

# **FIRST BAUXITE CORPORATION**

**Consolidated Financial Statements  
December 31, 2010 and 2009  
(Unaudited)**

## **Index**

**Notice of no auditor review of interim Financial Statements**

### **Consolidated Financial Statements**

Consolidated Balance Sheets

Consolidated Statements of Operations and Comprehensive Loss

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

These financial statements have been prepared by management of the Company and have not been reviewed by the Company's independent auditor.

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

**FIRST BAUXITE CORPORATION**  
**Consolidated Balance Sheets**  
**(Unaudited)**  
**December 31, 2010 and September 30, 2010**

	December 31 2010	September 30 2010 (Audited)
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents (note 2)	\$ 2,199,550	\$ 73,947
Receivable and advances	25,386	4,196
Taxes receivable	204,432	149,361
Due from related parties (note 12)	20,558	8,294
Restricted cash	115,000	115,000
Prepaid expenses	175,569	367,270
	2,740,495	718,068
<b>Property and Equipment (note 5)</b>	1,853,915	1,744,956
<b>Mineral Property Interest (note 7)</b>	23,599,501	20,269,726
	\$ 28,193,911	\$ 22,732,750
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 348,813	\$ 343,724
Due to related parties (note 12)	534,843	785,904
	883,656	1,129,628
<b>Convertible Notes Payable (note 8)</b>	4,535,468	4,344,290
<b>Future Income Tax (note 6)</b>	2,474,865	1,961,500
	7,893,989	7,435,418
<b>Shareholders' Equity</b>		
<b>Share Capital (note 9)</b>	20,604,164	15,531,828
<b>Contributed Surplus</b>	2,226,211	1,661,558
<b>Equity Component of Convertible Notes Payable (note 8)</b>	3,519,632	3,519,632
<b>Deficit</b>	(6,050,085)	(5,415,686)
	20,299,922	15,297,332
	\$ 28,193,911	\$ 22,732,750

Nature of Operations and Going Concern (note 1)

Commitments (note 13)

Subsequent Event (note 15)

Approved on behalf of the Board:

*"Jim Heras"*

Jim Heras, Director

*"Yannis Tsitos"*

Yannis Tsitos, Director

See notes to consolidated financial statements

**FIRST BAUXITE CORPORATION**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**(Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

	2010	2009
<b>Expenses</b>		
Amortization	\$ 1,730	\$ 2,047
Interest expense	193,592	162,990
Management and administration fees	-	9,000
Office and others	76,918	45,689
Professional fees	93,734	50,543
Salaries and benefits	81,482	51,000
Shareholders communication and travel	109,820	210,385
Stock-based compensation	152,961	-
<b>Loss before Other Items</b>	<b>710,237</b>	<b>531,654</b>
<b>Other Items</b>		
Interest income	(4,339)	(4,621)
Foreign exchange	(71,499)	157,453
	(75,838)	152,832
<b>Net Loss and Comprehensive Loss for the Period</b>	<b>634,399</b>	<b>684,486</b>
<b>Basic and Diluted Loss per Share</b>	<b>\$ 0.01</b>	<b>\$ 0.02</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>51,825,775</b>	<b>43,144,293</b>

See notes to consolidated financial statements

**FIRST BAUXITE CORPORATION**  
**Consolidated Statements of Shareholders' Equity**  
**(Unaudited)**  
**Three Months Ended December 31, 2010 and Year Ended September 30, 2010**

	Share Capital		Deficit	Contributed Surplus		Equity Component of Convertible Notes Payable	Total Shareholders' Equity
	Shares	Amount		Warrants	Options		
<b>Balance, September 30, 2009</b>	43,128,532	\$ 13,126,422	\$ (3,072,401)	\$ 967,046	\$ 1,058,389	\$ 3,519,632	\$ 15,599,088
Net loss for the year	-	-	(2,343,285)	-	-	-	(2,343,285)
Shares issued for cash							
Exercise of stock options	1,440,000	261,000	-	-	-	-	261,000
Exercise of warrants	1,596,000	1,429,680	-	-	-	-	1,429,680
Reclassification of contributed surplus on							
Exercise of options	-	243,580	-	-	(243,580)	-	-
Exercise of warrants	-	471,146	-	(471,146)	-	-	-
Stock based compensation	-	-	-	-	350,849	-	350,849
<b>Balance, September 30, 2010</b>	46,164,532	15,531,828	(5,415,686)	495,900	1,165,658	3,519,632	15,297,332
Net loss for the period	-	-	(634,399)	-	-	-	(634,399)
Shares issued for cash							
Private placement	4,864,458	4,037,500	-	-	-	-	4,037,500
Share issue costs	-	(153,472)	-	-	-	-	(153,472)
Shares issued for non-cash consideration							
Mineral property interest	2,000,000	1,600,000	-	-	-	-	1,600,000
Finder's units	36,145	30,000	-	-	-	-	30,000
Share issue costs	-	(30,000)	-	-	-	-	(30,000)
Fair value of warrants issued	-	(372,839)	-	372,839	-	-	-
Fair value of finder warrants issued	-	(38,853)	-	38,853	-	-	-
Stock based compensation	-	-	-	-	152,961	-	152,961
<b>Balance, December 31, 2010</b>	53,065,135	\$ 20,604,164	\$ (6,050,085)	\$ 907,592	\$ 1,318,619	\$ 3,519,632	\$ 20,299,922

