

# **FIRST BAUXITE CORPORATION**

**Consolidated Financial Statements  
December 31, 2009 and 2008  
(Unaudited)**

## **Index**

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

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## **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, 2009 and 2008**

	December 31 2009	September 30 2009
<b>ASSETS</b>		
CURRENT		
Cash	\$ 4,495,603	\$ 6,995,107
Receivable and advances	65,715	21,932
GST receivable	81,823	55,413
Due from related parties (note 11)	82,055	-
Mining tax credit receivable	-	37,038
Prepaid expenses	80,764	128,155
	4,805,960	7,237,645
ADVANCES TO GUYANA INDUSTRIAL MINERALS INC.	-	-
PROPERTY AND EQUIPMENT (note 4)	1,534,428	1,115,675
MINERAL PROPERTY INTEREST (note 6(c))	15,013,180	13,809,774
	\$ 21,353,568	\$ 22,163,094
<b>LIABILITIES</b>		
CURRENT		
Accounts payable and accrued liabilities	\$ 188,011	\$ 547,868
Due to related parties (note 11)	404,140	362,313
	592,151	910,181
<b>CONVERTIBLE NOTES PAYABLE</b> (note 7)	3,855,315	3,692,325
<b>FUTURE INCOME TAX LIABILITY</b> (note 5)	1,961,500	1,961,500
	6,408,966	6,564,006
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (note 8)	13,185,893	13,126,422
CONTRIBUTED SURPLUS (note 8(f))	1,995,964	2,025,435
EQUITY COMPONENT OF CONVERTIBLE NOTES PAYABLE	3,519,632	3,519,632
DEFICIT	(3,756,887)	(3,072,401)
	14,944,602	15,599,088
	\$ 21,353,568	\$ 22,163,094

Nature of Operations and Going-Concern (note 1)  
Commitments (note 12)  
Subsequent Events (note 14)

APPROVED BY THE DIRECTORS:

"Jim Heras"  
Jim Heras, Director

"Yannis Tsitos"  
Yannis Tsitos, Director

See notes to consolidated financial statements

**FIRST BAUXITE CORPORATION**  
**Consolidated Statement of Loss and Deficit**  
**(Unaudited)**  
**Three Months Ended December 31, 2009 and 2008**

	2009	2008
<b>EXPENSES</b>		
Amortization	\$ 2,047	\$ 2,263
Insurance	3,662	3,906
Interest expense	162,990	348
Investor relations and communication	23,306	16,667
Management and administration fees	9,000	9,000
Office and others	28,705	23,314
Professional fees	50,543	13,079
Salaries and benefits	51,000	30,257
Stock-based compensation	-	10,806
Stock exchange and filing fees	12,094	2,215
Transfer agent fees	1,228	-
Travel and promotion	187,079	15,235
	531,654	127,090
Interest income	(4,621)	(5,351)
Foreign exchange	157,453	-
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>(684,486)</b>	<b>(121,739)</b>
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>(3,072,401)</b>	<b>(1,649,385)</b>
<b>DEFICIT, END OF PERIOD</b>	<b>\$ (3,756,887)</b>	<b>\$ (1,771,124)</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>\$ (0.02)</b>	<b>\$ -</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<b>43,144,293</b>	<b>35,861,306</b>

See notes to consolidated financial statements

**FIRST BAUXITE CORPORATION**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**  
**Three Months Ended December 31, 2009 and 2008**

	2009	2008
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (684,486)	\$ (121,739)
Add items not affecting cash:		
Amortization	2,047	2,263
Implicit interest on convertible note payable	162,990	-
Stock-based compensation	-	10,806
Net changes in non-cash working capital items		
Short-term investments	-	1,058,575
Receivable and advances	(43,783)	4,897
GST receivable	(26,410)	(9,030)
Advances to Guyana Industrial Minerals Inc.	-	(967,558)
Mining tax credit receivable	37,038	-
Prepaid expenses	47,391	(70,625)
Accounts payable and accrued liabilities	(359,857)	(486,297)
	<b>(865,070)</b>	<b>(578,708)</b>
<b>FINANCING ACTIVITIES</b>		
Amounts from (to) related parties	(40,228)	(1,835)
Shares issued for cash, net of share issuance costs	30,000	(14,500)
	<b>(10,228)</b>	<b>(16,335)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(456,074)	(6,986)
Reclamation bond	-	(8,168)
Purchase of interest in resource properties	-	(1,103)
Deferred exploration costs	(1,168,132)	(106,266)
Cash acquired from purchase of Bonasika	-	439,074
Acquisition of Bonasika, net of cash and advances to Bonasika	-	436,677
	<b>(1,624,206)</b>	<b>753,228</b>
<b>INFLOW (OUTFLOW) OF CASH DURING THE PERIOD</b>	<b>(2,499,504)</b>	<b>158,185</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>6,995,107</b>	<b>24,349</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 4,495,603</b>	<b>\$ 182,534</b>

