

# **THIRD QUARTER REPORT**

**SEPTEMBER 30, 2010**



**NGEx RESOURCES INC.**

# NGEx Resources Inc.

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## Third Quarter 2010 Highlights

The third quarter is typically relatively quiet for the Company's exploration programs as the main projects in the Andes are shut down for the Southern Hemisphere winter and work in Eritrea stops for the summer rainy season. Nonetheless, the Company made significant progress on several fronts during the three months ended September 30, 2010. We received very encouraging high grade drill results from the Aradaib volcanic hosted massive sulfide ("VHMS") project in Eritrea. These results were reported in August and are the Company's best drill holes ever in Eritrea. On the business front we closed a transaction to option the GJ project to Teck Resources. The Company will benefit from the considerable technical and financial resources that Teck will bring to bear on GJ allowing us to focus on our projects in South America and Africa where we look forward to adding significant value over the next few quarters. With the completion of the GJ transaction our exploration effort is focused on potentially very large high value copper-gold porphyry systems in the Andes with smaller programs exploring for high grade precious metal rich massive sulfide systems in Eritrea.

### **SOUTH AMERICAN PROJECTS**

During the third quarter the Company's South American team was busy interpreting the results of exploration programs completed earlier in the year and planning for the upcoming summer exploration season which will be very busy with approximately 15,000 metres of drilling planned on five copper-gold projects in the Andes of Chile and Argentina.

- The largest program comprising 7,500 metres will be at Los Helados in Chile, where previous drilling has defined a large porphyry copper-gold system. A review of results to date has identified a zone with higher grades in the southern half of the system. The upcoming drill program with focus on further defining this zone with holes spaced on approximately 250 meter centers. Drilling at Los Helados will start in early December, 2010
- At Josemaria approximately 2,500 metres will be drilled to test two new concepts defined during the current quarter that have the potential to significantly increase the resource. Several drill holes are planned to test a large area of high chargeability that extends for approximately 700 meters to the north of the current resource. Additional drill holes will test an area to the east where recent interpretations suggest that the system may extend under younger cover. Drilling at Josemaria is expected to start in mid November, 2010.
- Filo del Sol is a very large and complex high sulfidation system with similarities to both the Pascua-Lama and Veladero deposits. Previous drilling focused on an area of shallow copper oxide and deeper sulfide copper mineralization in the southern part of the area. This year approximately 2,000 meters are planned at Filo del Sol to follow-up significant gold intercepts encountered during previous drilling.
- Geophysical surveys and first pass drill programs of approximately 2,000 meters each are planned to follow up encouraging results from last season's programs at Colmillos and Andrea in Chile

### **AFRICAN PROJECTS**

#### **Eritrea**

- During the quarter we received very encouraging results from follow-up drilling on the Company's Aradaib volcanic hosted massive sulfide discovery located in northwestern Eritrea. This drilling followed up previously reported results from discovery hole ARD-10-01 (10 meters of 1.2% zinc, 1.9% copper, 0.9 g/t

gold, 21 g/t silver and 7 meters of 15.1% zinc, 1% copper, 0.4 g/t Au, 33 g/t silver; see March 08, 2010 New Release). The follow-up drill program included three holes around ARD-10-01, and an additional scout hole, on a newly found occurrence of gold mineralized baritic and ferruginous volcanic rock, 1.7 kilometres to the south. Two holes (ARD-10-03 and 04) confirmed the projected down plunge and down dip extensions of the massive sulfides intersected in ARD-10-01. ARD-10-03 tested 30 metres down plunge from the mineralization in ARD-10-01 and returned 13.0 metres grading 5.59% Zn, 3.31% Cu, 1.85g/t Au and 46g/t Ag from a 24.4 metre intersection of massive sulfide and stringer mineralization. Hole ARD-10-04 drilled on the same section as ARD-10-01 but intersecting the zone 25m deeper, returned 4.0m grading 0.31% Zn, 3.49% Cu, 0.68 g/t Au and 38g/t Ag from massive sulfides at 108 metres and 7.0 metres at 1.70% Zn, 2.70% Cu, 0.82g/t Au and 26g/t Ag from 118 metres. The possible extensions of Aradaib are expected to be better defined by the planned airborne geophysical survey discussed below.