See notes to consolidated financial statements

**FIRST BAUXITE CORPORATION**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

	2010	2009
<b>Operating Activities</b>		
Net loss for the period	\$ (634,399)	\$ (684,486)
Add items not involving cash:		
Amortization	1,730	2,047
Accretion interest expenses on convertible note payable	191,178	162,990
Stock-based compensation	152,961	-
Changes in non-cash working capital		
Receivable and advances	(21,190)	(43,783)
Taxes receivable	(55,071)	(26,410)
Amounts from (to) related parties	(263,325)	(40,228)
Mining exploration tax credit receivable	-	37,038
Prepaid expenses	191,701	47,391
Accounts payable and accrued liabilities	80,786	(359,857)
<b>Net Cash Used in Operating Activities</b>	<b>(355,629)</b>	<b>(905,298)</b>
<b>Financing Activities</b>		
Shares issued for cash, net of share issuance costs	3,884,028	30,000
<b>Net Cash Provided by Financing Activities</b>	<b>3,884,028</b>	<b>30,000</b>
<b>Investing Activities</b>		
Purchase of property and equipment	(195,660)	(456,074)
Purchase of mineral property interest	(1,207,136)	(1,168,132)
<b>Net Cash Used in Investing Activities</b>	<b>(1,402,796)</b>	<b>(1,624,206)</b>
<b>Net Cash Inflow (Outflow)</b>	<b>2,125,603</b>	<b>(2,499,504)</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>73,947</b>	<b>6,995,107</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 2,199,550</b>	<b>\$ 4,495,603</b>

Supplemental Cash Flow Information (note 14)

See notes to consolidated financial statements

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

The Company was incorporated under the laws of the Province of British Columbia on July 8, 2003. On December 5, 2008, the Company changed its name from Academy Ventures Inc. to First Bauxite Corporation.

The Company is an exploration stage company and its main business is acquiring and exploring mineral property interests.

These consolidated financial statements are prepared on a “going concern” basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As of December 31, 2010, the Company had a working capital of \$1,856,839 (September 30, 2010 working capital deficit - \$411,560). The Company does not currently hold any revenue-generating properties and thereby continues to incur losses (2010 - \$634,399; 2009 - \$684,486). The Company has an accumulated deficit of \$6,050,085 as at December 31, 2010 (September 30, 2010 - \$5,415,686).

The Company’s ability to execute its work plan, meet its administrative overhead obligations, discharge its liabilities and fulfill its commitments as they come due is dependent upon its success in obtaining additional debt or equity financing and, ultimately, on locating economically recoverable resources and attaining profitable operations. The Company completed a feasibility study on certain of its mineral properties in 2010 and is currently focused on updating the feasibility study and raising funds for further development work and to cover administrative and other operational expenses.

These consolidated financial statements do not reflect any adjustments to carrying amounts or classifications of assets and liabilities that might be necessary if the going concern assumption was not appropriate.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars.

(a) Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiaries, Bonasika Ltd. (“Bonasika”), Guyana Industrial Minerals Inc. (“GINMIN”), Bauxite Corporation of Guyana Inc. (“BCGI”), and Rafters Investment Corp. (“Rafters”). All significant inter-company balances and transactions have been eliminated upon consolidation.

(b) Use of estimates

The preparation of financial statements in accordance 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 amount of expenses during the reporting year.

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(b) Use of estimates (Continued)

Significant areas requiring the use of management estimates relate to determining the recoverability of mineral property interests, the amount of mineral exploration tax credit receivable, the determination of accrued liabilities, rates of amortization on property and equipment, the variables used in the determination of the fair value of stock options granted and warrants issued, the variables used to determine the fair value of the debt and equity components of the convertible notes payable, and the determination of the valuation allowance for future tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(c) Mineral property interests

All costs related to the acquisition of, exploration for and development of mineral property interests, net of recoveries, are capitalized on a property-by-property basis. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, the property is sold or the Company's mineral rights are allowed to lapse. All capitalized costs are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount (as estimated by quantifiable evidence of an economic geological resource or reserve or by reference to option or joint venture expenditure commitments) or when, in the Company's assessment, it will be unable to sell the property for an amount greater than the deferred costs, the property is written down for the impairment in value.

From time to time, the Company may acquire or dispose of a mineral property interest, pursuant to the terms of an option agreement. As such options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received. Proceeds received on the sale or option of the Company's properties are recorded as a reduction of the mineral costs. The Company recognizes in income those costs that are recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

(d) Revenue recognition

Interest income is recorded as earned at the effective rate of interest of the investment over the term to maturity.

(e) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants, convertible debt and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants, convertible debt and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(e) Loss per share (Continued)

The calculation also excludes common shares that are being held in escrow at year-end where the terms of release are dependent on requirements other than the passage of time.

(f) Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged either to operations or mineral property interests, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are exercised, the applicable amounts from contributed surplus are transferred to share capital.

(g) Income taxes

The Company follows 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 values and their respective income tax basis (temporary differences), and tax losses carried forward. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rate is included in operations in the period in which the change is substantively assured. Future tax benefits are recognized to the extent that realization of such benefits is considered to be more likely than not.

