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

PREMIER
Gold Mines Limited

September 30, 2009

## NOTICE TO SHAREHOLDERS

## FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009

## 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, 2008 audited consolidated 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 condition, results of operations and cash flows of the Corporation, as of the date of and for the periods presented in 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)

# BALANCE SHEET

(Unaudited)

As at September 30, 2009
(with comparative figures as at December 31, 2008)
(Stated in Canadian Dollars)

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents *[note 3]* | **22,293,198** | 19,005,740 |
| Accounts receivable | **286,915** | 167,008 |
| Prepaids and deposits | **36,186** | 77,068 |
| **Total current assets** | **22,616,299** | 19,249,816 |
| Long-term investments *[note 4]* | **2,109,075** | 1,793,917 |
| Property, plant and equipment *[note 5]* | **48,085** | 59,246 |
| Mineral properties *[note 6]* | **62,185,829** | 47,021,003 |
| Mineral properties held for sale *[note 7]* | **82,064** | 286,981 |
| | **87,041,352** | 68,410,963 |
| **LIABILITIES** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **4,087,287** | 1,215,890 |
| Taxes payable | **111,997** | 69,816 |
| **Total current liabilities** | **4,199,284** | 1,285,706 |
| Long term tax payable | **124,829** | 156,015 |
| Future tax liability | **8,530,791** | 4,710,347 |
| **Shareholders' equity** | | |
| Share capital | | |
| Issued | | |
| Common shares *[note 8]* | **73,063,540** | 61,317,428 |
| Share purchase warrants *[note 9]* | **152,346** | - |
| Contributed surplus *[note 11]* | **7,191,624** | 3,597,986 |
| Obligation to issue shares *[note 8]* | **26,600** | - |
| Deficit | **(6,247,662)** | (2,656,519) |
| **Total shareholders' equity** | **74,186,448** | 62,258,895 |
| | **87,041,352** | 68,410,963 |

*See accompanying notes to the consolidated financial statements*

On behalf of the Board:

*"John Seaman"* Director

*"Ewan Downie"* Director

PREMIER Gold Mines Limited

(Incorporated under the laws of Ontario)

# STATEMENT OF EARNINGS AND DEFICIT

(Unaudited)

(Stated in Canadian Dollars)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | $ | $ | $ | $ |
| **REVENUE** | | | | |
| Interest income | **-** | 50,484 | **37,602** | 391,261 |
| Other income | **29,000** | - | **34,000** | 4,504 |
| | **29,000** | 50,484 | **71,602** | 395,765 |
| **EXPENSES** | | | | |
| Amortization | **3,899** | 11,127 | **12,557** | 33,944 |
| Compensation adjustment for stock options *[note 10]* | **37,400** | 134,875 | **3,926,913** | 681,955 |
| Flow-through interest penalty | **11,774** | - | **124,931** | 57,416 |
| General and administrative | **500,144** | 439,066 | **1,449,850** | 1,198,043 |
| Professional fees | **47,265** | 120,979 | **132,124** | 246,039 |
| | **600,482** | 706,047 | **5,646,375** | 2,217,397 |
| **Loss before the following** | **(571,482)** | (655,563) | **(5,574,773)** | (1,821,632) |
| Unrealized gain (loss) on investments | **1,211,027** | (2,414,090) | **2,980,646** | (2,002,305) |
| Gain on sale of mineral properties *[note 6]* | **-** | - | **98,494** | 5,409,108 |
| Gain (loss) on sale of investments | **(259,449)** | 5,508 | **(1,360,965)** | 117,140 |
| **Earnings (loss) before income taxes** | **380,096** | (3,064,145) | **(3,856,598)** | 1,702,311 |
| **Income taxes** | | | | |
| Current | **-** | - | **(14,249)** | - |
| Future tax expense (recovery) | **(153,036)** | (117,084) | **(251,206)** | 1,468,839 |
| | **(153,036)** | (117,084) | **(265,455)** | 1,468,839 |
| **Earnings (loss) and comprehensive earnings (loss) for period** | **533,132** | (2,947,061) | **(3,591,143)** | 233,472 |
| Retained earnings (deficit), beginning of period | **(6,780,794)** | 301,830 | **(2,656,519)** | (2,878,703) |
| **Deficit, end of period** | **(6,247,662)** | (2,645,231) | **(6,247,662)** | (2,645,231) |
| **Basic and diluted loss per share** *[note 12]* | **-** | (0.04) | **(0.05)** | - |

*See accompanying notes to the consolidated financial statements*

PREMIER
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(Incorporated under the laws of Ontario)

