
Gold Hawk Resources Inc.

Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2010 and 2009

NOTICE TO THE READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management, and they are approved by the Board of Directors of the Company.

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Consolidated Statement of Income (Loss)*(Unaudited)**(Canadian dollars, in thousands, except per share amounts)*

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Operating costs				
Accretion of asset retirement obligation	\$ -	\$ 786	\$ -	\$ 2,513
Care and maintenance	-	461	-	1,618
Depreciation	4	401	12	1,277
General and administration expenses (Note 13)	503	623	1,789	2,260
Stock-based compensation (Note 12 (d))	140	117	660	361
Loss from operations	(647)	(2,388)	(2,461)	(8,029)
Other expenses (income)				
Foreign exchange loss (gain)	304	1,633	241	2,551
Interest and financing charges (Note 14)	4	628	11	4,435
(Gain) loss on held for trading securities (Note 5)	(847)	-	(1,370)	-
(Gain) loss on available for sale securities (Note 6)	(4,645)	-	(4,645)	-
Net income (loss)	\$ 4,537	\$ (4,649)	\$ 3,302	\$ (15,015)
Net income (loss) per share				
Basic	\$ 0.34	\$ (0.43)	\$ 0.25	\$ (1.40)
Diluted	\$ 0.33	\$ (0.43)	\$ 0.24	\$ (1.40)
Weighted average number of shares				
Basic	13,260,448	10,752,970	13,099,021	10,752,970
Diluted	13,745,448	10,752,970	13,584,021	10,752,970

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

Consolidated Balance Sheets*(Unaudited)**(Canadian dollars, in thousands)*

	September 30, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash	\$ 15,250	\$ 13,485
Short-term investments (Note 5)	3,235	1,866
Accounts receivable	109	23
Prepaid expenses	71	35
	18,665	15,409
Mineral properties, plant and equipment (Note 7)	30,417	27
	\$ 49,082	\$ 15,436
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,608	\$ 524
Notes payable, current portion (Note 8)	1,630	-
	3,238	524
Notes payable, non-current portion (Note 8)	3,070	-
Future income tax liability (Note 4)	8,489	-
Other long term liability (Note 9)	515	-
	15,312	524
Equity		
Share capital (Note 12)	75,189	60,293
Warrants (Note 12)	874	2,354
Contributed surplus	5,844	3,704
Deficit	(48,137)	(51,439)
Shareholders' Equity	33,770	14,912
	\$ 49,082	\$ 15,436

Guarantees, Contingencies and Commitments (Note 16)

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

Approved on behalf of the Board of Directors:

(Signed) Kevin Drover
Kevin Drover, Director

(Signed) Derek Price
Derek Price, Director

Consolidated Statements of Cash Flows*(Unaudited)**(Canadian dollars, in thousands)*

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Operating activities				
Net income (loss) before extraordinary items	\$ 4,537	\$ (4,649)	\$ 3,302	\$ (15,015)
Asset retirement expenditures	-	(24)	-	(130)
Items not affecting cash:				
Accretion expense on asset retirement obligation	-	786	-	2,513
Depreciation and depletion	4	405	12	1,289
Net financing costs		636		4,146
(Gain) loss on held for trading securities	(847)	-	(1,370)	-
Stock-based compensation	140	117	660	361
Unrealized foreign exchange loss (gain)	(244)	1,738	(176)	2,732
Changes in non-cash working capital (Note 15)	(807)	129	(514)	115
Cash flows from operating activities	2,783	(862)	1,914	(3,989)
Financing activities				
Capital lease obligation	-	-	-	(37)
Issuance of share capital	-	-	-	2,252
Loan proceeds	-	549	-	2,474
Share issue costs	-	-	-	(33)
Cash flows from financing activities	-	549	-	4,656
Investing activities				
Acquisition costs, net of cash received (Note 4)	(315)		(315)	
Additions to plant and equipment	(5)	(53)	(9)	(396)
Deferred exploration and development expenditures	-	(43)	-	(164)
Restricted cash required on investing activities	-	-	-	58
Cash flows from investing activities	(320)	(96)	(324)	(502)
Effect of exchange rate changes on cash	244	(21)	176	(40)
Net change in cash	2,707	(430)	1,766	125
Cash at beginning of period	12,543	641	13,484	86
Cash at end of period	\$ 15,250	\$ 211	\$ 15,250	\$ 211

Supplemental Cash Flow Information (Note 15)

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

Consolidated Statements of Shareholder's Equity*(Unaudited)**(Canadian dollars, in thousands)*

