

Mill City Gold Corp.
(An Exploration Stage Company)
CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

AUDITORS' REPORT

To the Shareholders of
Mill City Gold Corp. (An Exploration Stage Company)

We have audited the consolidated balance sheets of Mill City Gold Corp. (An Exploration Stage Company) as at December 31, 2009 and 2008 and the consolidated statements of loss and comprehensive loss, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, B.C.
March 26, 2010

"D&H GROUP LLP"
Chartered Accountants

Mill City Gold Corp.
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS

	December 31,	
	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 779,711	\$ 1,168,042
Amounts receivable	25,507	18,135
Prepaid expenses	<u>100</u>	<u>-</u>
	805,318	1,186,177
EQUIPMENT (Note 4)	11,462	10,099
UNPROVEN MINERAL INTERESTS (Note 5 and Schedule)	1,727,960	1,688,922
GOODWILL	<u>100,000</u>	<u>100,000</u>
	\$ <u><u>2,644,740</u></u>	\$ <u><u>2,985,198</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ <u>31,516</u>	\$ <u>30,179</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)	6,113,547	6,318,792
CONTRIBUTED SURPLUS	2,029,988	1,701,060
RETAINED EARNINGS (DEFICIT)	<u>(5,530,311)</u>	<u>(5,064,833)</u>
	<u>2,613,224</u>	<u>2,955,019</u>
	\$ <u><u>2,644,740</u></u>	\$ <u><u>2,985,198</u></u>
OPERATIONS (Note 1)		

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

Approved by the Board "James Brown" Director "Janice Brown" Director

Mill City Gold Corp.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	Years ended December 31,	
	<u>2009</u>	<u>2008</u>
EXPENSES		
Amortization of equipment	\$ 3,430	\$ 3,760
Investor relations	–	58,607
Management fees	137,535	129,240
Office and miscellaneous	12,006	29,321
Professional fees	63,294	97,781
Rent	24,000	24,000
Secretarial and administrative services	54,000	54,000
Stock-based compensation	328,928	430,249
Telephone and fax	9,703	10,363
Transfer agent and regulatory fees	26,793	37,076
Travel	54,881	77,825
	<u>714,570</u>	<u>952,222</u>
OTHER ITEMS		
Foreign exchange loss	3,059	613
Recovery of impairment of unproven mineral interests (Note 5)	(23,297)	–
Impairment of unproven mineral interests	14,198	481,526
Interest income	(18,052)	(50,292)
	<u>(24,092)</u>	<u>431,847</u>
INCOME (LOSS) BEFORE INCOME TAXES	(690,478)	–
INCOME TAXES (RECOVERY)		
Future (Note 8)	(225,000)	–
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	\$ <u>(465,478)</u>	\$ <u>(1,384,069)</u>
EARNINGS (LOSS) PER SHARE, basic and diluted	\$ <u>(0.01)</u>	\$ <u>(0.03)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>50,872,288</u>	<u>46,722,645</u>

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

Mill City Gold Corp.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Share Capital		Contributed surplus	Retained earnings (deficit)
	Shares	Amount		
Balance at January 1, 2008	38,159,207	\$ 3,891,544	\$ 1,270,811	\$ (3,680,764)
Common shares issued for:				
Exercise of warrants	3,885,000	777,000	—	—
Private placement	7,500,000	1,500,000	—	—
Unproven mineral interests	1,250,000	171,250	—	—
Less: Share issue costs	—	(21,002)	—	—
Stock-based compensation	—	—	430,249	—
Net income (loss) for the year	—	—	—	(1,384,069)
Balance at December 31, 2008	50,794,207	6,318,792	1,701,060	(5,064,833)
Common shares issued for:				
Unproven mineral interests	500,000	25,000	—	—
Less: Share issue costs	—	(5,245)	—	—
Income tax benefit renounced to shareholders	—	(225,000)	—	—
Stock-based compensation	—	—	328,928	—
Net income (loss) for the year	—	—	—	(465,478)
Balance at December 31, 2009	51,294,207	\$ 6,113,547	\$ 2,029,988	\$ (5,530,311)