Supplemental Cash Flow Information (note 13)

See notes to consolidated financial statements

**FIRST BAUXITE CORPORATION**

**Consolidated Statement of Shareholders' Equity**

**(Unaudited)**

**Three Months Ended December 31, 2009 and Year Ended September 30, 2009**

	Share Capital		Deficit	Contributed Surplus		Equity Component of Convertible Notes Payable	Total Shareholders' Equity
	Shares	Amount		Warrants	Options		
Balance, September 30, 2008	31,080,002	\$ 3,281,209	\$ (1,649,385)	\$ 439,339	\$ 656,194	\$ -	\$ 2,727,357
Net loss for the year	-	-	(1,423,016)	-	-	-	(1,423,016)
Shares issued for cash							-
Private placements	2,898,530	1,904,054	-	304,126	-	-	2,208,180
Exercise of stock options	150,000	22,500	-	-	-	-	22,500
Share issue costs	-	(198,472)	-	-	-	-	(198,472)
Shares issued for non-cash consideration							
Purchase of Bonasika Ltd.	9,000,000	8,100,000	-	-	-	-	8,100,000
Fair value of stock options exercised	-	17,131	-	-	(17,131)	-	-
Issuance of convertible notes payable	-	-	-	-	-	3,979,248	3,979,248
Cash transaction costs allocated to convertible notes payable	-	-	-	-	-	(348,412)	(348,412)
Agent's warrants issue on convertible notes payable	-	-	-	223,581	-	(111,204)	112,377
Stock based compensation	-	-	-	-	419,326	-	419,326
Balance, September 30, 2009	43,128,532	13,126,422	(3,072,401)	967,046	1,058,389	3,519,632	15,599,088
Net loss for the three months ended December 31, 2009	-	-	(684,486)	-	-	-	(684,486)
Shares issued for cash							-
Exercise of stock options	50,000	30,000	-	-	-	-	30,000
Fair value of stock options exercised	-	29,471	-	-	(29,471)	-	-
Balance, December 31, 2009	43,178,532	\$ 13,185,893	\$ (3,756,887)	\$ 967,046	\$ 1,028,918	\$ 3,519,632	\$ 14,944,602

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2009 and 2008**

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

First Bauxite Corporation (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. On December 9, 2008, the Company completed a stock split of its share capital, warrants and options on a basis of two new shares for one old share. All outstanding shares, warrants, options and per unit data included in these consolidated financial statements have been adjusted to retroactively reflect this split, unless otherwise noted.

The Company is an exploration stage company and is in the process of acquiring and exploring its mineral property interests, and has not yet determined whether these properties contain mineral reserves that are economically recoverable.

These consolidated financial statements were 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, 2009, the Company had working capital of \$4,213,809 (September 30, 2009 - \$6,327,464). The Company does not currently hold any revenue-generating properties and thereby continues to incur losses (2009 - \$684,486; 2008 - \$121,739). The Company has an accumulated deficit of \$3,756,887 as at December 31, 2009 (September 30, 2009 - \$3,072,401).

The Company plans to continue advancing its three active projects.

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. Failure to continue as a going concern would require the restatement of assets and liabilities on a liquidation basis, which could differ materially from the going concern basis.

These consolidated financial statements do not reflect any adjustments that would be necessary if the going concern assumptions were not appropriate because management believes that actions taken or planned will mitigate any doubts of the Company's viability.

**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 parent company and its wholly-owned integrated subsidiaries Bonasika Ltd. ("Bonasika"), Guyana Industrial Minerals Inc. ("GINMIN"), and Rafters Investment Corp. ("Rafters") all of which were acquired on November 17, 2008 (note 6). All significant inter-company balances and transactions have been eliminated upon consolidation.

The comparative figures as at September 30, 2008 reflect the accounts of the Company prior to the acquisition of Bonasika (note 6). Certain amounts from the prior period have been reclassified to conform to the current period's presentation.

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2009 and 2008**

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

(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 period.

Significant areas requiring the use of management estimates relate to determining the recoverability of mineral property interests, the amount of mining 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.

(d) Revenue recognition

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

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2009 and 2008**

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

(e) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the period. 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 period. 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.