# STATEMENT OF CASH FLOWS

(Unaudited)

(Stated in Canadian Dollars)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | $ | $ | $ | $ |
| **OPERATING ACTIVITIES** | | | | |
| Earnings (loss) and comprehensive earnings (loss) for period | **533,132** | (2,947,061) | **(3,591,143)** | 233,472 |
| Add charges to earnings not involving a current payment of cash | | | | |
| Amortization | **3,899** | 11,127 | **12,557** | 33,944 |
| Compensation adjustment for stock options | **37,400** | 134,875 | **3,926,913** | 681,955 |
| Unrealized loss (gain) on investments | **(1,211,027)** | 2,414,090 | **(2,980,646)** | 2,002,305 |
| Future tax expense (recovery) | **(153,036)** | (117,084) | **(251,206)** | 1,468,839 |
| Gain on sale of mineral properties | **-** | - | **(98,494)** | (5,409,108) |
| Loss (gain) on sale of investments | **259,449** | (5,508) | **1,360,965** | (117,140) |
| | **(530,183)** | (509,561) | **(1,621,054)** | (1,105,733) |
| Net change in non-cash working capital balances related to operations | **(549,652)** | (2,211,041) | **(2,782,090)** | (926,310) |
| **Cash used in operating activities** | **(1,079,835)** | (2,720,602) | **(4,403,144)** | (2,032,043) |
| **INVESTMENT ACTIVITIES** | | | | |
| Mineral exploration and development expenditures, net | **(4,715,978)** | (3,487,609) | **(14,602,015)** | (9,522,346) |
| Proceeds from the sale of investments, net | **814,553** | 37,396 | **1,587,523** | 14,583,202 |
| Net change in non-cash working capital balances related to investing activities | **2,425,517** | (457,577) | **5,585,456** | 1,637,262 |
| Purchase of property, plant and equipment | **-** | - | **(1,396)** | (64,055) |
| **Cash provided by (used in) investment activities** | **(1,475,908)** | (3,907,790) | **(7,430,432)** | 6,634,063 |
| **FINANCING ACTIVITIES** | | | | |
| Shares issued in private placements | **14,978,140** | - | **14,978,140** | - |
| Proceeds from the exercise of stock options | **505,500** | 9,750 | **845,000** | 9,750 |
| Proceeds from the exercise of share purchase warrants | **-** | - | **-** | 1,480,200 |
| Share issue costs | **(728,706)** | - | **(728,706)** | - |
| Proceeds from obligation to issue shares | **26,600** | - | **26,600** | - |
| **Cash provided by financing activities** | **14,781,534** | 9,750 | **15,121,034** | 1,489,950 |
| **Increase (decrease) in cash and cash equivalents during period** | **12,225,791** | (6,618,642) | **3,287,458** | 6,091,970 |
| Cash, beginning of period | **10,067,407** | 16,230,933 | **19,005,740** | 3,520,321 |
| **Cash, end of period** | **22,293,198** | 9,612,291 | **22,293,198** | 9,612,291 |

*See accompanying notes to the consolidated financial statements*

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Gold Mines Limited

# NOTES TO FINANCIAL STATEMENTS
**(Unaudited)**

For the nine months September 30, 2009
(with comparative figures as at December 31, 2008)
(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 2008 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.

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# NOTES TO FINANCIAL STATEMENTS
## (Unaudited)

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**RECENT ACCOUNTING PRONOUNCEMENTS**

**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 this new abstract at the date of issuance resulting in no impact on its consolidated financial statements.

**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, 2011 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 fully determine the impact on the consolidated results.

**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.

**3. CASH AND CASH EQUIVALENTS**

| | **2009**<br>$ | **2008**<br>$ |
|---|---|---|
| Cash | **4,065,025** | 1,714,001 |
| Short-term deposits | **18,228,173** | 17,291,739 |
| | **22,293,198** | 19,005,740 |

As at September 30, 2009, the Corporation held Canadian dollar denominated short-term financial instruments maturing within 85 days, yielding 0.080% - 0.151% [December 31, 2008 - 90 days, yielding of 0.606% - 1.586%].