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

Mill City Gold Corp.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income (loss) for the year	\$ (465,478)	\$ (1,384,069)
Adjustments to reconcile net cash provided by operating activities		
Amortization of equipment	3,430	3,760
Impairment of unproven mineral properties	14,198	481,526
Stock-based compensation	328,928	430,249
Future income tax recovery	(225,000)	-
Decrease (increase) in		
Amounts receivable	(7,372)	(14,402)
Prepaid expenses and deposit	(100)	58,607
Increase (decrease) in		
Accounts payable and accrued liabilities	1,337	1,946
	<u>(350,057)</u>	<u>(422,383)</u>
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of common shares	-	2,277,000
Share issue costs paid	(5,245)	(21,002)
	<u>(5,245)</u>	<u>2,255,998</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of equipment	(4,793)	-
Expenditures on unproven mineral interests	(28,236)	(1,517,472)
	<u>(33,029)</u>	<u>(1,517,472)</u>
INCREASE (DECREASE) IN CASH DURING THE YEAR	(388,331)	316,143
CASH, beginning of year	<u>1,168,042</u>	<u>851,899</u>
CASH, end of year	\$ <u>779,711</u>	\$ <u>1,168,042</u>

See Note 10.

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

Mill City Gold Corp.
(An Exploration Stage Company)
CONSOLIDATED SCHEDULE OF UNPROVEN MINERAL INTERESTS

	2009				
	Northern Star Eagle and Southern Star Eagle Ontario	GP2 Ontario	Yamba Lake NWT	Nevada USA	Total
BALANCE, beginning of year	\$ 1,043,649	\$ 645,073	\$ 100	\$ 100	\$ 1,688,922
ACQUISITION COSTS	12,500	12,500	—	—	25,000
EXPLORATION COSTS					
Drilling and assays	—	4,807	—	—	4,807
Geologists	5,026	—	—	—	5,026
Travel	1,805	—	—	—	1,805
Mapping and surveying	2,600	—	—	—	2,600
Annual maintenance fees	—	—	13,998	—	13,998
Field equipment	—	—	—	—	—
	9,431	4,807	13,998	—	28,236
IMPAIRMENT	—	—	(14,098)	(100)	(14,198)
BALANCE, end of year	\$ 1,065,580	\$ 662,380	\$ —	\$ —	\$ 1,727,960
	2008				
	Northern Star Eagle and Southern Star Eagle Ontario	GP2 Ontario	Yamba Lake NWT	Nevada USA	Total
BALANCE, beginning of year	\$ —	\$ —	\$ 6,999	\$ 474,727	\$ 481,726
ACQUISITION COSTS	402,501	120,000	—	—	522,501
EXPLORATION COSTS					
Drilling and assays	233,629	521,889	—	—	755,518
Field equipment	2,095	1,934	—	—	4,029
Geologists	12,897	—	—	—	12,897
License fees	25	—	—	—	25
Mapping and surveying	391,908	1,250	—	—	393,158
Travel and meal	594	—	—	—	594
	641,148	525,073	—	—	1,166,221
IMPAIRMENT	—	—	(6,899)	(474,627)	(481,526)
BALANCE, end of year	\$ 1,043,649	\$ 645,073	\$ 100	\$ 100	\$ 1,688,922

Mill City Gold Corp.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

1. OPERATIONS

Mill City Gold Corp. (the "Company") is in the business of acquiring and exploring unproven mineral interests.

The Company presently has no proven or probable reserves and, on the basis of information to date, has not yet determined whether its unproven mineral interests contain economically recoverable reserves. Consequently the Company considers itself to be an exploration stage company. The amounts shown as unproven mineral interests and deferred costs represent costs incurred to date, less amounts amortized, written-off or recovered under option agreements, and do not necessarily represent present or future values. The underlying value of the unproven mineral interests is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest, the ability of the Company and its optionees to obtain the necessary financing to complete development, and future profitable production or sale of the interests.

The Company's ability to continue exploring its unproven mineral interests is dependent upon its ability to raise additional capital to fund its exploration expenditures as described in Note 5. Additional capital may be sought from the sale of additional common shares or other equity or debt instruments. There is no assurance such additional capital will be available to the Company on acceptable terms or at all.