	Share Capital (Number of Shares)	Share Capital (Amount)	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
At January 1, 2009	9,044,464	\$ 56,767	\$ 760	\$ 2,643	\$ (1,513)	\$ (60,025)	(1,368)
Private placement	3,180,192	2,475	1,630	-	-	-	4,105
Share issue costs	-	-	-	-	-	(1,667)	(1,667)
Shares issued as payment to financial advisor	132,911	262	-	-	-	-	262
Shares issued upon conversion of debt	319,403	364	-	-	-	-	364
Warrants issued as a financing fee	-	-	725	-	-	-	725
Stock based compensation	-	-	-	300	-	-	300
Shares issued to extinguish debt	340,000	425	-	-	-	-	425
Expired warrants	-	-	(761)	761	-	-	-
Foreign exchange translation adjustment	-	-	-	-	3,844	-	3,844
Recognition of cumulative translation adjustment on dilution of investee	-	-	-	-	(2,331)	-	(2,331)
Net income for the period	-	-	-	-	-	10,253	10,253
At December 31, 2009	13,016,970	60,293	2,354	3,704	-	(51,439)	14,912
Shares issued on acquisition (Note 4)	11,200,000	14,896	-	-	-	-	14,896
Expired warrants	-	-	(1,630)	1,630	-	-	-
Warrants re-issued	-	-	150	(150)	-	-	-
Stock based compensation	-	-	-	660	-	-	660
Net income for the period	-	-	-	-	-	3,302	3,302
At September 30, 2010	24,216,970	\$ 75,189	\$ 874	\$ 5,844	\$ -	\$ (48,137)	\$ 33,770

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

Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(Canadian dollars, in thousands, except per share amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Net income (loss)	\$ 4,537	\$ (4,649)	\$ 3,302	\$ (15,015)
Other comprehensive income:				
Foreign currency translation adjustment	-	4,496	-	3,356
Comprehensive income (loss)	\$ 4,537	\$ (153)	\$ 3,302	\$ (11,659)

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

Notes to the Consolidated Financial Statements*(Unaudited)**(Canadian dollars, tabular amounts in thousands, except where noted)***1. NATURE AND CONTINUANCE OF OPERATIONS**

On September 28, 2010, Gold Hawk Resources Inc. (the “Company”) completed the acquisition of the Oracle Ridge copper property near Tucson, Arizona (Note 4). The Company has started activities on this property and is developing a plan to bring the property into production. The Company’s goal is to become a mid-tier copper producer.

These unaudited interim consolidated financial statements have been prepared under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. During the third quarter of 2010, the Company recorded a net gain of approximately \$4.5 million and at September 30, 2010 has a cash balance of \$15.3 million and working capital of \$15.4 million. On November 4, the Company announced a private placement of \$7.5 million. These funds will be used to finance activities at the Oracle Ridge site and for general corporate purposes. The continuation of the Company as a going concern is dependent on its ability to generate positive cash flows, the ability to obtain necessary financing, and ultimately the achievement of profitable operations. The Company is currently evaluating various business opportunities with the purpose of enhancing shareholder value and achieving profitability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by Canadian GAAP for annual consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Results for the three and nine months ended September 30, 2010 may not necessarily be indicative of the results that may be expected for the year ending December 31, 2010.

The unaudited interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company’s annual audited consolidated financial statements for the year ended December 31, 2009. For further information, refer to the audited consolidated financial statements notes thereto for the year ended December 31, 2009.

3. FUTURE ACCOUNTING CHANGES

In February 2008, the CICA’s Accounting Standards Board (“AcSB”) confirmed that International Financial Reporting Standards (“IFRS”) will be mandatory in Canada for all publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The Company will be required to have prepared, in time for its first quarter of fiscal 2011 filing, comparative financial statements in accordance with IFRS.

4. ASSET ACQUISITION

On September 28, 2010, the Company completed the acquisition of the Oracle Ridge copper property through the share purchase of 0830438 BC LTD (“Oracle Ridge”). The transaction has been accounted for as an acquisition of assets and the assumption of liabilities of Oracle Ridge by the Company.

Notes to the Consolidated Financial Statements*(Unaudited)**(Canadian dollars, tabular amounts in thousands, except where noted)*

As part of the acquisition, the Company assumed liabilities of US\$541,500 for the purchase of land adjacent to the property with the intent to use it as a future dry stacked tailings facility, subject to obtaining the necessary permits. The terms of the liability has an interest rate of 7% per annum and payable in two installments. An installment of \$250,000 plus interest is due and payable on or before January 30, 2011 and an installment of \$291,000 plus interest is due and payable on or before July 30, 2011. This balance is included in accounts payable.