The calculation also excludes common shares that are being held in escrow at period-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). 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 period are amortized at one-half the annual rates.

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2009 and 2008**

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

(i) Warrants issued in unit offering

The Company has changed its accounting policy for the allocation of proceeds in a unit offering. Previously, the Company first allocated proceeds for the unit offering to the warrants equal to their fair value as calculated using the Black-Scholes option pricing model. The residual amount is then allocated to the common shares issued. During 2009, the Company adopted the relative fair value method which allocates proceeds to the warrants and common shares issued based on the relative fair values of the components. Management believes this change in accounting policy better reflects the value of the components of the units issued. The change in accounting policy has resulted in the following adjustments to allocate additional proceeds from the unit issuance to share capital.

	September 30, 2009	
	Previously Reported	Restated Amounts
Share Capital	\$ 12,908,543	\$ 13,126,422
Contributed Surplus	\$ 5,762,946	\$ 5,545,067

The change in accounting policy had no impact on earnings per share.

(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 capitalized amount is depleted on a straight-line basis over the estimated life of the 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 period-end exchange rate. Non-monetary assets and liabilities are translated using historical rates of exchange. Revenue and expenses are translated at the rates of exchange prevailing on the dates such items are recognized in operations. Exchange gains and losses are included in the statement of operations and comprehensive loss.

(l) Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid investments that are readily redeemable into known amounts of cash and that have an initial maturity of three months or less from the original date of acquisition.

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2009 and 2008**

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

(m) Short-term investments

Short-term investments include all investments that have an initial maturity greater than three months but less than one year and are not readily redeemable.

(n) Convertible notes payable

The Company's convertible promissory notes are split into the corresponding debt and equity components at the date of issue. The equity component represents the value of the conversion right and is valued using the Black-Scholes option pricing model. The debt component is classified as a liability and is valued using a present value technique. The components are allocated based on their relative fair values.

(o) Non-Monetary Transaction

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset received, whichever is more reliable, unless the transaction lacks commercial substance or the fair value cannot be reliably established. The commercial substance requirement is met when the future cash flows are expected to change significantly as a result of the transaction. When the fair value of a non-monetary transaction cannot be reliably measured, it is recorded at the carrying amount (after reduction, when appropriate, for impairment) of the asset given up adjusted by the fair value of any monetary consideration received or given. When the asset received or the consideration given up is shares in an actively traded market, the value of those shares will be considered fair value.

(p) 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 using the effective interest method. Available-for-sale 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 held-to-maturity, loans and receivables, or other financial liabilities are included in the initial carrying value of such instruments and amortized using the effective interest method. Transaction costs classified as held for trading are expensed while incurred, while those classified as available for sale are included in the initial carrying value.

Comprehensive income or loss is defined as the change in equity from transactions and other events from sources other than the Company's shareholders. Other comprehensive income or loss refers to items recognized in comprehensive income or loss that are excluded from net income or loss calculated in accordance with Canadian generally accepted accounting principles.

The Company has no items of other comprehensive income in any period presented. Therefore, net loss as presented in the Company's consolidated statements of operations equals comprehensive loss.

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2009 and 2008**

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

(q) Adoption of New Standards

(i) Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests". These new standards are harmonized with International Financial Reporting Standards (IFRS). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, the use of the date of exchange as the measurement date, the requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition related costs that are not capital in nature as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011 but early adoption is permitted. The Company has adopted these standards effective in 2009 for the Bonasika acquisition (note 6).

(ii) Goodwill and Intangible Assets

Effective October 1, 2008, the Company adopted CICA Handbook Section 3064, "Goodwill and Intangible Assets". The new section replaces Sections 3062, "Goodwill and Other Intangible Assets", and 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to initial recognition and of intangible assets by profit-oriented enterprises. The adoption of this section has had no material impact on the Company's consolidated financial statements.

(iii) Going concern

In June 2007, the CICA amended Handbook Section 1400, "General Standards of Financial Statement Presentation", which requires management to make an assessment of the Company's ability to continue as a going concern. When financial statements are not prepared on a going concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going concern. The adoption of this section has had no material impact on the Company's consolidated financial statements.

(r) Future accounting pronouncements

International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the transition to International Financial Reporting Standards ("IFRS") from Canadian GAAP 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. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2009 and 2008**

**3. CASH AND CASH EQUIVALENTS**

The Company's cash and cash equivalents consists of cash of \$1,966,603 and guaranteed investments certificates ("GIC") totaling \$2,529,000.