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") appropriate for a going concern. The going concern basis of accounting assumes the Company will continue to realize the value of its assets and discharge its liabilities and other obligations in the ordinary course of business. Should the Company be required to realize the value of its assets in other than the ordinary course of business, the net realizable value of its assets may be materially less than the amounts shown in the consolidated financial statements. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary should the Company be unable to repay its liabilities and meet its other obligations in the ordinary course of business or continue operations.

2. ACCOUNTING POLICIES

Basis of presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles which necessarily involves the use of estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of significant accounting policies summarized below.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amount of revenue and expenses during the period

Significant estimates made by management include amortization, the provision for future income tax recoveries and composition of future income tax assets and future income tax liabilities, impairment of unproven mineral interests and capital assets, asset retirement obligations and stock based compensation.

Mill City Gold Corp.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

2. ACCOUNTING POLICIES - continued

Basis of consideration

These financial statements include the accounts of the Company and its wholly-owned subsidiary, Mill City Gold Inc. All intercompany transactions and balances are eliminated on consolidation.

Goodwill

Goodwill is assessed for impairment at least annually and is not subject to amortization.

Unproven mineral interests

The Company's unproven mineral interests are in the process of being evaluated. As yet, it has not been determined if the interests contain reserves that are economically recoverable. The recoverability of the carrying amounts of the unproven mineral interests is dependent upon the existence of economically recoverable reserves, future profitable production and the ability of the Company and its optionees to obtain the necessary financing to complete development.

Acquisition, exploration, development and administration costs relating to unproven mineral interests are capitalized until the interest to which they relate is placed into production, sold or abandoned. Capitalized costs will be amortized over the useful life of the orebody following commencement of production or written off if the interest is sold or abandoned. General and administration costs are expensed as incurred.

Management reviews the carrying values of unproven mineral interests with a view to assessing whether there has been any impairment of value. When it is determined that an unproven mineral interest will be abandoned or its carrying value has been impaired, a provision is made for any expected loss on the project or interest.

Title to unproven mineral interests involves certain inherent risks due to the difficulty in determining the validity of certain claims as well as the potential for disputes to arise from the frequently ambiguous conveyance history of many unproven mineral interests.

Option agreements

From time to time, the Company acquires or disposes of unproven mineral interests pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are accounted for as payments are made or received. Amounts received under option agreements reduce the carrying amount of the unproven mineral interest under option.

Equipment

Equipment is carried at cost less accumulated amortization. Amortization is provided over the estimated useful life of the equipment using the declining balance method at the following annual rates:

Computer and electronic equipment	–	30%
Office equipment	–	20%

In the year of acquisition, the Company records amortization at 50% of the annual amortization.

Mill City Gold Corp.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

2. ACCOUNTING POLICIES – continued

Foreign currency translation

The Company's wholly-owned U.S. subsidiary is an integrated foreign operation and is translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Income and expense items are translated at rates approximating those in effect at the time of the transaction. Translation gains and losses are reflected in income or loss for the period.

Foreign currency transactions

Monetary assets and monetary liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and non-monetary liabilities are translated into Canadian dollars at historical rates. Revenues and expenses are translated into Canadian dollars at the average rate for the year. Foreign currency transaction gains and losses are included in earnings.

Income taxes

Income taxes are recorded on a tax allocation basis. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are recognized using substantively enacted income tax rates. The effect of changes in effective income tax rates is recognized in income in the period in which the change is substantively enacted. Future income tax assets are recognized with respect to deductible temporary differences and loss carryforwards only to the extent their realization is considered more likely than not.

Earnings (loss) per share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per common share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per common share by application of the treasury stock method.

Asset retirement obligations

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to earnings using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. As at December 31, 2009 the Company does not have any asset retirement obligations.

Impairment of long-lived assets

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

Mill City Gold Corp.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

2. ACCOUNTING POLICIES – continued

Stock-based compensation

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation is charged to expense as awards vest, with offsetting amounts recognized as contributed surplus.

Financial instruments

Financial assets are classified as either held for trading, held to maturity, loans and receivables or available for sale and financial liabilities as either held for trading or as other financial liabilities. Upon initial recognition, ordinarily all financial instruments are recognized at fair value. Subsequently, financial assets classified as held to maturity and as loans and receivables, and other financial liabilities, are accounted for at amortized cost. Financial assets and financial liabilities classified as held for trading are accounted for at fair value with unrealized holding gains and losses included in net income each period. Available for sale financial assets are also accounted for at fair value, however unrealized holding gains and losses on these instruments are included in the statement of loss, comprehensive loss and deficit as other comprehensive income and on the balance sheet as a separate component of shareholders' equity titled accumulated other comprehensive income.