- After some delays getting the aircraft to the country, a helicopter-borne Mag and EM (Magnetics and Electro-magnetics) survey covering all of the Company's licenses will begin in mid November. The survey will cover all of the Company's current licenses in Western Eritrea and is expected to generate numerous new targets in the extensive areas of shallow cover that have not been amenable to prospecting. It is also expected to help to define the strike extensions and geometry of poorly exposed targets like Aradaib and Hambok.

#### **Other Assets**

- During the quarter the Company signed a definitive agreement to option its GJ copper-gold project located in northwestern BC to Teck Resources. Under the agreement Teck was granted a series of options to earn up to a 75% interest in GJ by making the following cash payments and expenditures (all amounts are Canadian Dollars):
  - A payment of \$100,000 paid upon signing
  - 1<sup>st</sup> option: Teck can earn an initial 51% interest by spending \$12,000,000 on or before December 31, 2014. The option is subject to minimum annual expenditure commitments. The first \$1,500,000 in expenditures is a firm commitment.
  - 2<sup>nd</sup> Option: upon exercising the 1<sup>st</sup> option Teck will have the option to elect to earn an additional 9% interest for a total 60% interest by funding an additional \$12,000,000 in expenditures.
  - 3<sup>rd</sup> option: upon exercising the 2<sup>nd</sup> option Teck will have the option to elect to earn an additional 15% interest for a total 75% interest by funding an additional \$20,000,000 in expenditures.

If Teck exercises all its options under the agreement it will spend \$44,000,000 to earn a 75% interest.

- During the quarter Teck initiated its work program at GJ and completed the first portion of what is planned to be a large ground geophysical program, as well as surface mapping, relogging of drill core, and refurbishment of the camp. Work at GJ is now stopped for the winter but is expected to resume in June, 2011.
- To date the Company's ongoing divestment program has raised \$6.1 million in cash and shares currently valued at approximately \$10 million. This transaction follows our previously announced sale of the Caballo Blanco gold Project in Mexico and the sale of our Burkina Faso gold projects and is another step in our strategy for realizing current value from our portfolio of projects. It also allows us to focus our exploration dollars on high priority projects while retaining the ability to participate in any future success of the projects we divest through the equity portion of the consideration received by the Company from such transactions.

## **Outlook**

**The next quarter will be very busy as both the South American and Eritrean field seasons move into full gear. The Company plans to complete up to 15,000 meters of drilling on its South American projects over the next several quarters. The drilling will try to expand the resource at Josemaria, extend the higher grade zone at Los Helados, and test gold targets at Filo del Sol. First pass drill programs will also test the newly discovery porphyry copper systems at Colmillos and Andrea in Chile. The South American drilling is expected to begin in mid November, 2010 and will generate drill results until the second quarter of 2011. The Company also expects to receive results from its planned airborne geophysical survey in Eritrea. This work is expected to define targets for drilling early in the new year including it is hoped .**



**NGEx RESOURCES INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
NINE MONTHS ENDED SEPTEMBER 30, 2010**

This MD&A focuses on significant factors that have affected NGEx Resources Inc. ("the Company") and its subsidiaries and such factors that may affect its future performance. In order to understand the MD&A better, it should be read in conjunction with the unaudited consolidated financial statements for the nine months ended September 30, 2010 and the December 31, 2009 year end audited consolidated financial statements and the related notes therein. The financial information in this MD&A is derived from the Company's consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollars amounts are expressed in Canadian dollars, unless otherwise indicated. The effective date of this MD&A is November 12, 2010.

Some of the statements in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary note contained herein.

Additional information about the Company and its business activities is available on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company's website [www.ngexresources.com](http://www.ngexresources.com).

## **OVERVIEW**

The Company is principally engaged in the acquisition, exploration and development of precious and base metal properties located in Africa, North and South America.

## **EXPLORATION HIGHLIGHTS UPDATE**

During the quarter ended September 30, 2010 the Company:

- Received positive drill results from follow up holes at its Aradaib VMS prospect in Western Eritrea.
- Started a geophysical program on its base metal projects in Congo.
- Completed planning for a very active field season in South America that will include drilling on five projects. Drilling is expected to start in November, 2010 and continue through to May, 2011.
- Completed planning for an airborne geophysical survey covering its license in western Eritrea. The survey is expected to start in early November.
- Signed a farm out agreement with Teck Resources Ltd for its GJ copper-gold project in B.C.