The cash equivalents of the Company have the following terms:

- (a) A \$529,000 GIC purchased on July 3, 2009 with a prime minus 1.75% interest rate that matures on July 2, 2010 and is redeemable at the option of the holder at anytime, and
- (b) A \$2,000,000 GIC purchased on July 23, 2009, with a prime minus 1.75% interest rate that matures on July 22, 2010 and is redeemable at the option of the holder at anytime.

**4. PROPERTY AND EQUIPMENT**

				<b>December 31, 2009</b>		
		Cost	Accumulated Amortization		Net Book Value	
Land	\$	195,919	\$	-	\$ 195,919	
Office equipment and furniture		111,167		26,571	84,596	
Machinery and equipment		313,692		37,273	276,419	
Vehicles		85,397		16,694	68,703	
Drilling equipment		908,791		-	908,791	
		<b>\$ 1,614,966</b>	<b>\$</b>	<b>80,538</b>	<b>\$ 1,534,428</b>	
				<b>September 30, 2009</b>		
		Cost	Accumulated Amortization		Net Book Value	
Land	\$	90,410	\$	-	\$ 90,410	
Office equipment and furniture		85,697		22,483	63,214	
Machinery and equipment		60,062		7,109	52,953	
Vehicles		81,380		13,625	67,755	
Assets under construction		841,343		-	841,343	
		<b>\$ 1,158,892</b>	<b>\$</b>	<b>43,217</b>	<b>\$ 1,115,675</b>	

During the three months ended December 31, 2009, amortization of \$37,321 (Year Ended September 30, 2009 - \$38,604) was recognized of which \$2,047 (Year Ended September 30, 2009 - \$9,175) was charged to operations and \$35,274 (Year Ended September 30, 2009 - \$29,429) was charged to mineral property interest.

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2009 and 2008**

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**5. ACQUISITION OF BONASIKA LTD.**

In February 2008, the Company executed a binding letter of intent with Bonasika, a British Virgin Islands company, pursuant to which the Company agreed to purchase all of the outstanding shares of Bonasika by issuing 9,000,000 common shares to the share holders of Bonasika. Bonasika holds 100% of GINMIN of Georgetown, Guyana, which is the holder of 100% of Rafters of Georgetown, Guyana. GINMIN is the holder of the Bonasika mining license, the Waratilla-Cartwright prospecting license, and the Essequibo-Demerara (“Esse-Dem”) permission for geophysical and geological survey all in Guyana, issued by the Guyana Geology and Mines Commission and the Minister of Mines of Guyana. Rafters is the holder of the land titles of areas located within the Essequibo license.

This transaction was classified as a fundamental acquisition by the TSX Venture Exchange (the “Exchange”). On November 13, 2008, the Company received final acceptance from the Exchange for the acquisition of Bonasika. On November 17, 2008 the Company issued 9,000,000 common shares in exchange for 100% of the outstanding shares of Bonasika to complete the acquisition.

The acquisition was accounted for using the acquisition method of accounting, with the Company being identified as the acquirer and Bonasika as the acquiree. The purchase consideration of \$8,100,000 was allocated to the underlying assets and liabilities based on their fair values at the date of acquisition. Total consideration of \$8,100,000 exceeds the carrying value of the net assets acquired by \$8,097,603, which was applied to increase the carrying value of mineral property interests. The acquired difference between the accounting and tax values of assets acquired resulted in a future income tax liability of \$1,961,500, which has been capitalized to mineral property interests.

The fair value of the assets acquired and liabilities incurred from Bonasika were as follows:

Cash	\$ 439,074
Receivable and advances	7,388
Due from related parties	5,722
Land	182,331
Mineral property interests	11,618,646
Accounts payable and accrued liabilities	(2,339)
Advances from First Bauxite Corporation	(1,842,179)
Future income tax liability	(1,961,500)
Due to related parties	(347,143)
<b>Net assets acquired</b>	<b>\$ 8,100,000</b>
<b>Issue of share capital</b>	<b>\$ 8,100,000</b>
<b>Fair value of consideration issued in excess of net assets acquired</b>	<b>\$ -</b>

The Company entered into the transaction to acquire, explore and determine the economic feasibility of extractable bauxite encompassed by the licenses held by GINMIN.

**FIRST BAUXITE CORPORATION**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended December 31, 2009 and 2008**

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**6. MINERAL PROPERTY INTEREST**

(a) Bonasika Property

Through its wholly-owned subsidiary, 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; and
- (iii) The Essequibo-Demerara Permission for Geophysical and Geological Survey dated September 6, 2007 expiring September 6, 2010.