Adoption of new accounting standards

Effective on January 1, 2009, the Company adopted Section 3064, *Goodwill and Intangible Assets*, which replaced Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs* of the CICA Handbook. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards including in the previous Section 3062. Adoption of Section 3064 had no material effect on the Company's financial statements.

Future accounting standards

The Accounting standards Board ("AcSB") of the Canadian Institute of Chartered Accountants has issued new accounting standards that the Company is required to consider for adoption, as follows:

Business combinations, consolidated financial statements and non-controlling interests

The CICA issued three new accounting standards in January 2009, Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 160 *Non-Controlling Interests*. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards.

Mill City Gold Corp.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

2. ACCOUNTING POLICIES – continued

New Section 1582 replaces Section 1581, *Business Combinations*, and establishes standards for the accounting for business combinations. It provides the Canadian equivalent to IFRS 3, Business combinations. The section applies prospectively to business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, *Consolidated and Separate Financial Statements*, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

International financial reporting standards

The AcSB has determined that Canadian accounting standards for publicly-listed companies will converge with International Financial Reporting Standards (“IFRS”) effective for interim and annual periods beginning on and after January 1, 2011. The adoption of IFRS in 2011 will require restatement for comparative purposes of figures presented for the 2010 fiscal year. The Company understands there to be material differences between Canadian GAAP and IFRS, and is therefore monitoring this project with a view to understanding the possible future effects of the transition to IFRS.

3. MANAGEMENT OF CAPITAL

The Company’s objectives when managing capital are to safeguard its ability to continue as a going concern in order to explore its unproven mineral interests. The Company manages the components of shareholders’ equity and its cash as capital, and makes adjustments to these components in response to the Company’s business objectives and the economic climate. To maintain or adjust its capital structure, the Company may attempt to issue new common shares from treasury, issue debt instruments or borrow money or acquire or dispose of other assets. The Company does not anticipate the payment of dividends in the foreseeable future.

The Company’s investment policy is to hold excess cash in highly liquid, short-term instruments, such as guaranteed investment certificates issued by major Canadian chartered banks, with initial maturity terms of less than three months from the original date of acquisition, selected with regards to the Company’s anticipated liquidity requirements.

The Company’s common shares are listed on the TSX Venture Exchange (“TSX-V”). The TSX-V policies impose certain minimum capital requirements upon the Company. Management believes that the Company is in compliance with these externally imposed restrictions.

Mill City Gold Corp.
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008

4. EQUIPMENT	2009			2008	
	Cost	Accumulated amortization	Net	Net	
Computer equipment	\$ 25,792	\$ 16,876	\$ 8,916	\$	3,183
Office equipment	5,128	2,582	2,546		6,916
	\$ 30,920	\$ 19,458	\$ 11,462	\$	10,099

5. UNPROVEN MINERAL INTERESTS

- a) Canadian interests

Northern Star Eagle and Southern Star Eagle

In December 2007, the Company entered into an option agreement to acquire a 50% interest in 74 staked mineral claims located in the James Bay Lowlands region of northern Ontario, Canada. Of the 74 claims, 41 are subject to a 2% net smelter returns royalty.

The Company paid \$ 300,000 and issued 250,000 common shares upon entering into the agreement. The common shares were accounted for at their estimated fair value of \$ 43,750.

The Company will also be required to:

- issue 250,000 common shares on the first anniversary of the agreement. The common shares were issued in 2008 and were accounted for at their estimated fair value of \$ 17,500,
- incur not less than \$ 500,000 in exploration expenditures on the property by December 11, 2008 (commitment satisfied in 2008),
- incur not less than an additional \$ 500,000 (an aggregate of \$ 1,000,000 including the amount spent in b) in exploration expenditures before December 11, 2009, and
- incur not less than an additional \$ 1,500,000 (an aggregate of \$ 2,500,000 including the amount spent in c) in exploration expenditures before December 11, 2010.