(h) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization of property and equipment is recorded on those items that have been put into service. Amortization is calculated on a declining-balance basis at the following annual rates:

Office equipment and furniture	20% to 50%
Machinery and equipment	20%
Vehicles	20%

Additions during the year are amortized at one-half the annual rates.

(i) Equity unit offerings

The proceeds from the issuance of equity units are allocated between common shares and common share purchase warrants on a pro-rata basis based on relative fair values using the market trading price and the Black-Scholes option pricing model for the shares and warrants, respectively.

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(j) Asset retirement obligation ("ARO")

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to operations in the period. The ARO can also increase or decrease due to changes in the estimates of the timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present the Company has determined that it has no material AROs.

(k) Foreign currency translation

The Company's functional and reporting currency is the Canadian dollar. The accounts of subsidiaries, which are integrated operations, are translated to Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the year-end exchange rate. Non-monetary assets and liabilities are translated at rates of exchange in effect when the assets were acquired or liabilities incurred. Revenue and expenses are translated at the rates of exchange prevailing on the dates such items are recognized in operations (except for depreciation, which is translated at the same rate as the related asset). Exchange gains and losses are included in the statements of operations.

(l) Cash equivalents

Cash equivalents consist of deposits with banks or highly liquid investments that are readily redeemable into known amounts of cash and have an initial maturity of three months or less.

(m) Convertible notes payable

The Company's convertible notes are allocated into corresponding debt and equity components at the date of issue. The components are allocated based on their relative fair values. The equity component represents the value of the conversion feature and is valued using the Black-Scholes option pricing model. The debt component is valued using the present value of the estimated cash flows using the Company's cost of capital. The notes are subsequently accreted to face value at the effective interest rate.

(n) Non-monetary transaction

All non-monetary transactions are measured at the fair value of the asset surrendered or received, whichever is more reliable. Shares issued for consideration other than cash are valued at the quoted market price at the date of issuance.

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(o) Financial instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income and reported in shareholders' equity.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

(p) Future accounting pronouncement

International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board confirmed that the transition to IFRS from Canadian generally accepted accounting principles will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements for its December 31, 2011 interim financial statements. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended September 30, 2011 and earlier where applicable. The Company is currently evaluating the impact of the conversion to IFRS and is considering accounting policy choices available under IFRS.

**3. CASH AND CASH EQUIVALENTS**

The Company's cash and cash equivalents consists of cash of \$2,199,550 (September 30, 2010 - \$73,947) and a redeemable guaranteed investment certificate ("GIC") amounting to \$2,177,000 (September 30, 2010 - \$62,000).

The GIC was purchased on October 8, 2010 with interest at the bank's prime rate minus 1.95%, matures on October 7, 2011 and is redeemable at the option of the Company at any time.

**4. RESTRICTED CASH**

The Company has \$115,000 (September 30, 2010 - \$115,000) invested in two redeemable GICs of \$69,000 and \$46,000 with interest at the bank's prime minus 1.85% maturing October 21, 2011 and January 24, 2012, respectively. The GICs are held as collateral for corporate credit cards with a major Canadian bank.

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

**5. PROPERTY AND EQUIPMENT**

<b>December 31, 2010</b>			
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 248,507	\$ -	\$ 248,507
Office equipment and furniture	128,757	64,755	64,002
Machinery and equipment	1,578,263	284,017	1,294,246
Vehicles	296,871	49,711	247,160
	<b>\$ 2,252,398</b>	<b>\$ 398,483</b>	<b>\$ 1,853,915</b>

  

<b>September 30, 2010</b>			
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 143,908	\$ -	\$ 143,908
Office equipment and furniture	101,660	56,903	44,757
Machinery and equipment	1,580,081	216,392	1,363,689
Vehicles	231,089	38,487	192,602
	<b>\$ 2,056,738</b>	<b>\$ 311,782</b>	<b>\$ 1,744,956</b>

During the three months ended December 31, 2010, amortization of \$86,701 (2009 - \$37,321) was recognized of which \$1,730 (2009 - \$2,047) was charged to operations and \$84,971 (2009 - \$35,274) was charged to mineral property interest.

**6. ACQUISITION OF BAUXITE CORPORATION OF GUYANA INC.**

In October 2010, the Company acquired all of the outstanding shares of Bauxite Corporation of Guyana Inc. ("BCGI") for consideration of 2,000,000 common shares and cash of US\$100,000. BCGI is the holder of the two Tarakulli prospecting licenses issued by the Guyana Geology and Mines Commission and the Minister of Mines of Guyana. Additionally, the Company will provide to the BCGI shareholders a 1.5% net profit interest (the "NPI") with regard to minerals produced from the Tarakulli Property. The Company will have the right to purchase all of the NPI in exchange for a US\$2,000,000 cash payment to the former BCGI shareholders.

The acquisition will be accounted for as an acquisition of the underlying assets and liabilities of BCGI. The fair value of the purchase consideration of \$1,718,544 was allocated to the underlying assets and liabilities based on their fair values at the date of acquisition. Total consideration of \$1,718,544 exceeded the carrying value of the net assets acquired by \$1,540,096, which was allocated to the carrying value of mineral property interests.

