

GLEICHEN RESOURCES LTD.

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2009 AND 2008

(Expressed in Canadian Dollars unless otherwise noted)

(AUDITED)

AUDITORS' REPORT

To the Shareholders of
Gleichen Resources Ltd.

We have audited the consolidated balance sheets of Gleichen Resources Ltd. as at October 31, 2009 and 2008 and the consolidated statements of loss, comprehensive loss and deficit 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 October 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.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

February 26, 2010



GLEICHEN RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
AS AT OCTOBER 31

	2009	2008
ASSETS		
Current		
Cash	\$ 4,388,064	\$ 4,204,855
Receivables	62,682	1,084
Prepays	<u>10,904</u>	<u>-</u>
	4,461,650	4,205,939
Deferred financing costs (Note 12(a))	<u>182,719</u>	<u>-</u>
	<u>\$ 4,644,369</u>	<u>\$ 4,205,939</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities (Note 8(c))	<u>\$ 540,655</u>	<u>\$ 17,939</u>
Shareholders' equity		
Share capital (Note 5)	5,036,219	4,109,534
Contributed surplus (Note 5)	404,615	386,300
Deficit (Note 5(b))	<u>(1,337,120)</u>	<u>(307,834)</u>
	<u>4,103,714</u>	<u>4,188,000</u>
	<u>\$ 4,644,369</u>	<u>\$ 4,205,939</u>

Nature and continuance of operations (Note 1)

Subsequent events (Note 12)

On behalf of the Board:

<u>"Fred Stanford"</u> Fred Stanford	Director	<u>"Andrew Adams"</u> Andrew Adams	Director
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The accompanying notes are an integral part of these consolidated financial statements.

GLEICHEN RESOURCES LTD.**CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT
YEARS ENDED OCTOBER 31**

	2009	2008
EXPENSES		
Accounting and legal	\$ 40,680	\$ 30,366
Business investigation expenses (Note 12(b))	765,213	70,637
Consulting	20,950	25,000
News releases and shareholder information	61,774	2,343
Office and sundry	17,248	843
Office facilities and administrative services	60,000	60,000
Salaries and benefits	83,852	10,708
Stock-based compensation	42,000	76,300
Transfer agent, listing and filing fees	<u>17,048</u>	<u>18,702</u>
Loss before other items	<u>1,108,765</u>	<u>294,899</u>
OTHER ITEMS		
Termination of mineral property option	-	143,750
Foreign exchange loss	700	511
Mineral exploration recovery	-	(286)
Interest income	<u>(80,179)</u>	<u>(149,780)</u>
	<u>(79,479)</u>	<u>(5,805)</u>
Loss and comprehensive loss for the year	1,029,286	289,094
Deficit, beginning of year	307,834	9,194,399
Reduction of capital (Note 5(b)(ii))	<u>-</u>	<u>(9,175,659)</u>
Deficit, end of year	<u>\$ 1,337,120</u>	<u>\$ 307,834</u>
Basic and diluted loss per common share	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>
Basic and diluted weighted average number of common shares outstanding	<u>28,813,791</u>	<u>28,763,380</u>

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

GLEICHEN RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (1,029,286)	\$ (289,094)
Add back non-cash items:		
Stock-based compensation	42,000	76,300
Termination of mineral property options	-	143,750
Changes in non-cash working capital balances:		
Receivables	(61,598)	3,173
Prepays	(10,904)	-
Accounts payable and accrued liabilities	<u>387,986</u>	<u>1,756</u>
Net cash used in operating activities	<u>(671,802)</u>	<u>(64,115)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Deferred financing costs	(47,989)	-
Share issuances (options and warrants)	<u>903,000</u>	<u>-</u>
Net cash provided by financing activities	<u>855,011</u>	<u>-</u>
Change in cash for the year	183,209	(64,115)
Cash, beginning of year	<u>4,204,855</u>	<u>4,268,970</u>
Cash, end of year	<u>\$ 4,388,064</u>	<u>\$ 4,204,855</u>

