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Mill City Gold Corp.

(an Exploration Stage Company)

Interim Consolidated Financial Statements

For the nine months ended September 30, 2010

(Unaudited - Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of Mill City Gold Corp. for the nine months ended September 30, 2010 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

Under National Instruments 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 an auditor has not reviewed the financial statements.

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

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

Mill City Gold Corp.
(an Exploration Stage Company)
Interim Consolidated Balance Sheet

As at September 30, 2010 and December 31, 2009
(Unaudited - Prepared by Management)

	September 30, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash	$ 554,762	$ 779,711
Amounts receivable	4,911	25,507
Prepaid expenses	-	100
	559,673	805,318
EQUIPMENT (Note 4)	9,074	11,462
UNPROVEN MINERAL INTERESTS (Note 5 and Schedule)	1,740,460	1,727,960
GOODWILL	100,000	100,000
	$ 2,409,207	$ 2,644,740
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 26,342	$ 31,516
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)	6,124,765	6,113,547
CONTRIBUTED SURPLUS	2,075,586	2,029,988
RETAINED EARNINGS (DEFICIT)	(5,817,486)	(5,530,311)
	2,382,865	2,613,224
	$ 2,409,207	$ 2,644,740

OPERATIONS (Note 1)

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

Mill City Gold Corp.
(an Exploration Stage Company)

Interim Consolidated Statement of Earnings and Deficit
For the Periods ending September 30
(Unaudited - Prepared by Management)

	Nine months ending September 30		Three months ending September 30	
	2010	**2009**	**2010**	**2009**
EXPENSES:				
Stock-based compensation	$ 45,598	$ 271,101	$ 12,202	$ 37,401
Professional fees	15,762	32,355	1,349	9,833
Travel	32,729	38,142	6,933	8,101
Management fees	95,815	105,000	32,785	37,401
Secretarial and administration services	40,500	40,500	13,500	13,500
Transfer agent fees and regulatory fees	18,788	24,030	2,696	12,229
Rent	18,000	18,000	6,000	6,000
Telephone and fax	5,273	7,460	1,330	2,201
Office and miscellaneous	8,950	12,551	3,443	6,156
Amortization of equipment	2,388	2,598	796	1,242
	283,803	551,737	81,034	130,204
Income (Loss) before other items	(283,803)	(551,737)	(81,034)	(130,204)
OTHER ITEMS				
Impairment of unproven mineral interests	(7,864)	(14,098)	(7,864)	(13,998)
Interest income	4,492	17,053	1,492	1,049
NET INCOME (LOSS)	**(287,175)**	**(548,782)**	**(87,406)**	**(143,153)**
Basic and diluted earnings (loss) per common share	($0.01)	($0.01)	($0.00)	($0.00)
Weighted average number of common shares outstanding	51,351,899	50,795,123	51,465,403	50,796,924

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

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

	Share Capital						
	Shares		Amount		Contributed surplus		Retained earnings (deficit)
Balance at January 1, 2009	50,794,207	$	6,318,792	$	1,701,060	$	(5,064,833)
Common shares issued for:							
Unproven mineral interests	500,000		25,000				
Share issue costs			(5,245)				
Stock-based compensation	–		–		328,928		–
Income tax benefit renounced to shareholders	-		(225,000)		-		-
Net loss for the period	–		–		–		(465,478)
Balance at December 31, 2009	51,294,207	$	6,113,547	$	2,029,988	$	(5,530,311)
Stock-based compensation	–		–		45,598		–
Common shares issued for:							
Unproven mineral interests	250,000		12,500		–		–
Share issue costs	–		(1,282)		–		–
Net loss for the period	–		–		–		(287,175)
Balance at September 30, 2010	51,544,207	$	6,124,765	$	2,075,586	$	(5,817,486)

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

Mill City Gold Corp.
(An Exploration Stage Company)
Interim Consolidated Statements of Cash Flow
For the Periods ending September 30
(Unaudited - Prepared by Management)