The fair value of the assets acquired and liabilities incurred from BCGI is as follows:

Mineral property interests	\$ 2,273,333
Current liabilities	(41,424)
Future income tax liability	(513,365)
<b>Net assets acquired</b>	<b>\$ 1,718,544</b>
<b>Fair value of share consideration</b>	<b>\$ 1,715,544</b>

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

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**7. MINERAL PROPERTY INTEREST**

(a) Bonasika Property

The Company is the holder of the following mineral titles in Guyana issued by the Guyana Geology and Mines Commission and the Minister of Mines of Guyana:

- (i) The Bonasika Mining License dated May 7, 2001 valid until May 7, 2016 with an option to renew for further seven years;
- (ii) The Waratilla Cartwright Prospecting License dated January 20, 2006, expiring January 19, 2011. The Company has applied for a one year extension of this license; and
- (iii) The Esse-Dem permission for Geophysical and Geological Survey dated September 6, 2007, expiring September 6, 2012.

The Company also holds an Environmental Permit for the Bonasika 1, 2 and 5 blocks, granted on October 15, 2004 valid until October 31, 2009. The Company is currently awaiting approval from regulatory authorities to extend the expiry date.

By Letter of Understanding ("LOU") dated May 23, 2008 and subsequently amended on May 23, 2009 and June 29, 2010, the Company entered into an agreement with Rio Tinto Mining and Exploration Limited ("Rio Tinto"), covering the Esse-Dem bauxite exploration project in Guyana, excluding the Bonasika Mining License and the Waratilla-Cartwright Prospecting License (the "JV Property"). Under the terms of the agreement, Rio Tinto has been granted an option to earn a 51% interest in the JV Property by funding 100% of exploration expenditures totaling US\$8,000,000 within four years. Rio Tinto must incur US\$350,000 (the "Initial Commitment") in exploration expenditures by December 31, 2008 (incurred), an additional US\$300,000 by December 31, 2009 (incurred) and thereafter at least US\$1,000,000 in each subsequent calendar year. Once Rio Tinto has earned its 51% interest and within 90 days from that time, Rio Tinto has the right to earn a further 24% (75% in aggregate) interest by funding a further US\$50,000,000 in the exploration and development of the JV Property.

On each of the first to fourth anniversaries of execution of this LOU, Rio Tinto will have the right to acquire 2,000,000 common shares of the Company at a 10% discount to the volume-weighted average closing price on the ten days prior to that anniversary date. Dilution clauses will apply during the joint venture period and any party diluting itself to 10% or under, this interest will be converted to a 1.5% gross royalty. Either party will have the right at any time to buy down any royalty interest held by the other party, for a fixed price of US\$25,000,000 for every 0.5%.

(b) Tarakuli Property

The Company is the holder of the following two Tarakuli Prospecting Licenses dated September 7, 2007, expiring September 7, 2011 (see also Note 6).

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

**7. MINERAL PROPERTY INTEREST (Continued)**

(c) Mineral property interest costs and expenditures incurred as follows:

	Bonasika	Tarakuli	Total
Balance, September 30, 2009	\$ 13,809,774	\$ -	\$ 13,809,774
Acquisition costs			
Additions during the year	-	-	-
Exploration costs			
Additions during the year:			
Amortization	260,018	-	260,018
Assays	408,913	-	408,913
Camp and support costs	795,076	-	795,076
Drilling, excavating and trenching	1,079,632	-	1,079,632
Consultants and report	2,993,595	-	2,993,595
Labour	362,670	-	362,670
Rental equipment and lease payments	130,545	-	130,545
Repair and maintenance	208,266	-	208,266
Surveying	116,358	-	116,358
Travel	104,879	-	104,879
Total exploration costs for the year	6,459,952	-	6,459,952
<b>Balance, September 30, 2010</b>	<b>20,269,726</b>	<b>-</b>	<b>20,269,726</b>
Acquisition costs			
Additions during the period:	-	2,273,333	2,273,333
Exploration costs			
Additions during the period:			
Amortization	84,974	-	84,974
Assays	(3,709)	-	(3,709)
Camp and support costs, net of recovery	(171,465)	-	(171,465)
Drilling, excavating and trenching	512,021	-	512,021
Consultants and report	232,654	-	232,654
Labour	173,856	-	173,856
Rental equipment and lease payments	40,859	-	40,859
Repair and maintenance	21,206	-	21,206
Surveying	92,479	-	92,479
Travel	73,567	-	73,567
Total exploration costs for the period	1,056,442	-	1,056,442
<b>Balance, December 31, 2010</b>	<b>\$ 21,326,168</b>	<b>\$ 2,273,333</b>	<b>\$ 23,599,501</b>

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

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**7. MINERAL PROPERTY INTEREST (Continued)**

**Realization**

The Company's investment in and expenditures on its mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful commercial production or from the proceeds of their disposal. The recoverability of the amounts shown for mineral property interests is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or proceeds from the disposition thereof.

**Title**

Although the Company has taken steps in Guyana to ensure the title to mineral property interests in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures may not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

**Environmental**

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral property interests, the potential for production on the property may be diminished or negated.