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# NOTES TO FINANCIAL STATEMENTS
## (Unaudited)

For the nine months September 30, 2009
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**4. LONG-TERM INVESTMENTS**

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Market $** | **Cost $** | Market $ | Cost $ |
| **Equities** | | | | |
| Canadian equities (*) | **1,791,775** | **1,893,502** | 1,742,617 | 4,558,990 |
| **Other Financial Assets** | | | | |
| Investment in warrants (**) | **317,300** | **427,500** | 51,300 | 427,500 |
| | **2,109,075** | **2,321,002** | 1,793,917 | 4,986,490 |

(*) Current year includes 950,000 PC Gold Inc. shares with a value of $864,500 (2008 - 1,900,000 units with a value of $722,000) which are subject to a Tier 1 Value Security Escrow Agreement. By November 2010 the Corporation will have received 100% of the shares held subject to the Escrow Agreement.

(**) The Corporation was granted 950,000 warrants in relation to the disposal of its interest in the Pickle Crow Project. These warrants are also subject to the Tier 1 Value Security Escrow Agreement. On the date of grant the warrants had an estimated fair value of $427,500, which was revalued to its fair value of $317,300 on September 30, 2009 [2008 - $51,300]. The fair value on September 30, 2009 was based on an expected volatility of 158%, risk free rate of 0.3246%, no dividends to be paid, and remaining life of just over seven and a half months.

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

Market value of equities is determined at the trading values as at September 30, 2009 and December 31, 2008.

**5. PROPERTY, PLANT AND EQUIPMENT**

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

| | **2009** | | **2008** | |
|---|---|---|---|---|
| | **Cost $** | **Accumulated amortization $** | **Cost $** | **Accumulated amortization $** |
| Office equipment | **102,528** | **54,443** | 101,132 | 41,886 |
| **Property, plant and equipment, net** | | **48,085** | | 59,246 |

Amortization for the period is $12,557 [2008 - $27,842].

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# NOTES TO FINANCIAL STATEMENTS
**(Unaudited)**

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**6. MINERAL PROPERTIES**

As of September 30, 2009, accumulated costs with respect to the Corporation's interest in mineral properties owned, leased or under option, consisted of the following:

| | 2009 | | | | 2008 |
|---|---|---|---|---|---|
| | **Deferred exploration expenditures $** | **Acquisition cost $** | **Option payments received $** | **Total $** | Total $ |
| Rahill-Bonanza Project, Ontario(*) | **7,393,972** | **19,267,617** | **(440,000)** | **26,221,589** | 25,300,212 |
| East Bay, Ontario(*) | **66,720** | **6,225,083** | **-** | **6,291,803** | 6,291,803 |
| PQ North, Ontario (**) | **3,342,763** | **114,455** | **-** | **3,457,218** | 672,429 |
| Hardrock, Ontario (*) | **9,710,137** | **3,031,395** | **-** | **12,741,532** | 3,092,295 |
| Geraldton, Ontario (*) | **7,992,370** | **1,668,000** | **-** | **9,660,370** | 8,552,074 |
| Other Areas (*) | **2,713,900** | **1,099,417** | **-** | **3,813,317** | 3,112,190 |
| | **31,219,862** | **31,405,967** | **(440,000)** | **62,185,829** | 47,021,003 |

(*) The property descriptions can be found in the December 31, 2008 audited consolidated financial statements.

(**) The property description can be found in the March 31, 2009 consolidated financial statements.

Property acquisitions and agreements

(i) On April 17, 2009 the Corporation entered into an Option and Purchase Agreement (the "Option") with Newcastle Resources Ltd. (the "Vendor") to acquire a 100% interest in ten patented mining claims, the "Lennie Property", located in the Red Lake district in the Province of Ontario, as previously announced on February 18, 2009. For this acquisition, Premier will pay $400,000 in cash payments over three years and 160,000 shares of Premier, including $100,000 and 40,000 shares on signing. A 3.0% Net Smelter Return royalty ("NSR") is payable to the Vendor, of which one-third (1% NSR) can be purchased at any time for the sum of $1.0 Million. Premier shall incur $750,000 in exploration expenditures over the next thirty-six months. A finders' fee of $10,000 was paid to an arm's length party in relation to this transaction.

# NOTES TO FINANCIAL STATEMENTS
**(Unaudited)**

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(ii) On May 22, 2009 the Corporation entered into an agreement with Skybridge Development Corp., a wholly owned subsidiary of Mega Precious Metals Inc. ("Mega"), in respect of an option to dispose of its interest in the "East My-Ritt" property in Red Lake, Ontario. East My-Ritt is a 50/50 joint venture with Sabina Silver Corporation ("Sabina"). Aggregate consideration over a 5 year period to be paid to Premier/Sabina is as follows: $250,000 cash, 600,000 Mega common shares, and $1,250,000 in exploration work commitments. In addition, there is a 0.5% net smelter return relating to the acquisition retained by Premier/Sabina.