	Nine months ending September 30		Three months ending September 30	
	2010	**2009**	**2010**	**2009**
CASH FLOW FROM (USED IN) OPERATING ACTIVITIES				
Net income (loss) for the year	$ (287,175)	$(548,782)	$(87,406)	$(143,153)
Adjustments to reconcile net cash provided by operating activities				
Amortization of equipment	2,388	2,598	796	1,242
Impairment of unproven mineral interest	-	100	-	-
Stock-based compensation	45,598	271,101	12,202	37,401
Decrease (increase) in				
Amounts receivable	20,596	15,333	(1,904)	400
Prepaid expenses and deposit	100	(300)	-	(300)
Increase (decrease) in				
Accounts payable and accrued liabilities	(5,174)	(26,212)	11,884	(10,978)
	(223,667)	(286,162)	(64,428)	(115,388)
CASH FLOW FROM INVESTING ACTIVITIES				
Expenditures on unproven mineral interests	-	(14,238)	-	-
Acquisition of property and equipment	-	(5,018)		(5,018)
	-	(19,256)	-	(5,018)
CASH FLOW FROM FINANCING ACTIVITIES				
Issuance of common shares	(1,292)	(1,320)	(1,292)	(1,320)
	(1,292)	(1,320)	(1,292)	(1,320)
INCREASE (DECREASE) IN CASH DURING THE PERIOD	(224,949)	(306,738)	(65,710)	(121,726)
CASH, beginning of period	779,711	1,168,042	620,472	983,030
CASH, end of period	$ 554,762	$ 861,304	$ 554,762	$ 861,304

See Note 10.

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

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

	Northern Star Eagle and Southern Star Eagle	GP2	Yamba Lake	Sept. 30, 2010	Dec. 31, 2009
	Ontario	Ontario	NWT		
Balance, beginning of year	1,065,580	662,380	-	1,727,960	1,688,922
ACQUISITION COSTS	-	12,500	-	12,500	25,000
OTHER COSTS:					
Drilling and assays	-	-	-	-	4,807
Geologists	-	-	-	-	5,026
Travel	-	-	-	-	1,804
Mapping and surveying	-	-	-	-	2,600
Annual maintenance fees	-	-	7,864	7,864	13,998
Field equipment	-	-	-	-	-
TOTAL OTHER COSTS	-	-	7,864	7,864	28,235
Impairment	-	-	(7,864)	(7,864)	(14,198)
BALANCE, September 30, 2010	$ 1,065,580	$ 674,880	$ -	$ 1,740,460	1,727,960

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 other than in 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 meets its 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from those estimates.

Basis of consolidation
The consolidated 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.

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.

2. **ACCOUNTING POLICIES** – continued

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 March 31, 2010 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.

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.

2. **ACCOUNTING POLICIES** – continued

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.

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 1602 *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.

New Section 1582 replaces Section 1581, *Business Combinations*, and establishes standards for the accounting for business combinations. It provides the equivalent to IFRS 3, Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period 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 related 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 related 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. Under IFRS, there is significantly more disclosure required. For the Company, the transition to IFRS is expected to result in an acceleration in some expenses but the amounts are not expected to be material.

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 ("TSXV"). The TSXV policies impose certain minimum capital requirements upon the Company. Management believes that the Company is in compliance with theses externally imposed restrictions.

4. **EQUIPMENT**

	September 30, 2010			Dec. 31, 2009
	Cost	Accumulated amortization	Net	Net
Office equipment	$ 5,128	$ 2,963	$ 2,165	$ 2,546
Computer equipment	25,792	18,883	6,909	8,916
	$ 30,920	$ 21,846	$ 9,074	$ 11,462

5. **UNPROVEN MINERAL INTERESTS**

a) Canadian interests

Northern Star Eagle and Southern Star Eagle. During 2007, the Company entered into an option agreement with Temex Resources Corp. ("Temex") to acquire a 50% interest in 74 staked mineral claims located in the James Bay Lowlands region of northern Ontario, Canada.