**8. CONVERTIBLE NOTES PAYABLE**

During the year ended September 30, 2009, as amended September 30, 2010 and January 19, 2011, the Company entered into a Note Purchase Agreement with Pacific Road Resources Funds ("Pacific"). The amendments restate certain terms of the Note Purchase Agreement to make them consistent with the terms in the convertible loan facility with Resource Capital Fund V L.P. ("RCF") (note 17(b)). Pacific provided initial financing of \$8,000,000 ("Phase 1 Financing") and retained an option to a further US\$20,000,000 ("Phase 2 Financing") upon completion of a Definitive Feasibility Study. In consideration for the Phase 1 Financing, the Company issued to Pacific two convertible notes as follows:

- \$3,000,000, interest-free, unsecured, maturing on June 26, 2014;
- \$5,000,000, interest-free, unsecured, maturing on July 23, 2014; and
- Convertible into common shares at any time at \$0.83 per share.

The Company paid a management fee of 3.75% of the gross proceeds of Phase 1 Financing, finder's fees to two finders of 3.75% of the gross proceeds of the subscription and warrants equal to 7% of the number of common shares issuable upon conversion of the Phase 1 Financing notes.

In consideration for the Phase 2 Financing, the Company has agreed to issue to Pacific unsecured notes without interest maturing in five years and convertible into common shares of the Company any time at a price equal to the greater of:

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

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**8. CONVERTIBLE NOTES PAYABLE (Continued)**

- (a) the maximum discount permitted by the TSX Venture Exchange ("TSX-V"), but in any event not less than a 20% discount to the volume-weighted average closing price of the Company's common shares on the TSX-V for the 20 trading days preceding the day on which the Pacific exercise their option to acquire the second phase notes; and
- (b) \$1.245, provided that,
  - (i) the Phase 2 Financing conversion price will not be greater than \$2.00 per share;
  - (ii) the Phase 2 Financing conversion price will be reduced as necessary to ensure that the common shares issuable on conversion of the Phase 2 Financing notes will comprise not less than 11.5% of the Company's common shares then outstanding calculated on a fully diluted basis following the issuance of the Phase 2 Financing notes based on the Phase 2 Financing conversion price; and
  - (iii) the Phase 2 Financing conversion price will not be reduced below the Phase 1 Financing conversion price in which case Pacific will have the right to purchase additional notes on the same terms and conditions as the Phase 2 Financing notes so that the common shares issuable on conversion will equal 11.5% of the Company's then issued and outstanding common shares calculated on a fully diluted basis.

The Company will pay a management fee in the amount of 3.5% of the gross proceeds, finder's fees in the amount of 3.5% of the gross proceeds and warrants equal to 7% of the number of common shares issuable upon conversion of Phase 2 Financing notes.

Upon completion of Phase 2 Financing, Pacific will have the right to appoint an additional nominee to the Board of Directors of the Company.

As long as Pacific continues to hold all of the Phase 1 Financing notes (or common shares issued on conversion) and, if applicable, the Phase 2 Financing notes (or common shares issued on conversion), Pacific will have the right to participate in future financings by the Company, and to purchase any amount of securities in such financings subject to the Company's existing obligations to third parties, for a period of three years from June 3, 2009.

The fair value of the debt component of the Phase 1 Financing was estimated to be \$4,856,000 by calculating the net present value with the following assumptions:

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Principal	\$8,000,000
Payments	\$0
Discount rate	10.5%
Term	5 years

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The fair value of the equity component was estimated to be \$4,775,789 using the Black-Scholes option pricing model with the following assumptions:

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Expected life	5 years
Volatility	56%
Risk-free interest rate per annum	2.49%
Dividend	0%

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**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

**8. CONVERTIBLE NOTES PAYABLE (Continued)**

Based on the relative fair values of the two components, \$4,020,752 was allocated to the debt component and \$3,979,248 was allocated to the equity component.

The Company incurred \$924,025 of transaction costs in connection with the issuance of the convertible notes. These financing costs include finder's fees of \$523,581, loan management fees of \$300,000, and legal and filing fees of \$100,444. Included as finder's fees are warrants issued with a fair value of \$223,581, calculated using the Black-Scholes option pricing model.

The transaction costs were allocated as to \$459,616 to the equity component and \$464,409 to the debt component of the convertible note payable based on their relative fair values.

Pacific has also agreed to cause one of its two nominees on the Board to resign upon appointment of the RCF director and a mutually acceptable seventh director to act as independent chair of the Board and Pacific will retain the right to have one director appointed to the Board; Pacific will have the right to appoint a second director if Pacific holds 30% or more of the common shares of the Company, calculated on a fully diluted basis, and in the event that RCF ceases to be entitled to a director, and Pacific exercises the Phase 2 Financing in whole or in part, then Pacific will have the right to appoint that number of nominees that results in representation of Pacific on the Board that is at least proportional to the total number of common shares held by Pacific calculated on a fully diluted basis.

Additionally, pursuant to the RCF agreement and the Note Purchase Agreement, if either RCF or Pacific does not exercise in full its right to purchase additional notes of the Company in the aggregate principal amount of US\$20,000,000, the other party will have the right to purchase additional notes, up to a maximum aggregate principal amount of the notes purchased, as between RCF and Pacific, of US\$40,000,000.