During 2009, the Company extended the time to complete the exploration commitments under (c) and (d) above by one year by issuing an additional 250,000 common shares. The common shares were accounted for at their estimated fair value of \$ 12,500.

Upon exercise of the option, the optionor may elect to form a joint venture with the Company or to convert its 50% working interest to a 15% carried interest through to commencement of commercial production.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

5. UNPROVEN MINERAL INTERESTS – continued

GP2

In September 2008, the Company entered into an agreement to acquire an option to earn a 50% interest in 17 mineral claims located in the James Bay Lowlands region of northern Ontario, Canada.

The Company issued 750,000 common shares upon entering into the agreement. The common shares were accounted for at their estimated fair value of \$ 120,000.

The Company will also be required to:

- a) issue 250,000 common shares on the first year anniversary of the agreement. The common shares were issued in 2009 and were accounted for at the estimated fair value of \$ 12,500,
- b) incur not less than \$ 500,000 of exploration expenditures on the property by September 2, 2009 (commitment satisfied in 2008),
- c) incur not less than an additional \$ 1,500,000 (an aggregate of \$ 2,000,000 including the amount spent in b) of exploration expenditures by September 2, 2010, and
- d) incur not less than an additional \$ 3,000,000 (an aggregate of \$ 5,000,000 including the amount spent in c) of exploration expenditures by September 2, 2011.

The Company may accelerate these obligations at any time, or it may defer any of the exploration commitments by one year by issuing an additional 250,000 common shares to the optionor.

Once the Company satisfies all of its obligations, the Company may exercise its option to acquire a 50% interest in the property. The optionor shall then have 60 days to elect to either i) continue to participate in the joint venture on the property, or ii) relinquish its interest in the joint venture in exchange for a 7.5% carried and non-assessable interest in the property to the date of commencement of commercial production; in this latter case, the remaining partners shall be responsible for 100% or further exploration and development expenditures.

Yamba Lake

The Company holds a 44.5% interest in mineral claims and mineral licenses covering approximately 15,323 acres in the Northwest Territories. The mineral claims and licenses expire over various periods up to May 2023, and are not being renewed.

During 2008, the Company recorded an impairment charge of \$ 6,899 for Yamba Lake to bring the carrying value to \$ 100. During 2009, the \$ 100 and additional cost incurred in 2009 of \$ 13,998 were written off.

Mill City Gold Corp.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. **UNPROVEN MINERAL INTERESTS** – continued

b) USA interests

Nevada

During 2003, the Company entered into eight purchase agreements, as amended, to acquire eleven unproven mineral interests located in Nevada, USA. The Company paid US\$ 295,000 and issued 950,000 common shares under these agreements. The Company is obligated to maintain the interests in good standing with the applicable regulatory agency.

The agreements require the payment of advance royalties of US\$ 450,000 in 2007, US\$ 650,000 in 2008 and US\$ 800,000 annually thereafter. These advance royalty payments will be suspended if the Company options any of the interests to a third party and the third party terminates the option. The payments will recommence once the interests have been optioned to another party.

The vendor retained a 3% net smelter returns royalty on each of the interests covered by the eight agreements. The Company may acquire 1% of the royalty under each agreement for US\$ 1 million per agreement.

During 2004, the Company entered into agreements, as amended, whereby the Company:

- i) Optioned two of the unproven mineral interests to Grandview Gold Inc. (“GGI”). GGI had the option to acquire a 60% interest in the interests by issuing the Company 400,000 common shares (received), reimbursing the Company for costs incurred of US\$ 175,376 (received) and incurring US\$ 3.5 million of exploration and development expenditures on the interests over a 3 year period.

During 2007, GGI satisfied its obligations and exercised its option. The Company elected to convert its 40% working interest to a 20% carried interest. During 2008, the Company impaired its interest in these 2 mineral interests to \$ 100 due to minimal exploration activities during the year. In May 2009, the Company and GGI announced the discontinuation of exploration on these properties and the Company wrote off its remaining interests.

During 2009, the Company terminated its period of liability under a Bureau of Land Management bond with the state of Nevada. The \$ 23,297 (US \$ 22,111) security for the bond is being refunded by the state of Nevada and has been recorded as a recovery of impairment.