Supplemental disclosures with respect to cash flows (Note 9)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Gleichen Resources Ltd. (the "Company" or "Gleichen") is a development stage company, as defined by Accounting Guideline 11, of the Canadian Institute of Chartered Accountants Handbook. The principal business of the Company is the acquisition, exploration and development of mineral property interests. The Company was incorporated on November 13, 1980 under the Business Corporations Act of British Columbia.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that planned exploration and development programs will result in profitable mining operations. These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, in accordance with Canadian generally accepted accounting principles, with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. At October 31, 2009, the Company had accumulated consolidated losses of \$1,337,120, had working capital of \$3,920,995 and expects to incur further losses in the development of its business.

The Company's continuing operations as intended are dependent upon its ability to generate profitable operations and/or to obtain the necessary financing to meet its obligations.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses and balance sheet classifications that would be necessary if the going concern assumption was inappropriate. These adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). They include the accounts of the Company and its wholly-owned Barbados subsidiaries. The Company incorporated a wholly owned subsidiary in Barbados, GRL Resources (Barbados) Ltd. ("GRL") in October 2009. GRL incorporated a wholly owned subsidiary in Barbados, GRL Mining (Barbados) Ltd. in October 2009. The subsidiaries were incorporated to assist with the acquisition of the Mexican gold property discussed in note 12(b). All significant intercompany transactions and balances have been eliminated.

b) Use of estimates

The preparation of financial statements in conformity with GAAP 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 year. Significant areas requiring the use of management estimates include the estimation of the carrying value of mineral property interests, the valuation of future income taxes assets and liabilities and the fair value of warrants, stock-based compensation and other stock-based payments. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

c) Cash

Cash consist of cash and highly liquid investments, which are readily convertible into cash. As at October 31, 2009 and 2008, there were no cash equivalents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

d) Financial instruments

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in the statement of loss for the period in which they arise. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive loss until the instrument is derecognized or impaired at which time the amounts would be recorded in the statement of loss.

The Company has classified its cash as held-for-trading and receivables as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

e) Mineral properties

Expenditures related to evaluation and exploration and development costs are expensed until such time as their development potential is evidenced by a positive economic analysis of the project. The Company capitalizes the acquisition cost of mineral properties until the properties are placed into production, sold or abandoned. These costs will be amortized over the estimated productive lives of the properties upon commencement of commercial production using the unit of production method. Costs relating to mineral properties that are sold or abandoned are written off when such events occur or are written down to a nominal amount when management decides not to commit any further exploration or development of the property. Interests acquired under option agreements, whereby option payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. The proceeds from options granted are applied to the cost of the related property and any excess is included in earnings for the year. Although the company takes steps to verify title to mineral properties in which it has an interest, according to the usual industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected title defects.

f) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying amounts of existing assets and liabilities and their corresponding tax values. Future income tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to be in effect in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in income in the year in which the change is enacted or substantively enacted. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized. The valuation of future income tax assets is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated realizable amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

g) Stock-based compensation

The Company accounts for stock-based compensation using the fair value based method. Accordingly, all stock-based compensation is measured at the fair value of the equity instruments issued on the date of grant. The fair value of stock-based payments is periodically re-measured until counter-party performance is complete, and any change therein is recognized over the periods and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The fair value of stock-based payments that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

h) Loss per share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted earnings per share. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share purchase options and warrants are used to repurchase common shares at the average market price during the period. Share purchase options and warrants or other contingent issuances are dilutive when the average market price of the common shares during the period exceeds the exercise price.

3. NEW ACCOUNTING PRONOUNCEMENTS

Newly adopted accounting policies

Assessing Going Concern

The Canadian Accounting Standards Board ("AcSB") amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

CICA Handbook Section 3064 - Goodwill and Other Intangibles Assets

This new section replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008.