The effective interest rate of the convertible loan was calculated to be 17.60% per annum. Accordingly, the Company has accreted \$191,178 (2009 - \$162,990) to interest expense for the quarter ended December 31, 2010.

Proceeds from Phase 1 Financing	\$	8,000,000
Less: Fair value of equity component		(3,979,248)
		4,020,752
Financing costs incurred		924,025
Less: Portion attributed to equity component		(459,616)
		464,409
Proceeds, net of financing costs	\$	3,556,343

	December 31, 2010	September 30, 2010
Beginning balance	\$ 4,344,290	\$ 3,692,325
Allocation of debt component	-	-
Accretion of interest	191,178	651,965
Ending balance	\$ 4,535,468	\$ 4,344,290

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

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**9. SHARE CAPITAL**

(a) Authorized

An unlimited number of common shares without par value.

(b) Issued

During the quarter ended December 31, 2010:

(i) In October 2010, the Company completed a non-brokered private placement of 4,864,458 units at a price of \$0.83 per unit, for gross proceeds of \$4,037,500, the fair value of the shares based on the market value on the closing date. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$1.075 for a period of two years. The estimated fair value of the warrants was \$407,436. Based on the relative fair values of the equity instruments issued, \$3,667,411 was attributed to the common shares and \$370,089 was attributed to the warrants. The Company paid transaction and finders' fees of \$153,473 in cash and 186,505 in warrants. In addition, the Company issued 36,145 units to the finders having the same terms as the units issued in the private placement.

(ii) In October 2010, the Company issued 2,000,000 common shares for the acquisition of BCGI. The common shares were valued at \$0.80 per share, the market price of the shares on the date of issuance.

(c) Escrowed shares

As at December 31, 2010, all shares in escrow were released (September 30, 2010-1,357,502 shares were held in escrow).

(d) Stock options

The Company has a stock option plan (the "Plan") whereby the maximum number of common shares the Company may issue under the Plan will not exceed 8,036,000, being 20% of common shares outstanding at the time when the Plan was adopted on April 17, 2009. The Company has granted share purchase options to directors and officers of the Company to purchase common shares of the Company. These options are granted with an exercise price equal to the market price of the Company's stock on the date of grant.

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

**9. SHARE CAPITAL (Continued)**

(d) Stock options (Continued)

A summary of the stock options activities is as follows:

	Options	Exercise Price
Balance, September 30, 2009	3,805,000	\$ 0.39
Granted	925,000	\$ 0.98
Forfeited	(30,000)	\$ 0.80
Expired	(100,000)	\$ 0.60
Exercised	(1,440,000)	\$ 0.18
Balance, September 30, 2010	3,160,000	\$ 0.65
Granted	300,000	\$ 0.83
Expired	(75,000)	\$ 0.98
Balance, December 31, 2010	3,385,000	\$ 0.65

During the three months ended December 31, 2010:

- On November 3, 2010, the Company granted incentive stock options to certain directors for the purchase of up to 300,000 common shares of the Company at a price of \$0.83 per share for a five-year period to be vested 33% on March 3, 2011, 33% on July 3, 2011 and 34% on November 3, 2011.

During the year ended September 30, 2010:

- In May 2010, the Company granted 925,000 options to directors, officers, consultants and employees of the Company with an exercise price of \$0.98 per share expiring May 19, 2015 to be vested 33% every four months after the date of grant.

Stock options outstanding and exercisable at December 31, 2010 are as follows:

Expiry Date	Number of Options	Exercise Price	Exercisable
December 10, 2012	670,000	\$ 0.15	670,000
January 2, 2013	600,000	\$ 0.45	600,000
February 14, 2014	965,000	\$ 0.80	965,000
May 19, 2015	850,000	\$ 0.98	280,500
May 19, 2015	300,000	\$ 0.83	-
	3,385,000		2,515,500
Weighted average remaining contractual life in years	3.16		2.68

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

**9. SHARE CAPITAL (Continued)**

(d) Stock options (Continued)

Stock options outstanding and exercisable at September 30, 2010 were as follows:

Expiry Date	Number of Options	Exercise Price	Exercisable
December 10, 2012	670,000	\$ 0.15	670,000
January 2, 2013	600,000	\$ 0.45	600,000
February 14, 2014	965,000	\$ 0.80	965,000
May 19, 2015	925,000	\$ 0.98	305,250
	3,160,000		2,540,250
Weighted average remaining contractual life in years	3.28		2.95

During the quarter ended December 31, 2010 the Company recognized \$152,961 (December 31, 2009- \$nil) in stock based compensation.

Certain options granted by the Company vest over multiple periods. The Company recognized compensation expense based on vesting terms. As at December 31, 2010, \$188,206 remains to be expensed during the year to end September 30, 2011.