- ii) Optioned nine of the unproven mineral interests to Minterra Resource Corp. (“Minterra”). During 2007, Minterra terminated the option agreement. During 2008, the Company terminated its option agreements on these nine unproven mineral interests, and all costs relating to these properties were written off during the year.

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6. SHARE CAPITAL

- a) Authorized
 Unlimited voting common shares
 Unlimited first preferred shares
 Unlimited second preferred shares
- i) During 2009, the Company issued 500,000 common shares as described in Note 5.
- ii) In June 2008, the Company completed a private placement of 3,750,000 flow through units and 3,750,000 non-flow through units at a price of \$ 0.20 per unit for gross proceeds of \$ 1,500,000. Each flow through unit consisted of one common share and one-half of one share purchase warrant. Each non flow through unit consists of one common share and one share purchase warrant. Each full share purchase warrant is exercisable at a price of \$ 0.40 per share. The warrants contain an "accelerated expiry provision", whereby, in the event that the closing price of the Company's shares exceeds \$ 0.60 for a period of 20 consecutive trading days, the Company may give written notice to holders of the warrants that the warrants shall expire on the 20th day from the date of the notice. The accelerated expiry provision was not triggered during 2009. Total share issue costs of \$ 21,002 were incurred
- iii) During 2008, the Company issued 1,250,000 common shares as described in Note 5.
- b) Details of share purchase warrant transactions during the years ended December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Outstanding, beginning of year	5,625,000	8,950,000
Issued	–	5,625,000
Exercised	–	(3,885,000)
Expired	–	(5,065,000)
	<u>5,625,000</u>	<u>5,625,000</u>
Outstanding, end of year	<u>5,625,000</u>	<u>5,625,000</u>

As at December 31, 2009, the Company has outstanding share purchase warrants as follows:

<u>Number</u>	<u>Exercise price</u>	<u>Expiry date</u>
5,625,000	\$ 0.40	June 5, 2010

7. STOCK-BASED COMPENSATION

The Company has an incentive stock option plan (the "plan"). Under the plan the Company may issue options to purchase common shares, at a price to be determined by the Board of Directors on the date of award, for periods of not more than five years. Stock options awarded under the plan vest 25% on the date of award and 12.5% per quarter thereafter. The total number of common shares that may be reserved for issue under the stock option plan is limited to 20% of the number of issued common shares.

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7. **STOCK-BASED COMPENSATION** - continued

The following is a summary of the stock option transactions during the years ended December 31, 2009 and 2008:

	2009		2008	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of period	9,665,000	\$ 0.19	6,860,000	\$ 0.16
Granted	2,700,000	0.10	3,950,000	0.22
Exercised	—	—	—	—
Expired	(3,000,000)	0.13	(1,145,000)	0.105
Outstanding, end of period	<u>9,365,000</u>	<u>\$ 0.18</u>	<u>9,665,000</u>	<u>\$ 0.19</u>

The following summarizes information about stock options outstanding at December 31, 2009:

Exercise Price	Number Outstanding	Number Exercisable	Expiry Dates
\$ 0.23	2,365,000	2,365,000	February 2011
\$ 0.20	350,000	350,000	January 2012
\$ 0.19	1,600,000	1,600,000	January 2013
\$ 0.21	800,000	705,980	January 2013
\$ 0.25	1,550,000	1,356,250	June 2013
\$ 0.10	2,500,000	1,562,500	January 2014
\$ 0.10	200,000	75,000	August 2014
	<u>9,365,000</u>	<u>8,014,730</u>	

The fair value of stock options awarded during 2009 and 2008 was estimated on the dates of award using the Black-Scholes option pricing model with the following assumptions:

	2009	2008
Risk-free interest rates	1.67%	3.51%
Expected volatility	115%	121%
Expected lives	5 years	5 years
Estimated for future rate	—	—

The average fair value of stock options awarded during 2009 and 2008 was \$ 0.03 and \$ 0.18 respectively.

The Black-Scholes option pricing model was developed for use in estimating the fair value of stock options that have no vesting provisions and are fully transferable. Also, option pricing models require the use of estimates and assumptions, including expected volatility rates. The Company uses expected volatility rates which are based upon historical experience. Changes in the underlying assumptions used in the Black-Scholes option pricing model could materially affect the fair value estimates.