The Company adopted these standards effective November 1, 2008 and management has determined that the adoption of these new and amended sections did not have a material impact on the financial statements of the Company or its business.

3. NEW ACCOUNTING PRONOUNCEMENTS (cont'd...)

New accounting policies not yet adopted

International Financial Reporting Standards ("IFRS")

In February 2008, the AcSB confirmed that accounting standards in Canada are to converge with IFRS. The AcSB has indicated that Canadian entities will need to begin reporting under IFRS by the first quarter of 2011, for companies with a December 31 year-end, with appropriate comparative data from the prior year. The Company's year-end is October 31 and as a result the Company will begin reporting under IFRS for the first quarter ending January 31, 2012. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed.

The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. The Company is assessing the potential impact of this changeover and is developing its IFRS changeover plan. The Company's IFRS conversion project consists of three phases – i) plan development, ii) evaluation and design, and iii) implementation and review. The Company is currently in the plan development phase which consists of project initiation, identification of differences between Canadian GAAP and IFRS and project planning and resourcing. The plan will address the impact that IFRS has on:

- Accounting policies and implementation decisions;
- Information technology and data systems;
- Financial statement presentation and disclosure options available upon initial changeover to IFRS;
- Internal control over financial reporting;
- Disclosure controls and procedures; and
- Business activities.

Management is in the process of assessing the financial impact that IFRS will have on the Company's financial statements.

Business Combinations

Section 1582, Business Combinations, is replacing Section 1581, Business Combinations and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (revised), Business Combinations. The Section applies prospectively to business combinations for which the acquisition date is on or after November 1, 2011. Earlier application is permitted. The Company is currently evaluating the impact of this new Section.

Consolidated Financial Statements and Non-Controlling Interests

Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests, together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. 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 standard, IAS27 (revised), Consolidated and Separate Financial Statements. The sections apply to interim and annual consolidated financial statements relating to the Company's fiscal year beginning on November 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of these new Sections.

GLEICHEN RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009 and 2008

4. INCOME TAXES

A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

	2009	2008
Loss before income taxes	\$ (1,029,286)	\$ (289,094)
Expected tax recovery	\$ (309,640)	\$ (92,328)
Non-deductible items	15,583	70,748
Deductible financing costs	(25,075)	(26,620)
Unrecognized benefits of non-capital losses	<u>319,132</u>	<u>48,200</u>
Total income taxes	\$ -	\$ -

Details of future income tax assets are as follows:

	2009	2008
Future tax assets:		
Resource deductions	\$ 890,000	\$ 926,000
Share issuance costs	87,000	65,000
Non-capital loss carryforwards	<u>381,000</u>	<u>152,000</u>
	1,358,000	1,143,000
Valuation allowance	<u>(1,358,000)</u>	<u>(1,143,000)</u>
Net future tax assets	\$ -	\$ -

The Company has non-capital losses for Canadian income tax purposes of approximately \$1,523,000 (2008 - \$585,000) which may be used to reduce future taxable income in Canada, expiring between 2010 and 2029. The Company has unclaimed exploration and development expenditures of approximately \$3,560,000 (2008 - \$3,560,000) which can be deducted for income tax purposes in Canada in future years at the Company's discretion. The Company also has unclaimed costs of financing of approximately \$350,000 (2008 - \$250,000) which can be deducted over the next five years.

During the year ended October 31, 2008, the Company reduced its deficit by \$9,175,659 with a corresponding offset to share capital. The reduction of capital does not have a significant impact on the Company's current or future income tax position.

4. INCOME TAXES (cont'd...)

In assessing the realization of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period. A valuation has been provided against all net future tax assets, as realization of such net assets is uncertain.

5. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) Authorized:
 Unlimited number of common shares without par value.

b) Issued:

	Number of Shares	Stated Amount	Contributed Surplus
Common shares issued:			
Balance, October 31, 2007	28,763,380	\$ 13,285,193	\$ 310,000
Reduction of capital (ii)	-	(9,175,659)	-
Employee stock options	-	-	76,300
Balance, October 31, 2008	28,763,380	4,109,534	386,300
Employee stock options	-	-	42,000
Exercise of stock options (i)	100,000	68,685	(23,685)
Exercise of warrants	1,430,000	858,000	-
Balance, October 31, 2009	30,293,380	\$ 5,036,219	\$ 404,615

i) During the year ended October 31, 2009, the Company issued 100,000 common shares under the Company's Stock Option Plan at a price of \$0.45 per share for total proceeds of \$45,000. The exercise of these options resulted in a transfer of \$23,685 from contributed surplus to share capital. The proceeds of \$45,000 from the converted stock options, combined with the charge of \$23,685 from contributed surplus resulted in a total increase to share capital of \$68,685.

ii) On April 18, 2008, the shareholders approved the reduction of deficit by applying deficit in the amount of \$9,175,659 to offset against share capital pursuant to section 74(1)(b) of the Business Corporations Act (British Columbia).

GLEICHEN RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009 and 2008

6. WARRANTS

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, October 31, 2007 and 2008	10,701,875	\$ 0.59
Warrants expired	(701,875)	0.45
Warrants exercised	<u>(1,430,000)</u>	0.60
Balance, October 31, 2009	8,570,000	\$ 0.60
Exercisable at October 31, 2009	8,570,000	\$ 0.60

As at October 31, 2009, the following warrants are outstanding:

Number of Warrants	Exercise Price	Expiry Date
8,570,000	\$ 0.60	July 5, 2010

In June 2009, the Company extended the expiry date on 10,000,000 warrants that were originally issued on July 5, 2007. The amended warrants expire on July 5, 2010. If the closing price of the Company's common shares is above \$1.20 for 20 or more consecutive trading days, the Company has the right, on notice to the warrant holders, to accelerate the expiry date of the warrants to 20 business days following the date of such notice. The exercise price of the warrants remained the same.

7. STOCK OPTIONS

The Board of Directors is authorized to grant options to directors, officers, consultants or employees to acquire up to 10% of the number of issued and outstanding common shares. The exercise price of an option granted shall not be less than the price permitted by any stock exchange on which the common shares are then listed or other regulatory body having jurisdiction. The terms of any stock option grants may not exceed five years. The vesting term is determined by the Board of Directors at the date the options are granted.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, October 31, 2007	552,500	\$ 0.45
Granted	750,000	0.40
Cancelled/expired	<u>(12,500)</u>	<u>0.45</u>
Outstanding, October 31, 2008	1,290,000	0.42
Options exercised	<u>(100,000)</u>	<u>0.45</u>
Outstanding, October 31, 2009	1,190,000	\$ 0.42
Number of options exercisable, October 31, 2009	1,190,000	\$ 0.42
Weighted average fair value of options granted \$Nil (2008 - \$0.16)		

As at October 31, 2009, the following incentive stock options are outstanding:

Number of Options	Exercise Price	Expiry Date
440,000	\$ 0.45	August 22, 2012
750,000	0.40	May 13, 2013

Stock-based compensation

For stock options granted to employees, officers, directors and consultants, the Company recognizes as an expense the estimated fair value of the stock options granted over the vesting period. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model.

No stock options were granted during the year ended October 31, 2009. During the year ended October 31, 2008, the Company granted 750,000 stock options of which all were fully vested at October 31, 2009 (2008 - 250,000). The total stock-based compensation calculated under the fair value method using the Black-Scholes option-pricing model was \$118,300. The Company expensed \$42,000 during the year ended October 31, 2009 (2008 - \$76,300).