The Company also holds an Environmental Permit for the Bonasika 1, 2 and 5 blocks, granted on October 15, 2004 and valid until October 31, 2009. The Company has applied to extend this permit which is currently in the process of being reviewed by the Minister of Mines of Guyana. The expired permit continues to be in effect until a new permit is granted or the application by the Company is disapproved.

By Letter of Understanding dated May 23, 2008 and subsequently amended on May 23, 2009 ("LOU"), the Company entered into an agreement with Rio Tinto Mining and Exploration Limited ("Rio Tinto"), covering the Essequibo-Demerara bauxite exploration project in Guyana, excluding the Bonasika Mining License and the Waratilla-Cartwright Prospecting License ("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), 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 10 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%.

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

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

	December 31 2009	September 30 2009
<b>Acquisition costs</b>		
Balance, beginning of period	\$ 11,618,646	\$ -
Additions during the period:		
Issuance of shares (notes 5 and 8(c))	-	11,618,646
Balance, end of period	11,618,646	11,618,646
<b>Exploration costs</b>		
Balance, beginning of period	2,191,128	-
Additions during the year:		
Amortization	49,427	29,429
Assays	84,772	221,177
Camp costs	64,322	118,552
Consulting fees	95,664	23,164
Drilling, excavating, and trenching	257,329	935,943
Geological consultants and report	480,363	224,286
Labour	79,892	94,039
Project management	7,619	-
Rental equipment and license payments	-	411,315
Repair and maintenance	18,353	32,258
Surveying	59,702	84,686
Travel	5,963	16,279
	1,203,406	2,191,128
Balance, end of period	3,394,534	2,191,128
	15,013,180	13,809,774
<b>Mineral Property Interest</b>	<b>\$ 15,013,180</b>	<b>\$ 13,809,774</b>

**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.

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

**Title**

Although the Company has taken steps 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.

**7. CONVERTIBLE NOTES PAYABLE**

During 2009, the Company entered into a Note Purchase Agreement with Pacific Road Resources Funds (the "Subscribers") whereby the Subscribers have agreed to provide initial financing of \$8,000,000 ("Phase 1 Financing") and a further US\$20,000,000 ("Phase 2 Financing") upon completion of a positive pre-feasibility study. In consideration for the Phase 1 Financing, the Company has agreed to issue to Subscribers unsecured notes without interest maturing in five years and convertible into common shares of the Company 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 Subscribers 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:

- (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 Subscribers exercise their option to acquire the second phase notes; and
- (b) \$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;
  - (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 15% 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 the Subscribers 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 15% of the Company's then issued and outstanding common shares calculated on a fully diluted basis.

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

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 the second phase of the financing, the Subscribers will have the right to appoint a nominee(s) to the Board of Directors of the Company proportionate to their percentage holding of common shares in the Company

As long as the Subscribers continue to hold all of the Phase 1 notes Financing (or common shares issued on conversion) and, if applicable, the Phase 2 Financing notes (or common shares issued on conversion), the Subscribers 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.

During the year ended September 30, 2009, the Company received \$8,000,000 proceeds from the Phase 1 Financing, paid finders' and loan management fees totaling \$600,000, and issued 674,699 warrants to the finders, which are exercisable at a price of \$0.83 per share for a period of two years. The Company issued two convertible notes as follows:

- \$3,000,000, interest free, unsecured, maturing on June 26, 2014; and
- \$5,000,000, interest free, unsecured, maturing on July 23, 2014.

The convertible notes payable are considered a compound financial instrument as they contain both a debt and an equity component. The debt component is the obligation to repay the notes payable at the maturity date. The equity component is the right to convert the debt into shares. The net proceeds have been allocated between the debt and equity components based on their relative values.

The fair value of the debt component was calculated to be \$4,855,999 by calculating the net present value with the following assumptions:

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

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The fair value of the equity component was calculated 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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**7. 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 convertible notes issuance. These financing costs include finder's fees of \$523,581, loan management fees of \$300,000, 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 options 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.

The effective interest rate of the convertible loan was calculated to be 17.60% per annum. Accordingly, the Company accreted \$162,990 to interest expenses for the period.