## **SOUTH AMERICAN PROJECTS**

During the quarter ended September 30, 2010, the Company focused on planning for the upcoming summer field season. Our South American projects will account for 60% of our expenditures next year. We plan to drill a total of approximately 15,000 metres on 5 copper-gold projects in the Andes.

### **Jose Maria Project, Argentina**

Jose Maria is a large copper/gold porphyry project located in San Juan Province, Argentina near the Vicuna group of properties described below. Jose Maria contains a NI 43-101 compliant inferred resource of 460 million tonnes at 0.39% tonnes copper and 0.30 grams/tonne gold at a 0.3% copper cut off. The Jose Maria resource is open in several directions.

The 100% owned Jose Maria and the adjacent 75% owned Batidero properties are subject to a joint exploration agreement ("Jose Maria JEA") dated March 16, 2009 with Japan Oil, Gas and Metals National Corporation ("Jogmec"). The Jose Maria JEA provides Jogmec the option to acquire 40% of the Company's interest in these properties. In consideration, Jogmec paid US\$1 million upon signing of the Jose Maria JEA and is required to make US\$6.13 million in exploration expenditures over three years in order to acquire the 40% interest. Jogmec has met its first year work commitment as of March 31, 2010. Once Jogmec has earned its interest, the partners will fund ongoing expenditures pro-rata to their ownership interest.

The Josemaria deposit is open to the north where geophysics done at the end of the last season has identified a large area of high chargeability. The system is also open to the east where it disappears under younger cover rocks. We plan approximately 2,500 metres of drilling to test these two targets. This exploration program is 100% funded by Jogmec. Drilling is scheduled to begin in mid November, 2010.

### **Vicuna Project, Argentina and Chile**

The Vicuna properties comprise a large land package of approximately 18,300 hectares that covers a number of porphyry copper and high sulfidation gold targets in San Juan Province, Argentina and immediately adjacent parts of Chile. The Vicuna Properties are adjacent to Jose Maria and are subject to a separate Joint Venture Exploration Agreement (the "Vicuna JEA") with Jogmec in which the Company holds a 60% participating interest and Jogmec holds a 40% participating interest. Each party funds its pro rata share of expenditures.

The most important current target is Los Helados located in Region 3 Chile approximately 10 kilometres northwest of Jose Maria. Past drilling included LH-04 with 762 metres of 0.43% copper and 0.22 g/t gold. A deep penetrating MIMDAS geophysical survey was completed in April 2009 to better define the mineralization at depth and to the north and west of LH 04.

Drilling last season defined a copper mineralized zone at Los Helados measuring about 1,000 metres by 600 metres wide by 450 metres thick. The best grades including 345 metres @ 0.6 Cu, 0.2 g/t Au are in the southern part of the zone. Drilling this field season will focus on better defining this higher grade core of the system. Approximately 7,500 metres of drilling is planned beginning late in the fourth quarter of 2010.

The Vicuna project includes several copper gold targets that have been explored in the past including: Filo del Sol where previous drilling has identified near surface copper oxides and gold within a diatreme, the same type of geological structure that hosts the Veladero Deposit. Most of the drilling to date has focused on a shallow copper oxide resource and a deeper sulfide copper target in the southern part of the project area. However, a recent review of project data identified several compelling near surface gold targets in the northern part of the project area. Approximately 2,000 metres of drilling will be directed toward following up some of the better gold results from previous drilling and testing the gold potential of the diatreme. Drilling is expected to begin early in the first quarter of 2011.

### **Other Chilean Projects (Colmillos and Andrea)**

Regional exploration and prospecting continued on a number of early stage copper-gold projects in Chile where mapping and sampling programs have defined targets with porphyry copper-style mineralization in poorly explored regions of the productive Miocene-Pliocene and Eocene-Oligocene Belts. Colmillos and Andrea projects are new grass roots porphyry copper discoveries made by NGEEx geologists while exploring alteration and structural targets identified through a combination of in-house satellite image processing and compilation of regional geology.

The Colmillos project consists of 100% owned exploration licenses covering 3,400 hectares. The licenses were acquired by staking. Mapping and sampling to date have defined a 4.3 by 0.7 kilometre long trend of tourmaline breccia bodies with occasional copper oxides and strongly anomalous molybdenum analyses in rock chip samples. Copper mineralized tourmaline breccias are a common feature of many major porphyry copper systems. We will build an access road, do geophysics over the alteration zone during the fourth quarter 2010 and then drill up to 2,000 metres starting in the first quarter of 2011.