The fair value of the stock options used to calculate compensation expense was estimated using the Black-Scholes option pricing model with the following weighted average assumptions and fair values:

	Three Months Ended December 31, 2010	Year Ended September 30, 2010
Risk-free interest rate	2.48%	2.28%
Expected dividend yield	-	-
Expected stock price volatility	58%	73%
Expected life of options	5 years	5 years
Grant date fair value	\$0.83	\$0.59

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

**9. SHARE CAPITAL (Continued)**

(e) Warrants

	Number of Warrants		Weighted Average Exercise Price
Balance, September 30, 2009	3,623,964	\$	0.95
Exercised	(1,596,000)	\$	0.90
Balance, September 30, 2010	2,027,964	\$	0.99
Granted	2,636,807	\$	1.07
Balance, December 31, 2010	4,664,771	\$	1.03

Warrants outstanding at December 31, 2010 have a remaining contractual life of 1.19 years and are as follows:

Number of Warrants	Exercise Price	Expiry Date
760,000	\$ 1.00	April 14, 2011
216,867	\$ 0.83	June 26, 2011
361,832	\$ 0.83	July 23, 2011
689,265	\$ 1.10	July 31, 2011
2,510,302	\$ 1.075	October 5, 2012
126,505	\$ 0.90	October 15, 2012
4,664,771		

Warrants outstanding at September 30, 2010 have a remaining contractual life of 0.71 years and were as follows:

Number of Warrants	Exercise Price	Expiry Date
760,000	\$ 1.00	April 14, 2011
216,867	\$ 0.83	June 26, 2011
361,832	\$ 0.83	July 23, 2011
689,265	\$ 1.10	July 31, 2011
2,027,964		

During the quarter ended December 31, 2010, the Company recognized fair value of \$41,603 (2009 - \$nil) for warrants issued. The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions and fair value:

	2010	2009
Risk-free interest rate	1.41%	n/a
Expected dividend yield	n/a	n/a
Expected stock price volatility	59.85%	n/a
Expected life of warrants	2	n/a
Weighted average fair value of warrants issued	1.06	n/a

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

**10. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral property interests and to maintain flexible capital structure for its projects for the benefit of its stakeholders. In the management of capital, the Company includes components of long-term liabilities and shareholders' equity.

	<b>December 31, 2010</b>	<b>September 30, 2010</b>
Convertible notes payable	\$ 4,535,468	\$ 4,344,290
Share capital	20,604,164	15,531,828
Contributed surplus	2,226,211	1,661,558
Equity component of convertible note payable	3,519,632	3,519,632
	<b>\$ 30,885,475</b>	<b>\$ 25,057,308</b>

The Company manages the capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new debt or shares, enter into joint venture property arrangements, acquire or dispose of assets.

Management reviews the capital structure on a regular basis to ensure that the Company's capital management objectives are achieved. The Company's capital is not subject to any external restrictions. There were no changes to the Company's capital management approach during the quarter ended December 31, 2010.

**11. FINANCIAL RISK MANAGEMENT**

The Company has classified its financial instruments as follows:

- Cash and cash equivalents and restricted cash – as held-for-trading
- Other receivables – as loans and receivables
- Due from related parties – as loans and receivables
- Accounts payable and accrued liabilities – as other financial liabilities
- Due to related parties – as other financial liabilities
- Convertible notes payable – as other financial liabilities.

The carrying values of cash and cash equivalents, receivables and advances, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these financial instruments.

The fair values of amounts due from or to related parties have not been disclosed as their fair values cannot be reliably measured since the parties are not at arm's length.

The Canadian Institute of Chartered Accountants' Handbook Section 3862, "Financial Instruments – Disclosures", establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

**11. FINANCIAL RISK MANAGEMENT (Continued)**

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 2,199,550	\$ -	\$ -	\$ 2,199,550
Restricted cash	\$ 115,000	\$ -	\$ -	\$ 115,000
Other receivables	\$ 229,818	\$ -	\$ -	\$ 229,818

The Company's risk exposure and the impact on the Company's financial instruments are described below.

(a) Credit risk

Credit risk to the Company is the risk that a counterparty will be unable to pay amounts owed to the Company. The Company's exposure to credit risk is summarized below:

(i) Cash and cash equivalents

Credit risk is mitigated by ensuring the majority of the financial assets are placed with a major Canadian financial institution with strong investment-grade ratings by a primary ratings agency. The credit risk of cash and cash equivalents has been assessed as low.

(ii) Other receivables

Credit risk has been assessed as low by management as the Company has strong working relationships with the parties involved.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At December 31, 2010, the Company had obligations due as follows:

- (i) accounts payable and accrued liabilities of \$348,813 (September 30, 2010 - \$343,724) due within 90 days of year-end;
- (ii) amounts due to related parties of \$534,843 (September 30, 2010 - \$785,904) with no stated terms of repayment; and
- (iii) convertible debt with a value at maturity of \$8,000,000 (September 30, 2010 - \$8,000,000) due in 2014.

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

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**11. FINANCIAL RISK MANAGEMENT (Continued)**

(b) Liquidity risk (Continued)

Subsequent to quarter-end, the Company raised funds to finance its work programs and meet administrative overhead and commitments for the next twelve months (notes 15(a)).

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: interest rate risk and foreign currency risk.

(i) Interest rate risk

The Company's cash equivalents consist of cash held in GICs that earn interest at variable interest rates. The Company's sensitivity analysis indicates that fluctuations in market rates do not have a significant impact on their fair values as of December 31, 2010. Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on the liquidity and the preservation and safety of capital.