Under the terms of the agreement, the Company paid $300,000 and issued 250,000 common shares to Temex (recorded at their fair value of $43,750). The Company will also be required to a) incur not less than $500,000 in exploration expenditures on the Property in the first year of the agreement (commitment satisfied), b) issue 250,000 common shares to Temex on the first anniversary (issued and recorded at their fair value of $7,500), c) incur not less than an additional $500,000 (an aggregate of $1,000,000 including the amount spent in a) in exploration expenditures before the second anniversary, and d) incur not less than an additional $1,500,000 (an aggregate of $2,500,00 including the amount spent in c) in exploration expenditures before the third anniversary. During 2009, the Company extended the time to complete these exploration commitments by one year by issuing an additional 250,000 common shares (recorded at their fair value of $12,500) to Temex. Upon Mill City earning its 50% interest in the claims, Temex 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.

Of the 74 claims, 41 are subject to a 2% net smelter returns royalty.

See Note 11.

5. **UNPROVEN MINERAL INTERESTS** – continued

GP2. During 2008, the Company also entered into an agreement with Temex and Rainy Mountain Royalty Corp. ("Rainy Mountain") (formerly East West Resource Corporation to acquire an option to earn an undivided 50% participating interest in the GP2 property, also located in the James Bay Lowlands region of northern Ontario, Canada. The GP2 property (the "Property") comprises 17 mining claims totaling 240 claim units.

Under the terms of the agreement, the Company issued 375,000 common shares each to Temex and Rainy Mountain at the time of signing the agreement (the combined shares were recorded at their fair value of $120,000). The Company will also be required to a) incur not less than $500,000 of exploration expenditures on the Property in the first year of the agreement (commitment satisfied), b) issue 125,000 common shares to each of Temex and East West on the first year anniversary (issued and recorded at their fair value of $12,500, c) incur not less than an additional $1,500,000 (an aggregate of $2,000,000 including the amount spent in a) of exploration expenditures before the second anniversary, 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 before the third anniversary. 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 125,000 common shares to each of Temex and East West. During 2010, the Company extended the time to complete these exploration commitments by one year by issuing an additional 250,000 common shares (recorded at their fair value of $12,500) to Temex and Rainy Mountain.

Once the Company satisfies all of its obligations, the Company may exercise its option to acquire a 50% interest in the Property. Temex and Rainy Mountain shall then each have 60 days to elect to either i) to continue to participate in the joint venture on the Property, or ii) to 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% of further exploration and development expenditures.

Yamba Lake

The Company holds a 44.5% interest in mineral claims and mineral licences covering approximately 15,323 acres in the Northwest Territories. The mineral claims and licences expire over various periods up to May 2023, and are not being renewed. At the end of 2008, the Company recorded an impairment charge at Yamba Lake to bring its interests to $100. During 2009, the Company paid licence fees of $13,998 and recorded an impairment charge of the remaining Yamba Lake balance of $14,098. During 2010, the Company paid licence fees of $7,864 and recorded it as an impairment of unproven mineral interests.

b) Nevada USA interests

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.

During 2008 and 2009, the Company wrote off these interests due to minimal exploration activities. Also during 2009, the Company terminated its period of liability under a Bureau of Land Management bond with the state of Nevada. The US $22,111 security for the bond was refunded by the state of Nevada and was recorded as a recovery of impairment.

6. **SHARE CAPITAL**

a) Authorized
Unlimited voting common shares
Unlimited preferred shares

b) During 2009, the Company issued 500,000 common shares as described in Note 5.

c) During 2010, the Company issued 250,000 common shares as described in Note 5.

d) As at September 30, 2010, there were 5,624,999 share purchase warrants outstanding. During 2010, the Company extended the expiry dates on these warrants by one year to June 5, 2011 and decreased the exercise price on 5,354,162 warrants from $0.40 to $0.20 and the remaining 270,837 warrants may be exercised at $0.40.

