,132,740	824,833
Loss before the following	(2,115,368)	(791,091)
Change in unrealized gain on investments	708,684	1,177,642
Loss on sale of investments	(151,315)	(674,435)
Write-down of mineral properties <i>[note 6]</i>	(1,669,394)	-
Loss before income taxes	(3,227,393)	(287,884)
Current tax recovery	-	(14,249)
Future tax expense (recovery)	(1,101,965)	2,954
Loss and comprehensive loss for period	(2,125,428)	(276,589)
Deficit, beginning of period	(5,967,256)	(2,656,519)
Deficit, end of period	(8,092,684)	(2,933,108)
Basic and diluted loss per share <i>[note 12]</i>	(0.02)	(0.04)

*See accompanying notes to the consolidated financial statements*



(Incorporated under the laws of Ontario)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

For the three months ended March 31  
(Stated in Canadian Dollars)

	2010 \$	2009 \$
<b>OPERATING ACTIVITIES</b>		
Loss and comprehensive loss for period	(2,125,428)	(276,589)
Add charges (deduct credits) to earnings not involving a current payment (receipt) of cash		
Amortization	3,336	4,443
Stock-based compensation	1,349,600	189,750
Change in unrealized gain on investments	(708,684)	(1,177,642)
Loss on sale of investments	151,315	674,435
Write-down of mineral properties	1,669,394	-
Future tax expense (recovery)	(1,101,965)	2,954
	(762,432)	(582,649)
Net change in non-cash working capital balances related to operations	(504,874)	(571,412)
Cash used in operating activities	(1,267,306)	(1,154,061)
<b>INVESTMENT ACTIVITIES</b>		
Mineral exploration and development expenditures, net	(3,785,230)	(4,634,140)
Net change in non-cash working capital balances related to investing activities	1,117,897	2,451,618
Proceeds from the sale of investments, net	1,827,634	393,070
Cash used in investment activities	(839,699)	(1,789,452)
<b>FINANCING ACTIVITIES</b>		
Shares issued in private placements	32,000,000	-
Proceeds from the exercise of stock options	148,570	103,000
Share issue costs	(1,842,362)	-
Cash provided by financing activities	30,306,208	103,000
Increase (decrease) in cash and cash equivalents during period	28,199,203	(2,840,513)
Cash and cash equivalents, beginning of period	21,226,978	19,005,740
Cash and cash equivalents, end of period	49,426,181	16,165,227

See accompanying notes to the consolidated financial statements



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three months ended March 31, 2010  
(with comparative figures for the year ended December 31, 2009)  
(Stated in Canadian Dollars)

### 1. NATURE OF BUSINESS AND GOING CONCERN

Premier Gold Mines Limited (the "Corporation" or "Premier") was incorporated under the laws of the Province of Ontario on May 29, 2006, and was inactive until August 18, 2006.

On August 18, 2006 the Corporation entered into an agreement with Wolfden Resources Inc. ("Wolfden") whereby Wolfden completed a re-organization by way of a statutory plan of arrangement (the "Arrangement"). Pursuant to the Arrangement, Wolfden transferred certain of its mineral property interests in Ontario and \$2,000,000 cash to the Corporation and each registered holder of Wolfden common shares was entitled to receive one New Wolfden common share and 0.7 of a Premier common share in exchange for each Wolfden common share held by the shareholder immediately prior to the effective date. The mineral properties transferred were recorded at the carrying value of Wolfden immediately prior to the re-organization.

On October 5, 2008 Premier incorporated a Mexican subsidiary referred to as Oro Premier de Mexico, S.A. de C. V. ("Oro Premier"), in connection with the acquisition of certain mineral claims located in the El Alamo Mining District, Baja California, Mexico.

The Corporation is in the exploration stage and its principal business activity is the acquisition, exploration and development of mineral properties that it believes contain mineralization that will be economically recoverable in the future.