Proceeds from Phase 1 Financing	\$ 8,000,000
Less: Fair value of equity component	(3,979,248)
	<u>4,020,752</u>
Financing costs incurred	924,025
Less: Portion attributed to equity component	(459,616)
	<u>464,409</u>
Amortization of discount as interest expense	
Year ended September 30, 2009	(135,982)
Three months ended December 31, 2009	(162,990)
	<u>(298,972)</u>
Convertible note payable outstanding as of December 31, 2009	<u>\$ 3,855,315</u>

**8. SHARE CAPITAL**

(a) Authorized

On November 17, 2008, the Company increased its authorized capital from 100,000,000 common shares to an unlimited number of common shares. The common shares of the Company have no par value.

(b) During the three months ended December 31, 2009

50,000 shares were issued through the exercise of options at \$0.60 per share for gross proceeds of \$30,000 a option holder. \$29,471 was transferred from contributed surplus to share capital upon exercise of the options.

(c) During the year ended September 30, 2009:

(i) On November 17, 2008, the Company issued 9,000,000 common shares for the acquisition of Bonasika. The common shares were valued at \$0.90 per share, the market price of the shares on the date of issuance.

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**8. SHARE CAPITAL (Continued)**

(c) During the year ended September 30, 2009 (Continued):

(ii) In April 2009, the Company completed a non-brokered private placement of 1,520,000 units at a price of \$0.70 per unit, for gross proceeds of \$1,064,000. 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 \$1.00 per share for a period of two years. The fair value of the shares based on the market value on the closing date was \$1,064,000. The estimated fair value of the warrants was \$134,579. Based on the relative fair values of the equity instruments issued, \$944,532 was attributed to the common shares and \$119,468 was attributed to the warrants. In connection with this private placement, the Company paid \$74,480 in finders' fees.

(iii) In July 2009, the Company completed a non-brokered private placement of 1,378,530 units at a price of \$0.83 per unit, for gross proceeds of \$1,144,180. Each unit consists 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 \$1.00 per share on or before July 31, 2010 and at a price of \$1.10 per share on or before July 31, 2011. The fair value of the shares based on the market value on the closing date was \$1,144,180. The estimated fair value of the warrants was \$220,195. Based on the relative fair values of the equity instruments issued, \$959,522 was attributed to the common shares and \$184,658 was attributed to the warrants. In connection with this private placement, the Company paid \$38,680 in finders' fees.

(iv) 150,000 shares were issued through the exercise of options at \$0.15 per share for gross proceeds of \$22,500 from multiple option holders. \$17,131 was transferred from contributed surplus to share capital upon exercise of the options.

(d) Escrowed shares

As at December 31, 2009, a total of 2,715,002 (September 30, 2009 – 4,072,502) common shares issued to directors and officers of the Company are being held in escrow. These shares are being released as to 15% every six months after listing on the TSX-V (December 10, 2007) for 36 months.

(e) Stock options

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. During the year ended September 30, 2008, the Company adopted a stock option plan (the "Plan") whereby the maximum number of common shares the Company may issue under the Plan will not exceed 8,626,000, being 20% of common shares outstanding at the time when the Plan was adopted on April 19, 2008.

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**8. SHARE CAPITAL (Continued)**

(e) Stock options (Continued)

A summary of the stock options activities is as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance, September 30, 2008	3,260,000	0.2740
Granted	995,000	0.8000
Exercised	(150,000)	0.1500
Cancelled	(300,000)	0.6000
Balance, September 30, 2009	3,805,000	0.3907
Exercised	(50,000)	0.6000
Balance, December 31, 2009	3,755,000	\$ 0.3879

(i) During the three month ended December 31, 2009

No stock options were granted during this period. Stock options outstanding and exercisable at December 31, 2009 were as follows:

Expiry Date	Number of Options	Exercise Price	Exercisable
February 1, 2010	150,000	\$ 0.60	150,000
December 10, 2012	2,010,000	\$ 0.15	2,010,000
January 2, 2013	600,000	\$ 0.45	600,000
February 14, 2014	995,000	\$ 0.80	995,000
	3,755,000		3,755,000
Weighted average contractual life in years	3.16		3.16

(ii) During the year ended September 30, 2009:

On February 12, 2009, the Company granted 995,000 options to directors, officers, consultants and employees of the Company with an exercise price of \$0.80 per share. All options vested immediately.

Stock options outstanding and exercisable at September 30, 2009 were as follows:

Expiry Date	Number of Options	Exercise Price	Exercisable
February 1, 2010	200,000	\$ 0.60	200,000
December 10, 2012	2,010,000	\$ 0.15	2,010,000
January 2, 2013	600,000	\$ 0.45	600,000
February 14, 2014	995,000	\$ 0.80	995,000
	3,805,000		3,805,000
Weighted average contractual life in years	3.37		3.37

During the three months ended December 31, 2009, the Company recognized fair value of \$Nil (2008 - \$10,806) in stock-based compensation.