As at September 30, 2010, the Company has outstanding share purchase warrants as follows:

Number	Exercise price	Expiry Date
5,354,162	$ 0.20	June 5, 2011
270,837	$ 0.40	June 5, 2011

7. **STOCK-BASED COMPENSATION**

The Company has an incentive stock option plan (the "plan"). Under the plan, the Company may issue options up to 20% of the issued shares to purchase common shares at a price to be determined by the Board of Directors on the date of award for a period 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 following is a summary of the stock option transactions during the six months ended September 30, 2010 and the year ended December 31, 2009:

	September 30, 2010		December 31, 2009	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of period	9,365,000	0.18	9,665,000	0.19
Granted	750,000	0.10	2,700,000	0.10
Expired	(250,000)	0.25	(3,000,000)	0.13
Outstanding, end of period	9,865,000	0.18	9,365,000	0.18

The following summarizes information about stock options outstanding at September 30, 2010:

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	800,000	January 2013
$0.25	1,300,000	1,300,000	June 2013
$0.10	2,500,000	2,500,000	January 2014
$0.10	200,000	150,000	August 2014
$0.10	750,000	187,500	September 2015
	9,865,000	9,252,500	

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

The fair value of stock options awarded during the six months ended September 30, 2010 and the year ended December 31, 2009 was estimated on the dates of award using the Black-Scholes option pricing model with the following assumptions:

	Nine months ending September 30, 2010	Twelve months ending December 31, 2009
Risk-free interest rates:	1.95%	1.67%
Expected volatility	115%	115%
Expected lives	5 years	5 years

The average fair value of stock options awarded during 2009 was $ 0.16 and $0.03 during the nine months ended September 30, 2010.

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 on the Black-Scholes option pricing model could materially affect the fair value estimates.

8. **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 $ 95,815 (2009 - $ 105,000), secretarial and administrative service fees of $ 40,500 (2009 – $ 40,500), rent of $ 18,000 (2009 - $ 18,000) were paid to directors.

Included in accounts payable and accrued liabilities is $ 10,311 (2009 - $ Nil) due to a director.

9. **SUPPLEMENTAL CASH FLOW INFORMATION**

Non-cash financing and investing activities were as follows:

		Nine months ended September 30, 2010		Year ended Dec. 31, 2009
Financing activities				
Shares issued for unproven mineral interests	$	12,500	$	25,000
Investing activities				
Unproven mineral interests purchased through share issues	$	12,500		(25,000)
Interest received	$	4,492	$	18,052

10. **FINANCIAL INSTRUMENTS**

a) **Fair value**

The fair value of financial instruments at September 30, 2010 and December 31, 2009 are 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.

	Nine months ended September 30, 2010		Year ended Dec. 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Held for trading				
Cash	$ 554,762	$ 554,762	$ 779,717	$ 779,717
Loans and receivables				
Accounts receivable	4,911	4,911	25,109	25,109
Prepaid expenses	-	-	100	100
Financial liabilities				
Other financial liabilities				
Accounts payable and Accrued liabilities	26,342	26,342	31,516	31,516

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.

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.

11. SUBSEQUENT EVENTS

Subsequent to September 30, 2010, the Company

i) entered into an option and joint venture agreement with Temex Resources Corp. ("Temex") allowing the Company to earn not less than a 75% interest in the Croxall Property in northern Ontario. The Company issued 250,000 common shares to Temex and must spend a total of $750,000 prior to the fourth anniversary in order to earn a 75% interest. At the same time the Company terminated the agreement with Temex relating to the Northern Star Eagle and Southern Star Eagle properties.

ii) completed a financing of 9,100,000 flow-through common shares (the "FT Shares") at $0.10 per FT share and 5,900,000 units (the "Units") at $0.10 per Unit for gross proceeds of $1,500,000. Each Unit consists of one common share and one-half warrant; each whole warrant may be exercised at a price of $0.15 until October 20, 2012. The Company paid commissions of $89,400 plus expenses of $30,030 and issued 1,490,000 broker warrants, exercisable to acquire one Unit at a price of $0.10 per Unit until October 20, 2012.

iii) wound up its wholly owned USA subsidiary.

iv) granted 200,000 stock options exercisable at $0.16 for five years