(ii) Foreign currency risk

The Company is primarily exposed to currency fluctuations related to cash balances held in United States (US) and Guyana dollars and receivables, payables and amounts due to related parties held in Guyana dollars. The Company has net liabilities of \$470,867 denominated in US dollars and net liabilities of \$132,948 denominated in Guyana dollars at December 31, 2010.

Management believes that the exchange rate between the Canadian dollar and Guyana dollar could fluctuate approximately 25% within the next 12 months. Based on the December 31, 2010 balance, an increase or decrease of 25% in the exchange rate between the Canadian and Guyana dollars would result in an increase or decrease of \$150,954 in the net income of the Company.

Management believes that the exchange rate between the Canadian dollar and US dollar could fluctuate by 10% within the next 12 months. Based on the December 31, 2010 balance, an increase or decrease of 10% in the exchange rate between the Canadian and US dollars would result in an increase or decrease of \$60,382 in the net income of the Company. The Company does not actively manage this risk.

**12. RELATED PARTY TRANSACTIONS**

During the quarter ended December 31, 2010, the Company had the following related party transactions:

- (a) paid \$nil (2009 - \$7,500) for management fees and \$nil (2009 - \$1,500) for administration expenses to a company controlled by a former director;
- (b) recorded \$9,264 (2009 - \$6,632) as reimbursement for office rent and expenses from a company with common directors. As of December, 2010, a balance of \$17,558 (September 30, 2010 - \$8,294) was due from this company;

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

**12. RELATED PARTY TRANSACTIONS (Continued)**

- (c) recorded at December 31, 2010, \$524,361 (September 30, 2010 - \$770,856) as payable to a director or the company controlled by this director;
- (d) incurred \$38,904 (2009 - \$15,049) to directors, officers and a company controlled by a director for reimbursement of expenses;
- (e) paid \$37,360 (2009 - \$16,080) for accounting fees to a company controlled by an officer. At December 31, 2010, \$10,483 (September 30, 2010 - \$14,694) was payable to this company;
- (f) paid \$13,575 (2009 - \$10,000) for investor relations services to a company controlled by a relative of a director;
- (g) paid \$4,620 (2009 - \$4,689) for office rent to a relative of a director of the Company; and
- (h) paid \$35,153 (2009 - \$nil) for consulting services to a company controlled by a director.

All transactions were measured by the exchange amount, which is the amount agreed upon by the transacting parties. The amounts due to and from related parties are non-interest-bearing, unsecured and have no stated terms of repayment.

**13. COMMITMENTS**

The Company is committed to the following payments related to office premises rental payments and equipment lease as follows:

Year	Amount
2011	\$ 36,990
2012	49,320
2013	41,620
	\$ 127,930

- (a) The Company entered into a five-year lease agreement expiring in July 2013, for its head office premises in Vancouver, British Columbia, Canada. The Company is committed to payments of \$46,200 per year.
- (b) The Company entered into a five-year lease agreement expiring in September 2013 for a photocopier. The Company is committed to payments of \$3,120 per year.

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2010 and 2009**

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

	<b>2010</b>	<b>2009</b>
Income taxes paid	\$ -	\$ -
Interest paid	\$ 1,637	\$ -
Amortization included in mineral property interest	\$ 84,974	\$ 35,274
Mineral property interest expenditures included in accounts payable	\$ 75,695	\$ -
Shares issued for acquisition of BCGI	\$ 1,600,000	\$ -
Value attributed to warrants issued in private placement	\$ 372,839	\$ -
Fair value of stock options exercised	\$ -	\$ 29,470
Fair value of finder's units	\$ 30,000	\$ -
Fair value of finder's warrants	\$ 38,853	\$ -

**15. SUBSEQUENT EVENTS**

- (a) On November 16, 2010, the Company entered into a binding commitment letter with RCF for a two tranche convertible loan facility of up to US\$28,000,000. In January 2011, the Company closed the first tranche of \$8,000,000 principal amount of unsecured convertible notes (having a five-year term, without interest), which notes will be convertible into common shares of the Company at a conversion price of \$0.83. In connection with the first tranche the Company paid RCF an establishment fee of \$300,000. Pursuant to the first tranche financing, RCF has the right to appoint one nominee to the board of directors of the Company. Upon completion of certain conditions precedent, RCF will have an option to subscribe for additional convertible notes in the aggregate principal amount of US\$20,000,000, which notes will be convertible into common shares at a conversion price equal to the greater of:
- the maximum discount permitted by the TSX-V, but in any event not less than a 20% discount to the volume-weighted average closing price of the Company's common shares on the TSX-V for the 20 trading days preceding the day on which the Subscribers exercise their option to acquire the second phase notes; and
  - \$1.245 (150% of the conversion price for the first phase notes), provided that,
    - (i) the second phase conversion price will not be greater than \$2.00 per share; and
    - (ii) the second phase conversion price will be reduced as necessary to ensure that the common shares issuable on conversion of the Phase 2 Financing notes will comprise not less than 11.5% of the Company's common shares calculated on a fully diluted basis following the issuance of the Phase 2 Financing notes based on the Phase 2 Financing conversion price.
- (b) On January 19, 2011, the Company amended its Note Purchase Agreement with Pacific to conform the agreement with the rights granted to RCF (note 8).