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**8. SHARE CAPITAL (Continued)**

(e) Stock options (Continued)

Certain options granted by the Company vest over multiple periods. The Company recognized compensation expense for the options as follows:

Grant Date	2009		2008
February 4, 2008	\$	-	\$ 10,806
	\$	-	\$ 10,806

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:

	Three Months Ended December 31 2009	Year Ended September 30 2009
Risk-free interest rate	n/a	2.08%
Expected dividend yield	n/a	0.00%
Expected stock price volatility	n/a	56%
Expected life of options	n/a	5 years
Weighted average fair value of options granted	n/a	\$0.41
Weighted average exercise price of options granted	n/a	\$0.80

(f) Warrants

	Number of Warrants	Weighted Average Exercise Price
Balance, September 30, 2008	1,500,000	\$ 0.90
Issued	2,123,964	0.98
Balance, as of December 31, 2009 and September 30, 2009	3,623,964	\$ 0.95

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**8. SHARE CAPITAL (Continued)**

(f) Warrants (Continued)

Warrants outstanding at December 31, 2009 have a remaining contractual life of 1.00 years and were as follows:

Number of Warrants	Exercise Price	Expiry Date
1,500,000	\$ 0.90	May 10, 2010
760,000	\$ 1.00	April 14, 2011
253,012	\$ 0.83	June 26, 2011
421,687	\$ 0.83	July 23, 2011
689,265	\$ 1.00/1.10	July 31, 2010/2011
<b>3,623,964</b>		

During the three months ended December 31, 2009, the Company recognized fair value of \$Nil (Year ended September 30, 2009 - \$527,707) for warrants issued. The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three Months Ended December 31 2009	Year Ended September 30 2009
Risk-free interest rate	-	1.19%
Expected dividend yield	-	0.00%
Expected stock price volatility	-	56%
Expected life of warrants	-	2 years
Weighted average fair value of warrants issued	-	\$0.41
Weighted average exercise price of warrants issued	-	\$0.80

**9. 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.

	December 31 2009	September 30 2009
Convertible notes payable	\$ 3,855,315	\$ 3,692,325
Share capital	13,185,893	13,126,422
Contributed surplus	1,995,964	2,025,435
Equity component of convertible note payable	3,519,632	3,519,632
	<b>\$ 22,556,804</b>	<b>\$ 22,363,814</b>

**FIRST BAUXITE CORPORATION**  
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**9. CAPITAL MANAGEMENT (Continued)**

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. During the period ended December 31, 2009, the Company's approach to capital management changed to the extent they increased their sources of capital to include convertible notes payable. The Company's capital is not subject to any external restrictions.

**10. FINANCIAL RISK MANAGEMENT**

The Company has classified its financial instruments as follows:

- Cash and cash equivalents – as held-for-trading
- Short-term investment – as loans and receivables
- Advances receivable – 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 note 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 are not practicable to determine due to their nature.

The convertible note payable is carried at its fair value as determined using a present value technique and applying an effective interest rate.

The Company may be exposed to risks of varying degrees of significance that could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed 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 credit risk is summarized below:

	December 31, 2009
Cash and cash equivalents	\$ 4,495,603
Receivable and advances	65,715
	\$ 4,561,318

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

(a) Credit risk (Continued)

(i) Cash and cash equivalents

Credit risk is mitigated by ensuring the majority of the financial assets are placed with a major financial institution. Cash and cash equivalents of \$4,495,603 are placed in a Canadian Chartered Bank. Cash of \$101,821 is placed with a subsidiary of a Canadian Chartered Bank in Guyana. The amount held in Guyana banks represents the cash requirements of the subsidiaries to meet their obligations for the following month. The credit risk of cash and cash equivalents and short-term investments has been assessed as low.

(ii) Receivable and advances

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 obtaining funds to meet commitments. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. The Company maintains, on hand, cash and cash equivalent of \$4,495,603 (September 30, 2009 - \$6,995,107), to meet short-term business requirements. At December 31, 2009 the Company had obligations due as follows:

- (i) accounts payable and accrued liabilities of \$188,011 (September 30, 2009 - \$547,868) due within 90 days of year-end;
- (ii) amounts due to related parties of \$404,140 (September 30, 2009 - \$362,313) with no stated terms of repayment, and
- (iii) convertible debt with a value at maturity of \$8,000,000 (September 30, 2009 - \$8,000,000) due in 2014.