The Andrea Project consists of 100% owned exploration licenses covering 1,300 hectares. The alteration zone extends over an area of 3 by 2 kilometres and grades outward from a 600m long central core of potassic alteration with disseminated secondary biotite and stockwork pyrite, magnetite and chalcopyrite, to a large area of sericitic alteration with abundant iron oxides (goethite > jarosite > hematite).

The results of geochemical sampling and alteration mapping to date indicate that a significant copper-molybdenum porphyry system has been identified at Andrea. The best results to date correspond to the zone of potassic alteration which has strongly anomalous copper- up to 0.6% in rock chips. The planned program is similar to that for Colmillos. We will build an access road and do geophysics during the fourth quarter 2010, and drill approximately 2,000 metres in the first quarter of 2011.

## **NORTH AMERICAN PROJECT**

### **GJ/Kinaskan Project, Canada**

The GJ/Kinaskan Property is located in northwest British Columbia, Canada, about 10 kilometres west of Highway 37. The Company has a 100% working interest subject to an earn-in option with Teck Resources Limited ("Teck") as described below. The claims cover an area of about 150 square kilometres and cover a number of significant mineral showings, including the Donnelly, GJ and North zones. The GJ project has a measured and indicated resource, of 153.3 million tonnes grading 0.321% copper and 0.369 g/t gold, at a cut off grade of 0.20% copper which contains 1.09 billion pounds of copper and 1.82 million ounces of gold. The resource estimate was prepared to NI 43-101 standards by qualified person Mr. Gary Giroux P.Eng. and is filed on SEDAR under the Company's profile.

**Teck's Earn-In Option** - In August 2010, the Company entered into an earn-in option agreement with Teck whereby Teck can earn up to a 75% interest in the GJ and Kinaskan properties by paying the Company \$100,000 (paid) on signing of the Agreement and exercising the following options:

First Option: Teck will have the option to earn an initial 51% interest by making cumulative expenditures of \$12 million on or before December 31, 2014 of which a minimum of \$2.5 million in expenditures, including a firm commitment of 1,500 meters of drilling, must be spent on or before December 31, 2011.

Second Option: Upon exercise of the First option, Teck will have a one-time option to elect to earn an additional 9% interest for a total of 60% interest by sole funding another \$12 million in expenditures prior to December 31, 2017 with minimum annual expenditure of \$2 million per year.

Third Option: Upon exercising the second option Teck will have a one-time option to elect to earn an additional 15% interest for a total of 75% interest by sole funding another \$20 million in expenditures prior to December 31, 2020.

After the formation of a joint venture at any of the earn-in periods, expenditures are to be funded by the Company and Teck in pro rata to the interest held. If any ownership interest falls below 10% it will convert to a 2% Net Smelter Return after payback of all project expenditures.

## **AFRICAN PROJECTS**

### **Eritrea**

The Company holds two exploration licenses which cover the strike extension of the rocks hosting Nevsun Resources's Bisha copper-zinc-gold deposit. The Company's most advanced project is the Hambok deposit which has a NI 43-101 compliant indicated resource (at a 0.75% zinc cutoff) of 10.7 million tonnes grading 0.98% copper, 2.25% zinc, 6.84 g/t silver, 0.20 g/t gold and an additional inferred resource (at a 0.75% zinc cutoff) of 17.0 million tonnes of 0.85% copper, 1.74% zinc, 5.89 g/t silver, 0.19 g/t gold. The wide spaced drilling to date suggests the presence of a higher grade core to the Hambok Deposit although more drilling is required to better define this zone. This report is filed under the Company's profile on SEDAR.

In the first half of the year the Company completed an approximately 2,000 metre drill program that targeted volcanogenic massive sulphide targets on its licenses. The most significant results were obtained from Aradaib prospect.

The first hole at Aradaib, ARD-10-001, tested a gossan outcrop highly anomalous in gold, copper, zinc, silver and lead returning a 17 metre interval of massive and semi-massive sulphides including: 10 metres @ 1.22% Zn, 1.89% Cu, 0.92 g/t Au, 21 g/t Ag and a consecutive zinc rich interval of 7m 15.15% Zn, 0.99% Cu, 0.32 g/t Au, 33 g/t Ag. A second hole, ARD-10-002, drilled 230 metres to the northeast, intersected altered host volcanic rocks with pervasive disseminated and stringer sulphides, returning a 3 metre interval of 1.30% Zn from 60.0 metres depth. The remainder of the hole was strongly anomalous in copper and zinc.