In consideration for the acquisition, the Company issued 11,200,000 common shares, which have been valued at \$1.33 per share, the share price of the Company on the closing date of the transaction.

For purposes of these unaudited interim financial statements, the purchase consideration has been allocated on a preliminary basis to the assets acquired and liabilities assumed based on management's best estimates. The Company will review this information and intends to perform further analysis prior to finalizing the allocation of the purchase price. Although the results of the review are unknown, the purchase price will be subject to change as a result of this review. It is likely that the recorded values of assets acquired and liabilities assumed will vary from those shown below and the differences may be material.

The preliminary purchase price allocation is as follows:

Shares issued upon acquisition	\$ 14,896
Transaction costs	330
Purchase consideration	\$ 15,226
Mineral properties, plant and equipment	\$ 30,393
Cash and cash equivalents	15
Prepays	57
Accounts payable and accrued liabilities	(778)
Advances payable	(757)
Notes payable	(4,700)
Future income tax liability	(8,489)
Other long term liability	(515)
	\$ 15,226

Transaction costs include \$9,000 in due diligence fees paid to a former director of the Company.

Notes to the Consolidated Financial Statements*(Unaudited)**(Canadian dollars, tabular amounts in thousands, except where noted)***5. SHORT-TERM INVESTMENTS**

Short-term investments consist of shares and warrants of a publicly listed company as follows:

	September 30,	December 31,
	2010	2009
Shares classified as held-for-trading	\$ 2,617	\$ 1,549
Warrants classified as held-for-trading	618	317
	\$ 3,235	\$ 1,866

The fair value of the warrants has been estimated using the Black-Scholes option pricing model, with the following assumptions: a risk-free rate of 1.36%, an expected life of 0.6 years, an expected volatility of 118.4%, and an expected dividend yield of \$nil (December 31, 2009: a risk-free rate of 1.39%, an expected life of 1 year, an expected volatility of 138.9%, and an expected dividend yield of \$nil).

The Company recorded an unrealized gain on these investments of \$846,873 and \$1,369,545 for the three months and nine months ended September 30, 2010, respectively.

Subsequent to year end, the Company sold the shares and warrants classified as “held for trading” for proceeds of \$4,636,912. The Company will recognize a total realized gain of \$2,771,003 for the year ended December 31, 2010 from this transaction, of which an accrued unrealized gain of \$1,369,545 was recognized in the nine months ended September 30, 2010.

6. OTHER INVESTMENTS

In the prior year, the Company completed an arrangement whereby Compañía Minera San Juan (Peru) (“CMSJ”), previously a 100% owned subsidiary of the Company, issued 43,210,500 shares to a third party. As a result of the share issue, the Company's interest declined to 15% and control over operations ceased. Following the transaction, the Company neither controlled nor exercised significant influence over CMSJ. The subsidiary was in a net deficiency position on the date of the transaction and as a result, upon cessation of consolidation, the investment is carried at a value of \$Nil. The investment, which was classified as available-for-sale, did not have a quoted market price in an active market and therefore was accounted for using the cost basis of accounting. On July 7, 2010, the Company sold the 15% interest in CMJS for \$4,645,000 and recorded a gain on the disposition of \$4,645,000, net of taxes.

Notes to the Consolidated Financial Statements*(Unaudited)**(Canadian dollars, tabular amounts in thousands, except where noted)***7. MINERAL PROPERTIES, PLANT AND EQUIPMENT**

As at September 30, 2010	Cost	Accumulated depreciation and depletion	Net book value
Oracle Ridge copper property	\$ 30,393	\$ -	\$ 30,393
Office equipment	78	54	24
Total	\$ 30,471	\$ 54	\$ 30,417

As at December 31, 2009	Cost	Accumulated depreciation and depletion	Net book value
Office equipment	\$ 69	\$ 42	\$ 27

As described in Note 4, the Company acquired its interest in the Oracle Ridge copper property on September 28, 2010. Oracle Ridge has secured the surface rights by way of lease and by purchase of an adjacent property necessary to explore, rebuild and operate the past producing Oracle Ridge copper mine located near Tucson, Arizona.