(iii) On June 19, 2009 the Corporation executed an agreement to sell its interest in the "Argosy Property" to Cangold Limited. The purchase price payable to Premier was $210,000, to be paid by the issuance by Cangold to Premier of 2,000,000 fully paid, non-assessable common shares of Cangold at a deemed consideration of $0.10 per share and $10,000 by cheque or bank draft payable to Premier. In addition to the purchase price, Cangold will pay or reimburse Premier's reasonable legal costs, not to exceed $5,000. Premier shall retain a 0.5% Net Smelter Return royalty interest, which Cangold may purchase at any time for $500,000.

**7. MINERAL PROPERTY HELD FOR SALE**

Newman Madsen

Mineral property held for sale includes the Newman Madsen Property with a book value of $82,064. As at September 30, 2009 the Corporation was in discussions with other parties regarding the possible sale of the Corporation's interest in this mineral property.

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# NOTES TO FINANCIAL STATEMENTS
## (Unaudited)

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### 8. COMMON SHARES

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

| | Number # | Value $ |
|---|---|---|
| **Balance December 31, 2007** | 68,397,742 | 45,544,683 |
| Private placements | 7,800,096 | 14,040,179 |
| Stock options exercised | 5,000 | 9,750 |
| Shares issued for mineral properties | 800,000 | 1,614,000 |
| Warrants exercised | 796,000 | 1,480,200 |
| Reallocation from contributed surplus amounts relating to the exercise of stock options | - | 5,290 |
| Reallocation from share purchase warrants amounts relating to the exercise of share purchase warrants | - | 281,482 |
| Tax effect of flow-through share renunciation | - | (1,508,000) |
| Shares issued for consulting services | 87,516 | 134,774 |
| Shares issued in settlement of share issue costs | 178,825 | 284,924 |
| Share issue costs | - | (569,854) |
| **Balance, December 31, 2008** | 78,065,179 | 61,317,428 |
| Stock options exercised | 459,000 | 845,000 |
| Reallocation from contributed surplus amounts relating to the exercise of stock options | - | 333,275 |
| Shares issued for mineral properties | 240,000 | 542,400 |
| Shares issued in private placement | 4,103,600 | 14,978,140 |
| Tax effect of flow-through share renunciation | - | (4,071,650) |
| Share issue costs | - | (881,053) |
| **Balance, September 30, 2009** | 82,867,779 | 73,063,540 |

**2009**

**Shares issued for Mineral Property #1**

The Corporation issued 40,000 common shares to Newcastle Resources Ltd. on April 14, 2009 upon closing of the agreement to acquire the Lennie Property (note 6 - Property acquisitions and agreements).

**Shares issued for Mineral Property #2**

The Corporation issued 200,000 common shares on May 20, 2009 to Roxmark Mines Ltd. in relation to the Geraldton Project Joint Venture agreement dated July 18, 2008.

NOTES TO FINANCIAL STATEMENTS
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**Private Placement**

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. 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. 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.

**Proposed Financing**

On September 28, 2009 the Corporation announced that it had entered into an agreement with Jones, Gable & Company Limited (the "Agent") in connection with a best-efforts private placement of "flow-through" common shares ("Flow-Through Common Shares") of Premier at a price of $3.65 per Flow-Through Share for aggregate gross proceeds of up to $5.5 million. The Flow-Through Shares will be offered by way of private placement to accredited investors in each of the provinces of Canada.

**Obligation to issue shares**

During the period an employee exercised stock options that were not released from treasury until after the period end.

**9. SHARE PURCHASE WARRANTS**

The following table reflects the continuity of warrants:

| Expiry Date | Exercise Price $ | 2009 Opening Balance # | Warrants Issued # | Warrants Exercised # | Warrants Expired # | September 30, 2009 Closing Balance # |
|---|---|---|---|---|---|---|
| September 17, 2009 | 2.60 | - | 184,662 | - | - | **184,662** |
| | | - | 184,662 | - | - | **184,662** |

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 67%, a risk-free interest rate of 0.4687% and an expected life of 1 year.