The results from four follow-up holes were received during the quarter ended September 30, 2010. Two holes (ARD-10-03 and 04) confirmed the projected down plunge and down dip extensions of the massive sulfides intersected in ARD-10-01. ARD-10-03 tested 30 metres down plunge from the mineralization in ARD-10-01 and returned 13.0 metres grading 5.59% Zn, 3.31% Cu, 1.85g/t Au and 46g/t Ag from a 24.4 metre intersection of massive sulfide and stringer mineralization. Hole ARD-10-04 drilled on the same section as ARD-10-01 but intersecting the zone 25m deeper, returned 4.0m grading 0.31% Zn, 3.49% Cu, 0.68 g/t Au and 38g/t Ag from massive sulfides at 108 metres and 7.0 metres at 1.70% Zn, 2.70% Cu, 0.82g/t Au and 26g/t Ag from 118 metres. The third hole in this program, ARD-10-05, was drilled under gossan outcrops approximately 300 metres north of the other two holes, and intersected a thick interval of altered and oxidized volcanic rock with disseminated and stringer mineralization but no significant values. The style of mineralization that was intercepted is interpreted as proximal to a massive sulfide body but it is possible that these drill holes over- or under-cut massive sulphide mineralization.

A helicopter-borne Mag and EM (Magnetics and Electro-magnetics) survey is expected to begin in November, 2010. The survey will cover all of the Company's current licenses in Western Eritrea and is expected to generate numerous new targets in the extensive areas of shallow cover that have not been amenable to surface prospecting. It is also expected to help to define the strike extent and geometry of poorly exposed targets like Aradaib and Hambok. Drilling of any targets identified by the geophysical survey is planned for the first quarter of 2011.

### **Congo-Brazzaville**

The Company has two exploration licenses in Congo-Brazzaville. The licenses cover 1,579 square kilometres of ground in the Boko Songo-Mindouli trend where mining during French colonial times exploited high grade copper and zinc ore bodies hosted in carbonate rocks. Some historic mines are presently being rehabilitated by Chinese and other foreign companies. The Company's exploration is targeting similar high-grade carbonate-hosted copper and zinc mineralization.

The project area is located approximately 70 kilometres west of the capital city of Brazzaville. Most of the project area is accessible by road and the rail line connecting Brazzaville with the port city of Point Noire passes between 5 and 30 kilometres south of the major prospects identified to date. Recent mapping and sampling completed on the Company's licenses has identified examples of all four styles of mineralization that has historically produced in the District.

- Copper-dominant karst-fill mineralization (3-5% copper),
- High-grade (>10% copper) chalcocite mineralization replacing specific carbonate horizons,
- Fracture controlled moderate grade copper mineralization (1-2% copper), and
- Lead-zinc veins and carbonate replacement bodies (5-15% lead and zinc).

The Company acquired the exploration licenses in late 2009 and began field work consisting of soil sampling, mapping and prospecting shortly thereafter. This work has extended known occurrences and historic prospects and identified several new prospects and trends. Rock chip sampling and mapping continues to help define these prospects. Induced polarization (IP) surveys over the most prospective areas are underway with follow-up drilling planned for later in the year.

## **CHANGES IN ACCOUNTING POLICIES**

In January 2009, the Canadian Institute of Chartered Accountants issued the following new standards:

Sections 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-controlling interests".

Section 1582 replaces Handbook section 1581 "Business Combinations" and sections 1601 and 1602 together replace Handbook section 1600 "Consolidated Financial Statements". The adoption of section 1582, and collectively, 1601 and 1602 provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3 "Business Combinations" and International Accounting Standards (IAS) 27 "Consolidated and Separate Financial Statements", respectively.

CICA 1582 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

The Company has early adopted these new rules effective from January 1, 2010. There was no material impact on the consolidated financial statements as a result of this adoption.