8. NOTES PAYABLE

As part of the acquisition of Oracle Ridge (Note 4) the Company assumed promissory notes payable (denominated in U.S. dollars) that was secured by the Oracle Ridge copper resource property (Note 4). The notes bear interest at 8% per annum and mature October, 2013.

	September 30, 2010	December 31, 2009
Promissory notes payable, including accrued interest of \$292	\$ 4,700	\$ -
Less: Current portion, includes accrued interest of \$84	(1,630)	-
Notes payable, non-current	\$ 3,070	\$ -

9. OTHER LONG TERM LIABILITY

As part of the acquisition (Note 4), the Company assumed an obligation to construct a roadway on the property and committed to spend a minimum amount of US\$500,000 in the realization of this project. If the Company is unable to complete construction of the road, the Company is still liable for the US\$500,000 and this amount will be added to the principal of the Company's note payables (Note 8) and will become due in October 2013.

10. CAPITAL MANAGEMENT

Management considers the capital of the Company to consist of the items included in shareholders' equity and short term credit facilities and notes payable. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

The Company's objectives of capital management are intended to safeguard the entity's ability to support the Company's normal operating requirements on an ongoing basis, continue the development and exploration of its minerals properties and support any expansion plans.

Notes to the Consolidated Financial Statements*(Unaudited)**(Canadian dollars, tabular amounts in thousands, except where noted)*

To effectively manage the entity's capital requirements, the Company is developing a plan to determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and development objectives.

The Company's capital at September 30, 2010 and December 31, 2009 is as follow:

	September 30, 2010	December 31, 2009
Notes payable	\$ 4,700	\$ -
Other long term liability	515	-
Shareholders' equity	33,770	14,912
Capital under management	\$ 38,985	\$ 14,912

11. FINANCIAL RISK AND RISK MANAGEMENT

The Company's financial instruments consist of cash, receivables, accounts payable, accrued liabilities and notes payable. The Company has exposures to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board of Directors is responsible for the establishment and oversight of the Company's risk management policies and reviews the policies on an ongoing basis.

(a) Interest rate risk

At September 30, 2010, the Company has interest bearing notes payable. The interest is fixed and payable upon the maturity of the note. The fair value of the notes payable is subject to significant interest rate risk but there is no interest rate risk to the cash flow on these notes payable. The Company does have cash of \$15.3 million and is subject to interest risk relating to its return from funds on deposit. The Company does not enter into derivative contracts to manage risks associated with interest rate movements.

(b) Foreign currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and has acquired an 100% interest in the Oracle Ridge copper property in the U.S. A significant change in the currency exchange rates between the Canadian dollar relative to the U.S. dollar could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

Notes to the Consolidated Financial Statements*(Unaudited)**(Canadian dollars, tabular amounts in thousands, except where noted)*

At September 30, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in U.S. dollars:

	U.S. Dollars (000's)	
Cash and cash equivalents	\$	9,928
Accounts payable		(679)
Other long term liability		(500)
Notes payable		(4,560)
	\$	4,189

At September 30, 2010, with other variables unchanged, a 10% change in the USD/CAD exchange rate would impact pre-tax earnings by \$0.4 million.

(c) Credit risk

The Company is exposed to credit risk through its cash, value added tax and accounts receivable. The Company deposits cash with high credit quality financial institutions. Credit risk is considered to be minimal. As at September 30, 2010, the Company's maximum exposure to credit risk is the balance of cash, value added tax and accounts receivable.

(d) Liquidity risk

The Company is developing a plan to determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient committed loan facilities to meet its short term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

The Company's expected source of cash flow in 2010 will be its interest or other returns on its cash and investment balances, equity financing and future loan and credit facilities.

As at September 30, 2010, the Company's liabilities consists of accounts payable, accrued liabilities and notes payable that have contractual maturities of less than one year and notes payable with principal payments until October 2013.

(e) Fair value

The carrying value of accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of the instruments. Investments that are classified as held-for-trading are recorded at fair value based on quoted market prices at the balance sheet date.

During 2009, the CICA issued amendments to Section 3862, *Financial instruments – Disclosures*. The new recommendations require financial instruments to be classified according to the fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Notes to the Consolidated Financial Statements*(Unaudited)**(Canadian dollars, tabular amounts in thousands, except where noted)*

Level 3 – inputs for the assets or liability that are not based on observable market data (unobservable inputs)

The Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy are as follows:

	Total	Level 1	Level 2	Level 3
Marketable securities - shares	\$ 2,617	\$ 2,617	\$ -	\$ -
Marketable securities - warrants	618	-	618	-
Note payable	(4,700)	-	(4,700)	-
Other long term liabilities	(515)	-	(515)	-
Total	\$ (1,980)	\$ 2,617	\$ (4,597)	\$ -

12. SHARE CAPITAL**(a) Authorized**

The Company's authorized share capital consists of an unlimited number of common shares of no par value.