GLEICHEN RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009 and 2008

7. STOCK OPTIONS (cont'd...)

The following weighted average assumptions were used for the Black-Scholes valuation of stock options issued during the years ended October 31:

	2009	2008
Risk-free interest rate	-	3.25%
Expected life of options	-	2.5 years
Annualized volatility	-	108%
Dividend rate	-	0.00%

8. RELATED PARTY TRANSACTIONS

- a) During the year ended October 31, 2009, the Company paid \$60,000 (2008 - \$60,000) for office facilities and administrative services to a company related by virtue of one director and two officers in common and also paid \$14,000 (2008 - \$nil) for consulting fees relating to the acquisition of the Morelos Project (note 12(b)).
- b) During the year ended October 31, 2009, the Company paid \$nil (2008- \$20,000) for consulting fees and \$80,000 (2008 - \$10,000) for salaries to one director and officer.
- c) Included in accounts payable and accrued liabilities at October 31, 2009 is \$18,240 (2008 - \$5,301) due to the related company and \$70,400 (2008 - \$nil) due to a director and officer of the Company.

The above transactions were in the normal course of business and were measured at the exchange amount which is the amount agreed to by the related parties.

9. SUPPLEMENTARY CASH FLOW INFORMATION

	2009		2008	
Cash paid during the year for interest	\$	-	\$	-
Cash paid during the year for income taxes	\$	-	\$	-

During the year ended October 31, 2009, the Company incurred the following non-cash transactions:

- i) Recognition of stock-based compensation of \$42,000.
- ii) Accrued deferred financing costs of \$ 134,730.

During the year ended October 31, 2008, the Company incurred the following non-cash transactions:

- iii) Recognition of stock-based compensation of \$76,300.
- iv) Write-off of mineral property acquisition costs of \$143,750.

10. FINANCIAL INSTRUMENTS AND RISK

The Company's financial instruments consist of cash, receivables and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at October 31, 2009, the Company had a cash balance of \$4,388,064 to settle current liabilities of \$540,655. All of the Company's normal financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. As required, the Company invests its cash in Schedule A bank investments or government guaranteed credit union deposits and redeems amounts when required.

During the year ended October 31, 2009, the Company entered into an agreement to acquire an interest in a gold project with a purchase price of US\$150,000,000 for which it arranged a financing to raise minimum gross proceeds of \$241,500,000 (Note 12). Upon closing of the financing, the Company will have raised a significant amount of capital for the acquisition of the interest in the gold property, feasibility and development programs, and exploration work on the gold property and general working capital. The Company will need additional financing to bring this asset into production.

10. FINANCIAL INSTRUMENTS AND RISK (cont'd...)

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

As required, the Company deposits cash in cashable short-term Schedule A bank investments or government guaranteed credit union deposits. The Company may cash in the investment if interest rates move higher. As of October 31, 2009, the Company had \$3,702,154 in term deposits earning interest at 2% per annum.

b) Foreign currency risk

The Company has a contingent liability of US\$150,000,000 for the acquisition of an interest in a gold property and therefore is exposed to foreign currency risk. An increase or decrease of \$0.01 in exchange rates will increase or decrease the purchase price by \$1,500,000.

Upon the acquisition of the Company's interest in the gold property, the Company will have exposure to foreign currency risk since the property is located in Mexico.

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

11. CAPITAL MANAGEMENT

Capital is comprised of the Company's shareholders' equity and any debt that it may issue. As at October 31, 2009, the Company's Shareholders' equity was \$4,103,714 and it had accounts payable and accrued liabilities of \$540,655. The Company's objectives when managing capital are to maintain financial strength and to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels.

The capital for expansion was mostly from proceeds from the issuance of common shares. The net proceeds raised will be used to pursue potential investments, fund exploration programs and provide sufficient working capital to meet its ongoing obligations.