## SELECTED QUARTERLY INFORMATION

Financial Data for 8 Quarters								
Three Months Ended	Sep-10	Jun-10	Mar-10	Dec-09	Sep-09	Jun-09	Mar-09	Dec-08
A. Exploration Expenses, net of recoveries (\$000's)	1,143	1,741	1,853	1,181	1,448	1,140	1,113	1,097
B. Net (loss) income (\$000's)	(1,414)	(2,315)	(2,773)	7,395	(1,855)	(1,920)	(1,050)	(1,254)
C. Basic and diluted loss per share (\$)	(0.0)	(0.01)	(0.02)	0.05	(0.02)	(0.02)	(0.02)	(0.02)

## QUARTERLY ANALYSIS

Net loss, quarter over quarter, is affected by the level of exploration and project investigation expenses incurred and write-off of mineral properties interests and will vary accordingly. Net loss is also impacted by the recognition of stock based compensation in that quarter, which will depend on options granted and vested. Exploration expenditures are affected to some extent by seasonal factors, exploration results and availability of funds.

The net income for the fourth quarter ended December 2009 is primarily due to the gain realized from the sale of the Company's subsidiaries which held the option on the Caballo Blanco property.

## RESULTS OF OPERATIONS

The Company recorded a net loss of \$1.4 million or \$0.01 per common share for the third quarter ended September 30, 2010 compared to a loss of \$1.9 million or \$0.02 per common share in the third quarter in 2009. The decrease in net loss is due primarily to decreased exploration expenditures from decreased exploration activity.

Net loss for the nine months ended September 30, 2010 was \$6.5 million or \$0.04 per common share compared to \$4.8 million or \$0.05 per common share. The increase in net loss for the nine months period is primarily due to increased exploration expenditures, higher stock based compensation expenses, and higher wages and benefits, offset by a gain on the sale of subsidiaries. Exploration expenditures have increased as a result of the Company's expansion into Africa and South America in 2009. The higher wages and benefits amount is a result of severance amounts paid.

The operating losses are a reflection of the Company's status as a non-revenue producing mineral exploration company. As the Company has no main source of income, losses are expected to continue.

Other comprehensive income reflects the unrealized gains/(loss) on the changes in the fair value of the marketable securities held at the end of the period.

## LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2010, the Company had cash of \$12.6 million and working capital of \$19.2 million as compared to cash and working capital of \$14.2 million and \$24.3 million, respectively, at December 31, 2009.

Net cash used in operating activities was \$6.7 million for the nine months ended September 30, 2010 and consisted primarily of the loss from operations of \$6.5 million and adjusted for the impact of non-cash items and changes in non-cash working capital items.

Cash flow from investing activities for the nine months ended September 30, 2010 was \$5.1 million, which comprised mainly of the collection of amounts receivable, proceeds from the sale of subsidiaries, option payments received less amounts spent on mineral properties.

Based on the Company's financial position at September 30, 2010, the Company believes that existing funds and proceeds from sale of investments will be sufficient to perform planned discretionary exploration and general corporate activities for at least the next twelve months. Additional funding from equity financing will be required in the future to fund further exploration and corporate expenses. There can be no assurance that equity financing will be available to the Company in the amount required at any time or for any period or, if available, that it can be obtained on terms satisfactory to the Company.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgements about matters that are inherently uncertain.

Note 2 to the consolidated financial statements for the year ended December 31, 2009 include a summary of the significant accounting policies adopted by the Company. Accounting estimates deemed most critical by the Company are discussed in the Company's 2009 annual MD&A dated December 31, 2009. There have been no material changes to the critical estimates discussed in the Company's 2009 annual MD&A.

## RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2010, the Company incurred:

- (a) management fees of \$405,000 (2009 - \$390,735) in respect of office facilities and administrative services to a company controlled by a director pursuant to an agreement for services and office facilities, which is renewable on August 1, 2011. At September 30, 2010, \$2,281 (December 31, 2009 - \$3,395) was due to this company and included in amounts due to related parties.
- (b) \$11,894 for technical services to a company related by directors in common. At September 30, 2010, \$nil was due to this company in respect of technical services incurred.

In the year ended December 31, 2009 the Company incurred:

- (a) legal fees of \$89,280 to a law firm of which a partner was a director of the Company. At December 31, 2009, \$56,760 was due to this law firm and included in amounts due to related parties.

- (b) donation of \$87,000 to Lundin for Africa Foundation, a charitable organization with two directors in common. At December 31, 2009, \$87,000 was due to this Foundation and is included in amounts due to related parties.

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## **OUTSTANDING SHARE DATA**

As at November 12, 2010, the Company had 146,901,649 common shares outstanding, 4,853,033 share options outstanding under its stock-based incentive plans.