The Company will need to raise funds to finance its work programs and meet administrative overhead and commitments for the next twelve months which could reach \$20,000,000 in cash outflows. Upon receipt of a positive pre-feasibility study, the Company expects to receive US\$20,000,000 in exchange for the issuance of convertible debt (note 7).

(c) Market risk

Market risk incorporates a range of risks. Movements in risk factors, such as interest rate risk and currency risk, affect the fair values of financial assets and liabilities.

(i) Interest rate risk

The Company's cash equivalents consist of cash held in guaranteed investment certificates that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on their fair values as of December 31, 2009. Future cash

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

(c) Market risk (Continued)

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 amount due to related parties held in Guyana dollars. The Company has net assets of \$2,037,335, net liabilities of \$102,212 denominated in US dollars and net liabilities of \$272,549 denominated in Guyana dollars at December 31, 2009. Fluctuations in the exchange rates between the Canadian, US and Guyana dollar could have a material effect on the Company's business, financial condition and results of operations. The Company does not actively manage this risk.

(iii) Sensitivity risk

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve-month period.

Management believes that the exchange rate between the Canadian dollar and Guyana dollar could fluctuate by more than 25% within the next 12 months. Based on the December 31, 2009 balance, an increase or decrease of 25% in the exchange rate between the Canadian and Guyana dollar would result in an increase or decrease of \$74,906 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, 2009 balance, an increase or decrease of 10% in the exchange rate between the Canadian and US dollar would result in an increase or decrease of \$193,513 in the net income of the Company.

**11. RELATED PARTY TRANSACTIONS**

During the three months ended December 31, 2009, the Company had the following related party transactions:

- (a) paid \$7,500 (2008 - \$7,500) for management fees and \$1,500 (2008 - \$1,500) for administration expenses to a company controlled by a director;

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

- (b) recorded \$6,623 (2008 - \$2,887) as reimbursement for office rent and expenses from a company with common directors. As of December 31, 2009, a balance of \$9,206 was due from (2008 - \$11,935) this company;
- (c) recorded \$nil for equipment rental to a director and a private company controlled by this director. At December 31, 2009, \$391,631 (2008 - \$nil) was payable to the director and a private company controlled by this director for unpaid services, unpaid equipment rental fees and reimbursement of expenses;
- (d) incurred \$15,049 (2008 - \$10,401) to directors, officers and a company controlled by a director for reimbursement of expenses.
- (e) paid \$16,080 for accounting fees (2008 - \$4,580) to a private company controlled by an officer. At December 31, 2009, \$12,508 (September 30, 2009 - \$5,670) was payable to this private company;
- (f) paid \$10,000 for investor relation services (2008 - \$6,667) to a private company controlled by a relative of a director;
- (g) paid \$261 for reimbursement of expenses (2008 - \$nil) to the an officer of the Company; and
- (h) paid \$121,440 (2008 - \$47,528) for salaries and remunerations to two directors and officers.

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

**12. COMMITMENTS**

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

Year	Amount
2010	\$ 36,990
2011	49,320
2012	49,320
2013	41,620
	<b>\$ 177,250</b>

- (a) The Company entered into a five year lease agreement on July 31, 2008, for their 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 5 year lease agreement on September 30, 2008 for a photocopier. The Company is committed to payments of \$3,120 per year.

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**13. SUPPLEMENTAL CASH FLOW INFORMATION**

	2009	2008
Income taxes paid	\$ -	\$ -
Interest paid	-	485
Amortization of discount as interest expense	162,990	-
Amortization included in mineral property interest	35,274	5,084
Shares issued for acquisition of Bonasika Ltd.	-	6,165,000
Advances to Bonasika prior to acquisition	-	967,558
Fair value of stock options exercised	29,471	11,421

**14. SUBSEQUENT EVENTS**

- (a) Subsequent to the period end, the Company received \$100,500 for the exercise of 670,000 stock options exercised at \$0.15 per share and \$30,000 for 50,000 stock options exercised at 0.60 per share.
- (c) On February 9, 2010, the Company entered into a Letter of Intent with Bauxite Corporation of Guyana Inc. ("BCGI") to acquire all of the issued and outstanding shares of BCGI ("the BCGI Shares") and accordingly, 100% of its interest in and all right and title to, the contiguous Tarakuli and Tarakulli North-West Prospecting Licenses in Northeast Guyana (the "Property"). In exchange for the BCGI Shares and it's right to the Property, the Company will issue to the shareholders of BCGI, an aggregate of 2,000,000 common shares in the capital of the Company.