The accompanying unaudited interim consolidated financial statements have been prepared on the basis of Canadian generally accepted accounting principles applicable to a going concern. The appropriateness of using the going concern basis is dependent upon, among other things, future profitable operations, the ability to realize assets and discharge liabilities in the normal course of business in the foreseeable future and the ability of the Corporation to raise additional capital. Specifically, the recovery of the Corporations investment in mineral properties and related deferred expenditures is dependent upon the discovery of economically recoverable reserves, the ability of the Corporation to obtain necessary financing to develop the properties and establish future profitable production from the properties, or from the proceeds of their disposition.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements of Premier have been prepared by management on the basis of the Corporation's continuance as a going-concern and follow the same accounting policies as the most recent annual audited financial statements except for the changes as noted below. The interim consolidated financial statement note disclosures do not include all of those required by Canadian generally accepted accounting principles applicable for annual financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the 2009 audited consolidated financial statements. These unaudited interim consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, Oro Premier. All significant intercompany balances and transactions have been eliminated.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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### RECENT ACCOUNTING PRONOUNCEMENTS

#### **Business combinations / consolidated financial statements / non-controlling interests**

In January 2009, the CICA adopted sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests" which superseded current sections 1581, "Business Combinations" and 1600, "Consolidated Financial Statements". These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. These new sections were created to converge Canadian GAAP to IFRS.

#### **Credit Risk and the Fair Value of Financial Assets and Financial Liabilities**

In January, 2009, the Emerging Issues Committee issued a new abstract concerning the measurement of financial assets and financial liabilities, EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." There had been diversity in practice as to whether an entity's own credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial instruments. The EIC reached a consensus that these risks should be taken into account in the measurement of financial assets and financial liabilities. EIC-173 was effective for all financial assets and financial liabilities measured at fair value in interim and annual financial statements issued for periods ending on or after the date of issuance of EIC-173 with retrospective application without restatement of prior periods. The Corporation has applied this new abstract at the date of issuance resulting in no impact on its consolidated financial statements.

#### **Fair Value Hierarchy**

In January 2009, the CICA adopted amendments to sections 3862 "Financial Instruments Disclosures". These amendments require the Corporation to present certain information about financial instruments measured at fair value in the Consolidated Balance Sheets. In the first year of application, comparative information need not be presented for the disclosures required by the amendment. Accordingly, the disclosure for the fair value hierarchy is only presented for the December 31, 2009 year end. The following table presents financial assets and liabilities measured at fair value on the consolidated balance sheets in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted in active markets for identical assets or liabilities);
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. Additional disclosure has been provided for in Note 16 as a result of this section.

#### **Mining exploration costs**

On March 27, 2009, the Canadian Institute of Chartered Accountants approved EIC 174, "Mining Exploration Costs". The EIC provides guidance on capitalization of exploration costs related to mining properties in particular and on impairment of long-lived assets in general. The Corporation has applied the EIC, resulting in no impact on its consolidated financial statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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### FUTURE ACCOUNTING CHANGES

#### Convergence with International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") 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 transition date for publicly listed companies to implement IFRS, which will replace Canadian GAAP for these types of entities.

The effective date for this change is interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2010 will require the restatement for comparative purposes of quarterly and annual amounts reported by the Corporation for the year ended December 31, 2010. The Corporation is in the process of developing a plan for IFRS convergence. Detailed analysis of the differences between IFRS and the Corporation's accounting policies and assessment of the various alternatives for first time adoption of IFRS are in progress. Training for key employees has begun and will continue throughout implementation. Due to the anticipated changes in IFRS prior to transition, it is currently not possible to full determine the impact on the consolidated results.

### 3. CASH AND CASH EQUIVALENTS

	<b>2010</b>	<b>2009</b>
	\$	\$
Cash	<b>4,632,181</b>	4,441,479
Short-term deposits	<b>44,794,000</b>	16,785,499
	<b>49,426,181</b>	21,226,978

As at March 31, 2010, the Corporation held short-term deposits consisting of Canadian dollar denominated short-term financial instruments maturing within 1 day, yielding 0.110% [December 31, 2009 - 35 days, yielding of 0.080% - 0.094%].