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

| Warrants | Number # | Value $ |
|---|---|---|
| Broker warrants, exercisable at $2.60 and expiring September 17, 2010 | 184,662 | 152,346 |

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# NOTES TO FINANCIAL STATEMENTS
## (Unaudited)

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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** | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | # | # | $ | $ |
| Opening balance | **2,839,610** | 2,015,000 | **1.71** | 1.62 |
| Options granted | **2,832,640** | 1,114,610 | **2.68** | 2.00 |
| Options cancelled | **(222,500)** | (285,000) | **1.78** | 2.25 |
| Options exercised | **(459,000)** | (5,000) | **1.84** | 1.95 |
| | **4,990,750** | 2,839,610 | **1.91** | 1.71 |

The following table reflects the stock options outstanding as at September 30, 2009:

| **Expiry Date** | **Exercise Price** $ | **Options Outstanding** # |
|---|---|---|
| September 15, 2011 | 1.00 | 800,000 |
| August 8, 2012 | 1.95 | 740,000 |
| April 25, 2013 | 2.00 | 748,000 |
| July 29, 2013 | 2.59 | 75,000 |
| October 15, 2013 | 2.00 | 10,000 |
| December 24, 2013 | 1.50 | 185,110 |
| May 27, 2014 | 2.50 | 137,640 |
| June 17, 2014 | 2.66 | 2,295,000 |
| | | 4,990,750 |

The Corporation applies the fair value method of accounting for all stock based compensation awards and accordingly, $3,926,913 was recorded as compensation for the 2,916,640 stock options that vested during the period. Of the 4,990,750 options issued, 40,000 have not yet vested.

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 62% to 66%, risk-free interest rate of 0.73% to 1.78%, expected life of 1 to 5 years.

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### 11. CONTRIBUTED SURPLUS

The following table reflects the continuity of contributed surplus as at September 30:

| | **2009** |
|---|---|
| Balance, December 31, 2008 | **3,597,986** |
| Stock options vested | **3,926,913** |
| Stock options exercised | **(333,275)** |
| Balance, September 30, 2009 | **7,191,624** |

### 12. EARNINGS (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:

| | **2009** | **2008** |
|---|---|---|
| Numerator: | | |
| Net income (loss) | **(3,591,143)** | 222,184 |
| Denominator: | | |
| Weighted average number of common shares | **78,501,739** | 70,190,986 |
| Basic and diluted earnings (loss) per share | **(0.05)** | - |

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**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 $29,999 (2008 - $26,175) for corporate secretarial services provided by companies related to the Corporation through a common officer.

[b] During the period, the Corporation paid $276,730 (2008 - $241,157) 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 accounts receivable are amounts totaling $105,987 (2008 - $105,513) in proceeds and expenses relating to the sale of office and computer equipment and transitioning of facilities and management services to a company related to the Corporation by a common officer.

[d] During the period, the Corporation disposed of a mineral property to a company related to the Corporation through a common director and officer (see note 6(ii)).

[e] During the period, the Corporation paid $2,000 (2008 - $nil) for promotion related services provided by the family member of an officer of the Corporation.

[f] Included in accounts receivable are amounts totaling $15,000 (2008 - $nil) for rental of a core shack to a company related to the Corporation though a common director.

[g] During the period, a company related to the Corporation through a common director acted as one of six agents on the September 17, 2009 private placement.

**14. COMMITMENTS**

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

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

| | |
|---|---:|
| 2009 | 96,498 |
| 2010 | 384,191 |
| 2011 | 190,382 |
| | 671,071 |

Flow-through renunciation

As at December 31, 2008, the Corporation has renounced 100% of its flow-through related resource expenditures to investors. The Corporation had until February 1, 2009 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 $14,040,179 in flow-through financing raised in 2008 the Corporation has incurred $14,040,179 in exploration expenditures, therefore fulfilling its obligation.

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**15. MANAGEMENT OF CAPITAL RISK**

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, as well as cash and cash equivalents and investments. 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, acquire or dispose of assets, or adjust the amount of cash and cash equivalents and investments.

**16. MANAGEMENT OF FINANCIAL RISK**

The Corporation had no held-to-maturity or available for sale instruments and no allowance for credit losses as at September 30, 2009 and December 31, 2008:

| | 2009 | 2008 |
|---|---|---|
| Financial Assets | | |
| *Held for trading, measured at fair value* | | |
| Cash and cash equivalents | **22,293,198** | 19,005,740 |
| Long term investments | **2,109,075** | 1,793,917 |
| | **24,402,273** | 20,799,657 |
| *Loans and receivables, measured at amortized cost* | | |
| Accounts receivable | **286,915** | 167,008 |
| Financial Liabilities | | |
| *Other liabilities, measured at amortized cost* | | |
| Accounts payable and accrued liabilities | **4,087,287** | 1,215,890 |

(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 September 30, 2009 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 September 30, 2009 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 issued 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.

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(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.

(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.

**17. COMPARATIVE AMOUNTS**

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year. These reclassifications have no material effect on the financial statements.