(b) Share Issuances

During the nine months ended September 30, 2010, the Company issued 11,200,000 shares (refer to Note 4).

(c) Stock option plan

Pursuant to the terms of the Company's stock option plan the board of directors may, from time to time, grant options to directors, officers, employees or consultants. Options may be exercisable over periods of up to five years as determined by the Board of Directors of the Company and the exercise price shall not be less than closing price of the shares on the day preceding the awarding date. Stock options granted to employees, officers and consultants vest one-third immediately, one-third after 12 months from the date of grant and one-third after 24 months from the date of grant, while stock options granted to directors vest immediately.

A summary of the Company's stock options outstanding as at September 30, 2010 and the changes for the nine months then ended are as follows:

	Directors and officers	Employees and a consultant	Total Number of options	Weighted average exercise price per share
Balance, January 1, 2009	281,200	44,400	325,600	\$ 8.00
Granted	208,000	49,600	257,600	2.50
Forfeited	-	(16,600)	(16,600)	6.31
Expired	(27,000)	(23,200)	(50,200)	7.81
Balance, December 31, 2009	462,200	54,200	516,400	5.47
Granted	725,000	70,000	795,000	1.03
Expired	(20,000)	(1,400)	(21,400)	3.33
Balance, September 30, 2010	1,167,200	122,800	1,290,000	\$ 2.77

Notes to the Consolidated Financial Statements*(Unaudited)**(Canadian dollars, tabular amounts in thousands, except where noted)*

The following table summarizes information about common share purchase options outstanding, granted to officers, directors, employees and a consultant of the Company as at September 30, 2010:

Number of stock options outstanding	Number of stock options exercisable	Option Exercise price (\$)	Expiry date
27,000	27,000	12.00	April 2011
20,000	20,000	10.75	April 2011
40,000	40,000	8.75	July 2011
400	400	10.63	November 2011
8,000	8,000	13.50	March 2012
25,200	25,200	17.25	June 2012
20,000	20,000	16.00	July 2012
1,200	1,200	13.00	October 2012
20,000	20,000	12.25	February 2013
107,000	107,000	1.63	August 2013
226,200	200,800	2.50	April 2014
695,000	555,000	1.00	February 2015
100,000	100,000	1.22	August 2015
1,290,000	1,124,600		
\$ 2.77	\$ 3.00	Weighted average exercise price	

(d) Stock Based Compensation

The estimated fair value of the 795,000 options granted in the nine months ended September 30, 2010 has been estimated using the Black-Scholes option pricing model, using the following assumptions: a weighted average risk free interest of 1.48%, a weighted average expected volatility of 164.32%, an expected dividend yield of \$nil and a weighted average expected life of 2.6 years.

The Company recognized \$139,375 and \$659,570 in stock-based compensation for the three months and nine months ended September 30, 2010, respectively, based on the vesting schedule for options granted in prior quarters and the current quarter.

Option pricing models require the input of subjective assumptions including the expected price volatility. Changes in the assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

Notes to the Consolidated Financial Statements*(Unaudited)**(Canadian dollars, tabular amounts in thousands, except where noted)***(e) Share Purchase Warrants**

The Company's warrants outstanding at September 30, 2010 and the change for the nine months then ended are as follows:

	Number of warrants	Average price of warrants
Balance, January 1, 2009	295,282	\$ 6.04
Issued to private placement places	3,002,000	1.42
Issued to lenders	800,000	2.50
Expired	(295,282)	5.92
Balance, December 31, 2009	3,802,000	1.65
Expired	(2,000,000)	1.25
Balance, September 30, 2010	1,802,000	\$ 1.84

During the nine months ended September 30, 2010, the Company did not grant any share purchase warrants.

On May 19, the Company announced an amendment to the 1,002,000 share purchase warrants issued further to the private placement that closed on June 3, 2009. The amendment, which was approved by the TSX Venture Exchange on May 20, extends the exercise term from June 3, 2010 to June 3, 2011, and changes the exercise price from \$1.75 to \$1.25. The estimated fair value of these warrants was determined using the Black-Scholes model with the following assumptions: a risk free interest of 1.76%, an expected volatility of 85.48%, an expected dividend yield of \$nil and an expected life of 0.5 years.