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

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**4. LONG-TERM INVESTMENTS**

	2010		2009	
	Fair Value \$	Cost \$	Fair Value \$	Cost \$
<b>Equities</b>				
Canadian entities	219,885	353,728	1,409,400	1,905,177
<b>Other Financial Assets</b>				
Investment in warrants	-	-	80,750	427,500
	<b>219,885</b>	<b>353,728</b>	<b>1,490,150</b>	<b>2,332,677</b>

Canadian equities represent shares of publicly traded entities listed on Canadian exchanges.

Market value of equities is determined at the bid price as at March 31, 2010 and December 31, 2009.

**5. PROPERTY, PLANT AND EQUIPMENT**

Details of period-end property, plant and equipment balances are as follows:

	2010		2009	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Office equipment	102,528	61,386	102,528	58,050
Property, plant, and equipment, net	<b>41,142</b>		<b>44,478</b>	

Amortization for the period is \$3,336 [2009 - \$16,164].



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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### 6. MINERAL PROPERTIES

As of March 31, 2010, accumulated costs with respect to the Corporation's interest in mineral properties owned, leased or under option, consisted of the following:

	2010			2009	
	Deferred exploration expenditures \$	Acquisition cost \$	Option payments received \$	Total \$	Total \$
Rahill-Bonanza, Ontario(*)	7,671,185	19,267,617	(440,000)	26,498,802	26,279,419
East Bay, Ontario(*)	254,712	6,225,083	-	6,479,795	6,291,803
PQ North, Ontario	4,522,122	114,455	-	4,636,577	3,555,716
Hardrock, Ontario (*)	22,126,173	4,699,395	-	26,825,568	24,952,334
Lennie, Ontario(*)	-	-	-	-	1,352,579
Other Areas (*)	2,383,489	991,606	-	3,375,095	3,268,150
	36,957,681	31,298,156	(440,000)	67,815,837	65,700,001

(\*) The property descriptions can be found in the December 31, 2009 audited consolidated financial statements.

#### Property write-down

As at March 31, 2010, the Corporation has decided to no longer pursue its option to acquire a 100% interest in the Lennie project, and as such \$1,669,394 has been charged against earnings in the period. A penalty for early termination to be paid to Newcastle Resources Ltd was negotiated subsequent to period end [see note 17 - Subsequent Events].

### 7. MINERAL PROPERTY HELD FOR SALE

#### Newman Madsen

Mineral property held for sale includes the Newman Madsen Property with a book value of \$102,064 [2009 - \$102,064]. As at March 31, 2010 the Corporation was in discussions with other parties regarding the possible sale of the Corporation's interest in these mineral properties.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the three months ended March 31, 2010  
 (with comparative figures for the year ended December 31, 2009)  
 (Stated in Canadian Dollars)

### 8. COMMON SHARES

The Corporation is authorized to issue an unlimited number of common shares.

	Number #	Carrying Amount \$
<b>Balance December 31, 2008</b>	78,065,179	61,317,428
Stock options exercised	588,400	1,107,600
Reallocation from contributed surplus amounts relating to the exercise of stock options	-	469,520
Shares issued for mineral properties	240,000	542,400
Shares issued in private placement #1	4,103,600	14,978,140
Shares issued in private placement #2	1,500,000	5,475,000
Tax effect of flow-through share renunciation	-	(4,071,650)
Share issue costs	-	(1,290,355)
<b>Balance, December 31, 2009</b>	84,497,179	78,528,083
Private placements	8,000,000	32,000,000
Stock options exercised	92,500	156,550
Reallocation from contributed surplus amounts relating to the exercise of stock options	-	83,550
Tax effect of flow-through share renunciation	-	(5,113,285)
Share issue costs	-	(1,842,362)
<b>Balance, March 31, 2010</b>	92,589,679	103,812,536

#### 2009

##### Shares issued for Mineral Property #1

The Corporation issued 40,000 common shares valued at \$78,400 to Newcastle Resources Ltd. on April 14, 2009 upon closing of the agreement to acquire the Lennie Property (note 6 - Mineral properties).