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8. INCOME TAXES

The provision for income taxes differs from the amount that would have been obtained by applying the statutory income tax rate of 30% (2008 – 31%) to the Company's net income (loss). The difference results from the following items:

	<u>2009</u>	<u>2008</u>
Expected income tax recovery		
Items not deductible for income tax purposes	\$ (207,000)	\$ (427,000)
Stock-based compensation	99,000	131,000
Impairment of unproven mineral interest	4,000	149,000
Other	2,000	2,000
Recovery of valuation allowance	(225,000)	–
Unrecognized benefit of loss carryforwards	<u>102,000</u>	<u>145,000</u>
Provision for income taxes (recovery)	<u>\$ (225,000)</u>	<u>\$ –</u>

The income tax effects of temporary differences that give rise to significant portions of future income tax assets and liabilities at December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Future income tax assets		
Non-capital losses	\$ 565,000	\$ 632,000
Less: Valuation allowance	<u>(340,000)</u>	<u>(632,000)</u>
	225,000	–
Future income tax liabilities		
Unproven mineral interests	<u>(225,000)</u>	<u>–</u>
	<u>\$ –</u>	<u>\$ –</u>

The Company has non-capital losses for income tax purposes of approximately \$ 2,263,000 available to reduce future years' taxable income. The benefit of these non-capital losses has not been recognized in the Company's accounts as there is no reasonable assurance such benefit will be realized. If unused, the non-capital losses become no longer available subsequent to years ending between 2010 and 2029.

9. RELATED PARTY TRANSACTIONS

Unless otherwise stated, related party transactions are measured at the exchange amount, being the amount of consideration established and agreed to by the related parties.

Management fees of \$ 137,535 (2008 - \$ 129,240), secretarial and administrative service fees of \$ 54,000 (2008 - \$ 54,000), rent of \$ 24,000 (2008 - \$ 24,000) were paid to directors.

Included in accounts payable and accrued liabilities is \$ 1,837 (2008 - \$ 12,199) due to directors.

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10. **SUPPLEMENTAL CASH FLOW INFORMATION**

During the year the Company received interest of \$ 18,052 (2008 – \$ 50,292).

Non-cash financing and investing activities were as follows:

	<u>2009</u>	<u>2008</u>
Financing activities		
Shares issued for unproven mineral interests	\$ <u>25,000</u>	\$ <u>171,250</u>
Investing activities		
Unproven mineral interests purchased through share issues	\$ <u>(25,000)</u>	\$ <u>(171,250)</u>

11. **FINANCIAL INSTRUMENTS**

a) **Fair value**

The fair value of financial instruments at December 31, 2009 and 2008 as summarized in the following table. Fair value estimates are made at the balance sheet date, based on relevant quoted market and other information about the financial instruments.

	December 31,			
	<u>2009</u>		<u>2008</u>	
	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
Financial assets				
<i>Held for trading</i>				
Cash	\$ 779,711	\$ 779,711	\$ 1,168,042	\$ 1,168,042
<i>Loans and receivables</i>				
Accounts receivable	25,507	25,507	18,135	18,135
Financial liabilities				
<i>Other financial liabilities</i>				
Accounts payable and accrued liabilities	31,516	31,516	30,179	30,179

b) **Financial risk management**

The Company's activities potentially expose it to a variety of financial risks, including credit risk, liquidity risk and foreign exchange risk.

Credit risk

Credit risk arises due to the potential to one party to a financial instrument to fail to discharge its obligations and cause the other party to suffer a loss. Financial instruments that potentially subject the Company to credit risk consist of cash and accounts receivable. The maximum credit risk represented by the Company's financial assets is represented by their carrying amounts. The Company holds its cash with financial institutions that are believed to be creditworthy.

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11. **FINANCIAL INSTRUMENTS** - continued

Liquidity risk

Liquidity risk arises when adequate funds cannot be raised to settle liabilities and commitments when they become payable. The Company manages its liquidity by maintaining adequate cash to meet anticipated cash needs.

Foreign currency risk

The Company is subject to foreign exchange rate risk as the Company enters into transactions and has assets and liabilities denominated in a currency other than the Company's functional currency, which is the Canadian dollar.