12. SUBSEQUENT EVENTS

(a) **Financings**

On November 12, 2009, the Company completed a private placement of 241,500,000 special warrants (the "Special Warrants") issued at a price of \$1.00 per Special Warrant for gross proceeds of \$241,500,000. Each Special Warrant was exercisable for no additional consideration to acquire one unit comprised of one common share (each, a "Unit Share") of the Company and one-quarter of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). The Special Warrants were issued pursuant to the terms of a Special Warrant Indenture dated November 12, 2009, between the Company and Computershare Trust Corporation of Canada as Special Warrant Agent. Each Warrant is transferrable and entitles the holder thereof to purchase one common share (each, a "Warrant Share") of the Company at a price of \$1.30 per Warrant Share at any time prior the close of business on November 12, 2011. The Company was receipted by the applicable securities regulators for the Long Form Prospectus qualifying the Unit Shares and Warrants underlying the Special Warrants on January 15, 2010 and all outstanding Special Warrants were automatically exercised into Unit Shares and Warrants as of January 20, 2010. The Company received net proceeds of approximately \$228.2 million related to this transaction.

The agents received \$13,282,500 in cash commission and 2,415,000 compensation options with an exercise price of \$1.15 per option. Each compensation option entitles its holder to acquire one common share and one-quarter of one common share purchase warrant with each whole warrant exercisable into one common share of the Company at \$1.30 per share until November 12, 2011.

As of October 31, 2009, the Company incurred \$182,719 of professional fees and travel expenses in relation to the financing, which was recorded as deferred financing costs. This amount will be reclassified to share issuance costs at the closing of the financing.

On February 24, 2010, the Company completed a second private placement of 50,000,000 common shares issued at a price of \$1.00 per common share for gross proceeds of \$50,000,000. After deducting the agents' fees and expenses of the offering, the Company received net proceeds of approximately \$47.2 million. The agents received \$2,750,000 in cash compensation.

(b) **Acquisition of Morelos Gold Project**

On November 16, 2009, the Company completed the acquisition of 78.8% of the Morelos Gold Project from Teck Resources Ltd. ("Teck") through the acquisition of 100% of TGRXM S.A. de C.V., (previously Oroteck Mexico, S.A. de C.V.), ("TGRXM") from Teck's subsidiaries Teck Metals Ltd. and Teck Exploration Ltd., for a purchase price of US\$150,000,000, the issuance of 1,560,857 common shares, and the issuance of 12,443,218 Special Warrants.

As of October 31, 2009, the Company has incurred \$765,213 of business investigation costs, mainly consisting of geological consulting, travel and legal costs incurred towards the acquisition of the project.

12. SUBSEQUENT EVENTS (cont'd...)

(b) Acquisition of Morelos Gold Project (cont'd...)

On February 24, 2010, the Company acquired the remaining 21.2% of the Morelos Gold Project, for \$52,000,000, through the exercise of a right of first refusal held by TGRXM, to acquire shares of Minera Media Luna, S.A. de C.V., which shares were held indirectly by Goldcorp Inc. through Desarrollos Mineros San Luis, S.A. de C.V. As a result of the completion of the acquisition of the remaining 21.2% of the Morelos Gold Project, the Company now holds 100% of the Morelos Gold Project, subject to certain royalties, through its wholly-owned subsidiary TGRXM.

(c) On February 24, 2010, the Company began trading its common shares and certain of its common share purchase warrants on the Toronto Stock Exchange (the "TSX") and delisted its common shares from the TSX Venture Exchange.

(d) Exercise of options and warrants

Subsequent to October 31, 2009, 1,410,000 warrants were exercised at \$0.60 per share for total proceeds of \$846,000 and 440,000 options were exercised at \$0.45 per share for total proceeds of \$198,000.

(e) Grant of stock-based compensation

Subsequent to October 31, 2009, the Company approved the grant of 14,300,000 stock options to directors and officers. The options are exercisable at an exercise price of \$1.18 until January 21, 2015. Of the total number of options granted, 13,800,000 options vest as follows: one-third on the date of grant and one-third on each of the following two anniversary dates. The remaining options vest when the Company's market capitalization reaches \$750,000,000.

Also subsequent to October 31, 2009, the Company issued 3,000,000 restricted share units ("RSUs") to certain directors of the Company and 500,000 RSUs to a director and officer of the Company.