##### Shares issued for Mineral Property #2

The Corporation issued 200,000 common shares valued at \$464,000 on May 20, 2009 to Roxmark Mines Ltd. in relation to the Geraldton Project Joint Venture agreement dated July 18, 2008 (note 6 - Mineral properties).

##### Private Placement #1

On September 17, 2009, the Corporation completed a private placement (the "Offering") of 4,103,600 flow-through common shares ("Flow-Through Common Shares") at a price of \$3.65 per Flow-Through Common Share, for gross proceeds of \$14,978,140. In consideration of the agents' services in connection with the Offering, the agents were paid an aggregate cash fee equal to 4.5 per cent of the gross proceeds raised in the Offering. In addition, the agents received broker warrants exercisable for common shares of the Corporation equal in number to 4.5 per cent of the Flow-Through Common Shares issued pursuant to the Offering. Of the fees paid to the agents, 5% was paid to a company related to the Corporation through a common director. The broker warrants entitle the holder to purchase one common share at a price of \$2.60 per common share for period of 12 months after the closing date.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three months ended March 31, 2010  
(with comparative figures for the year ended December 31, 2009)  
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### **Private Placement #2**

On November 12, 2009 the Corporation completed a private placement of 1,500,000 flow through common shares (the "Flow Through Share") at a price of \$3.65 per Flow-Through Share, for gross proceeds of \$5,475,000. In consideration of the agents' services in connection with the offering, the agents were paid an aggregate cash fee equal to 3.75 per cent of the gross proceeds raised in the offering. In addition, the agents received broker warrants exercisable for common shares of the Corporation equal in number to 4.5 per cent of the Flow-Through Shares issued pursuant to the offering. The broker warrants entitle the holder to purchase one common share at a price of \$3.20 per common share for period of 12 months after the closing date.

### **Obligation to issue shares**

During the year an employee exercised stock options that were not released from treasury until after the year end. These shares were issued January 2010, and there is no longer any obligation related to this exercise of options.

### **2010**

#### **Private Placement**

On February 2, 2010 the Corporation issued 8,000,000 common shares, on a "bought deal" basis, at a price of \$4.00 per common share for gross proceeds of \$32,000,000. In consideration of the agents' services in connection with the offering, the agents were paid an aggregate cash fee equal to 5 per cent of the gross proceeds raised in the offering.

### **Obligation to issue shares**

On March 24, 2010 the Board approved the issuance of 290,000 common shares to various employees as compensation, accordingly, \$1,180,300 was included in stock based compensation during the period. The shares were issued subsequent to period end (see note 17).



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

For the three months ended March 31, 2010  
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**9. SHARE PURCHASE WARRANTS**

The following table reflects the continuity of warrants:

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>2010 Opening Balance</b>	<b>Warrants Issued</b>	<b>Warrants Exercised</b>	<b>Warrants Expired</b>	<b>March 31, 2010 Closing Balance</b>
	<b>\$</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
September 17, 2010	2.60	184,662	-	-	-	<b>184,662</b>
November 12, 2010	3.20	67,500	-	-	-	<b>67,500</b>
		<b>252,162</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>252,162</b>

The fair value of the share purchase warrants has been estimated using the Black-Scholes option pricing model. The assumptions used for the valuation of the warrants were:

Dividend yield 0%, expected volatility 65% to 67%, a risk-free interest rate of 0.4687% to 0.5692% and an expected life of 1 year.