Warrant pricing models require the input of subjective assumptions including the expected price volatility. Changes in the assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's warrants.

During the nine months ended September 30, 2010, 2,000,000 warrants with an exercise price of \$1.25 expired. The fair value calculated on the grant date of \$1,629,785 was transferred to contributed surplus.

Details of outstanding warrants as at September 30, 2010 are as follows:

Number of warrants	Exercise price	Expiry date
800,000	\$ 2.50	May 8, 2011
878,200	1.25	Jun 3, 2011
123,800	1.75	Jun 3, 2011
1,802,000	\$ 1.84	

Notes to the Consolidated Financial Statements*(Unaudited)**(Canadian dollars, tabular amounts in thousands, except where noted)***13. GENERAL AND ADMINISTRATION EXPENSES**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Filing costs and shareholders' information	\$ 24	\$ 8	\$ 63	\$ 78
Tax	-	41	-	122
Insurance	13	12	35	31
Office expenses	10	17	33	76
Professional and consulting fees	153	88	614	314
Rent	20	27	59	85
Salaries and benefits	196	396	814	1,419
Travel	87	34	171	135
	\$ 503	\$ 623	\$ 1,789	\$ 2,260

14. INTEREST AND FINANCING CHARGES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest and bank charges (recovery)	\$ (16)	\$ 5	\$ (39)	\$ 35
Fees and interest on outstanding debt	-	515	-	4,276
Fees for stand-by credit facility	20	-	50	-
Fees for advisory services	-	108	-	124
Total interest and financing charges	\$ 4	\$ 628	\$ 11	\$ 4,435

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
The changes in non-cash working capital items are comprised of:				
Accounts receivable	\$ (804)	\$ (5)	\$ (811)	\$ 712
Inventory	-	60	-	105
Prepays	10	30	(9)	57
Accounts payable and accrued liabilities	(13)	44	306	(759)
Net change in non-cash working capital	\$ (807)	\$ 129	\$ (514)	\$ 115

Non-cash financing and investing activities

Shares issued upon acquisition (Note 4) \$ 14,986,000

Notes to the Consolidated Financial Statements*(Unaudited)**(Canadian dollars, tabular amounts in thousands, except where noted)***16. GUARANTEES, CONTINGENCIES AND COMMITMENTS**

In connection with the dilution of its investment in CMSJ, the Company has provided customary representations and warranties whose terms range in duration and may not be explicitly defined. Such representations include but are not limited to: the Company having paid all tax to which it is liable and is not liable to pay a penalty, surcharge, fine or interest in connection with tax, and is in compliance with its material legal and environmental obligations, has obtained or applied for all material operational and environmental permits to operate the Coricancha Mine. In addition on payment of the purchase price the Company discharges CMSJ from all claims, causes of action, obligations, liabilities or losses whether known or unknown, in relation to events occurring before the closing date of sale. The Company is unable to estimate the maximum potential liability for these indemnifications as the underlying agreements do not always specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. The Company continues to monitor the conditions that are subject to guarantees and indemnifications to identify whether it is probable that a loss has occurred and would recognize any such losses under any guarantees or indemnifications when those losses are probable and estimable.

The Company is committed under the terms of an operating lease for the office premises for aggregate payments of \$23,733 expiring in 2010. Subsequent to quarter-end, the Company entered into a lease agreement for new office premises with rental payments of \$16,487 per month commencing December 1, 2010 and expiring in March 2013.

The Company has a US\$12.5 million standby credit facility with an interest rate of 12.5% and pays US\$5,000 per month to maintain the credit facility. The Company has not drawn down on this facility.

17. SUBSEQUENT EVENTS

On October 20, the Company announced that warrant holders of 878,200 common share purchase warrants with an exercise price of \$1.25 are subject to a 30-day forced exercise provision as the Company's closing share price met or exceeded \$1.50 for the past 10 consecutive trading days. The Company has received approximately \$1.1 million in proceeds from the exercise of these warrants.

On November 8 the Company announced that it closed a non-brokered private placement for 6,000,000 common shares at a subscription price of \$1.25 per common share, for aggregate gross proceeds of \$7.5 million (the "Private Placement"). The Company paid a finder's fee to an arm's length party in the aggregate amount of \$450,000. The Private Placement was fully subscribed to by Coalcorp Mining Inc. ("Coalcorp") and, as a result, Coalcorp now owns approximately 19.7% of the Company's issued and outstanding shares.