The following table reflects the value of share purchase warrants currently outstanding:

<b>Warrants</b>	<b>Number</b>	<b>Carrying Amount</b>
	<b>#</b>	<b>\$</b>
Broker warrants, exercisable at \$2.60 and expiring September 17, 2010	184,662	152,346
Broker warrants, exercisable at \$3.20 and expiring November 12, 2010	67,500	72,090
	<b>252,162</b>	<b>224,436</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the three months ended March 31, 2010  
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### 10. SHARE INCENTIVE PLAN

The Corporation has a share incentive plan (the "Plan") which is restricted to directors, officers, key employees and consultants of the Corporation. The number of common shares subject to options granted under the Plan (and under all other management options and employee stock purchase plans) is limited to 10% in the aggregate and 5% with respect to any one optionee of the number of issued and outstanding common shares of the Corporation at the date of the grant of the option. Options issued under the Plan may be exercised during a period determined by the Board of Directors which cannot exceed ten years.

The following table reflects the continuity of stock options under the Plan:

	Number of Stock Options		Weighted Average Exercise Price	
	2010 #	2009 #	2010 \$	2009 \$
Opening balance	4,861,350	2,839,610	1.71	1.71
Options granted	100,000	2,832,640	1.90	2.58
Options cancelled	-	(222,500)	1.78	1.78
Options exercised	(92,500)	(588,400)	1.72	1.88
	<b>4,868,850</b>	4,861,350	<b>1.75</b>	2.20

The following table reflects the stock options outstanding as at March 31, 2010:

Expiry Date	Exercise Price \$	Options Outstanding #
September 15, 2011	1.00	760,000
August 8, 2012	1.95	730,000
March 10, 2013	4.00	100,000
April 25, 2013	2.00	643,000
July 29, 2013	2.59	75,000
October 15, 2013	2.00	10,000
December 24, 2013	1.50	160,710
May 27, 2014	2.50	137,640
June 17, 2014	2.66	2,252,500
		<b>4,868,850</b>

The Corporation applies the fair value method of accounting for all stock based compensation awards and accordingly, \$169,300 was recorded as compensation for the 100,000 stock options that vested during the period. All of the issued options have vested as of March 31, 2010.

For purposes of the options granted, the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model, with the following assumptions: no dividends to be paid, expected volatility of 64%, risk-free interest rate of 0.211%, expected life of 3 years.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 11. CONTRIBUTED SURPLUS

The following table reflects the continuity of contributed surplus:

	\$
December 31, 2008	3,597,986
Stock options vested	3,976,438
Stock options exercised	(469,520)
Balance, December 31, 2009	7,104,904
Stock options vested	169,300
Stock options exercised	(83,550)
<b>Balance, March 31, 2010</b>	<b>7,190,654</b>

### 12. LOSS PER SHARE

The basic earnings (loss) per share is computed by dividing the earnings (loss) for the period by the weighted average number of common shares outstanding during the period. Fully diluted earnings (loss) per share is the same as basic earnings (loss) per share. The effect of common share purchase options and warrants on the net loss is not reflected as to do so would be anti-dilutive.

The following table sets for the computation of basic and diluted earnings (loss) per share:

	2010	2009
<u>Numerator:</u>		
Net loss	(2,125,428)	(3,310,737)
<u>Denominator:</u>		
Weighted average number of common shares	89,617,996	79,828,219
<b>Basic and diluted loss per share</b>	<b>(0.02)</b>	<b>(0.04)</b>

### 13. RELATED PARTIES

The following are the related party transactions, recorded at the exchange amount as agreed to by the parties:

[a] Included in general and administrative expenses are amounts totaling \$21,380 (2009 - \$33,381) for corporate secretarial services provided by companies related to the Corporation through a common officer.

[b] Included in general and administrative expenses are amounts totaling \$63,010 (2009 - \$255,161), and included in the mineral property expenditures are amounts totaling \$28,026 (2009 - \$112,104) for rent, facilities related charges, and accounting and management services provided by a company related to the Corporation through a common officer.

[c] Included in other revenue are amounts totaling \$7,950 (2009 - \$22,950) for rental of a core shack to a company related to the Corporation through a common director.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the three months ended March 31, 2010  
(with comparative figures for the year ended December 31, 2009)  
(Stated in Canadian Dollars)

### 14. COMMITMENTS

The Corporation has commitments relating to a contract for facilities, and management and accounting services expiring June 2011, and operating leases for four vehicles expiring October 2010, April 2011, September 2011, and October 2012 respectively.

The minimum annual contract and lease payments for the next three years are as follows:

2010	296,125
2011	201,624
2012	9,368
	<hr/>
	507,117

#### Flow-through renunciation

As at December 31, 2009, the Corporation has renounced 100% of its flow-through related resource expenditures to investors. The Corporation had until February 1, 2010 to incur the expenditures before monthly interest charges began to accrue on unspent funds. Interest charges incurred by the Corporation as a result of this income tax legislation are charged to income in the period incurred. Of the \$20,453,140 in flow-through financing raised in 2009 the Corporation has incurred \$7,197,006 in exploration expenditures. Therefore the Corporation must incur an additional \$13,256,134 in exploration expenditures to fulfil its obligation by December 31, 2010.

### 15. MANAGEMENT OF CAPITAL

The Corporation's objective when managing capital is to safeguard the Corporation's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimises the costs of capital at an acceptable risk. In the management of capital, the Corporation includes the components of shareholders' equity. The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Corporation may attempt to issue new shares, or acquire or dispose of assets.



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### 16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Corporation had no held-to-maturity or available for sale instruments and no allowance for credit losses as at March 31, 2010 and December 31, 2009:

	2010	2009
Financial Assets		
<i>Held for trading, measured at fair value</i>		
Cash and cash equivalents	49,426,181	21,226,978
Investments	219,885	1,490,150
	<b>49,646,066</b>	22,717,128
<i>Loans and receivables, measured at amortized cost</i>		
Accounts receivable	200,988	259,188
Financial Liabilities		
<i>Other liabilities, measured at amortized cost</i>		
Accounts payable and accrued liabilities	2,743,288	1,622,016

(a) Currency risk

The Corporation is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Corporation operates in both Canada and Mexico and a portion of its expenses are incurred in Mexican Pesos. As at March 31, 2010 there are no significant financial instruments denominated in Mexican Pesos. Changes in the currency exchange rates between the Canadian dollar relative to the Mexican Peso could have an effect on the Corporation's results of operations, financial position or cash flows. The Corporation has not hedged its exposure to currency fluctuations. At March 31, 2010 there is no significant foreign exchange risk to the Corporation.

(b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Corporation manages its credit risk by holding cash equivalents and investments through large Canadian financial institutions. Investments (including those presented as part of cash and cash equivalents) are composed of financial instruments guaranteed by the Federal Government of Canada. These investments mature at various dates over the current operating period. The Corporation's receivables consist of sales taxes due from the Federal Governments of Canada and other amounts from Canadian Corporations.

(c) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.



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### (d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Corporation will realize a significant loss as a result of a decline in the fair market value of investments and other items held within cash and cash equivalents is limited given that the majority of investments have a relatively short maturity. The Corporation manages its interest rate risk by investing the majority of funds in short-term investments and therefore is not exposed to significant fluctuations in interest rates.

### (e) Fair value

Financial instruments consist of cash and cash equivalents, investments, accounts receivable, and accounts payable and accrued liabilities. The fair value of these financial instruments approximate their carrying value, unless otherwise noted, due to the short terms to maturity.

### (f) Fair value hierarchy

The financial assets and liabilities measured at fair value in the Consolidated Balance Sheets are grouped into Level 1 for investments.

## 17. SUBSEQUENT EVENTS

On April 1, 2010 the Corporation issued 285,000 shares to various employees as compensation (see note 8).

On April 2, 2010 the Corporation issued 20,000 common shares to Newcastle Resources Ltd. in order to satisfy an early termination clause of the Lennie option agreement (see note 6).

On April 6, 2010 the Corporation issued 5,000 shares to various employees as compensation (see note 8).

On April 13, 2010 the Corporation issued stock options to purchase 2,965,000 common shares to various employees and consultants of the Corporation.