## **FINANCIAL INSTRUMENTS**

The Company classifies financial instruments as either held-to-maturity, available-for-sale, held for trading, loans and receivables or other financial liabilities. The Company's financial instruments consist of cash, accounts receivable, investments, other assets, accounts payable and accrued liabilities and due to related parties. The carrying value of cash, accounts receivable, investment and accounts payable approximates fair value. The investments are recorded at fair value as determined by active market prices, measured at cost if there is no active market quoted market price or recent sale.

## **CONTINGENCY**

The Company's Argentine subsidiary, Desarrollo de Prospectos Mineros SA "DPM", has received in January 2009 a claim from the Banco Central de la Republica Argentina ("BCRA") in connection with two foreign exchange transactions made in 2003. It has been alleged that DPM exceeded the maximum allowable limit by approximately US\$63,000 for foreign exchange conversions on those days.

DPM have filed a statement of defence to dismiss this claim. Provisions have not been made in the consolidated financial statements as the likelihood of the loss occurring cannot be determined and the amount of loss if it should occur cannot be reasonably estimated at this early stage. DPM will continue to defend its position.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

The Canadian Accounting Standards Board ("AcSB") has set January 1, 2011 as the date for publicly-listed companies to adopt IFRS, replacing Canadian GAAP. Accordingly, IRFS compliant financial statements for the Company will be required for the first quarter of 2011. Comparative figures presented in these financial statements are also required to comply with IFRS.

During the third quarter of 2010, the Company substantially completed its illustrative December 31, 2011 year end and March 31, 2011 first quarter IFRS financial statements including its IFRS accounting policies. The Company will continue to assess the completeness and quality of the disclosures in these financial statements. The Company is currently in the process of completing the quantification of IFRS differences for two key component areas, stock based compensation and foreign currency translation. These areas were identified with the greatest potential for creating differences in the Company's financial statements as a result of adopting IFRS. As a result of the component evaluation work to date, the Company has indentified that there is no material impact to the Company from stock based compensation. From its evaluation of foreign currency translation, there may be an adjustment to mineral properties, fixed assets and retained earnings/deficit due to functional currency change.

The IFRS 1 First time adoption of IFRS that will be elected on transition are as follow:

- Cumulative translation adjustments ("CTA") – exemption that allows a company to set its CTA to zero at date of transition.
- Business combinations – exemption that allows a company not to apply the provisions of IFRS 3 to past combinations or apply these provisions only to all business combinations after a certain date.

For the remainder of the year, the Company will be finalizing the IFRS opening consolidated balance sheet as of January 1, 2010 and the Company's auditors will be completing its review of the component evaluation.

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There have been no changes to the Company's disclosure controls and procedures during the nine months ended September 30, 2010.

For the nine months ended September 30, 2010, no changes were made in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **RISKS AND UNCERTAINTIES**

The Argentine Congress recently passed legislation designed to protect the country's glaciers. This law would prevent development on and around glaciers. The detailed regulations that will govern implementation of the law have not yet been written but this legislation could affect parts of the Vicuna property. There have been no other material changes in the risks and uncertainties affecting the Company that were discussed in the Company's 2009 annual MD&A filed on March 31, 2010.

## **OFF-BALANCE SHEET AGREEMENTS**

The Company has no off-balance sheet arrangements.

## **OUTLOOK**

The Company plans a very active exploration program that is scheduled to begin during the fourth quarter of 2010 and continue until May, 2011. Drilling at Josemaria is expected to begin in mid November with one drill rig. Two additional rigs will start at Los Helados in early December. Once drilling at Josemaria is completed that drill will move to Filo del Sol to test epithermal gold targets. A fourth drill will test targets at Colmillos and Andrea beginning in the first quarter of 2011.

In Eritrea we intend to complete 1,700 line kilometers of airborne geophysics in late 2010 and will follow that up with drilling early in the new year. We expect to complete the ground geophysical surveys currently under way in the Congo during the fourth quarter 2010. Drilling of any targets that develop will follow.

The planned exploration program is fully covered by the Companies current cash balance and additional funds are available from sale of securities held by the Company to fund any drilling required to follow-up on any positive results. We have applied for new licenses in Eritrea and we continue to seek and evaluate new projects and our strong financial position will enable us to act promptly on these opportunities.

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain of the statements made and contained herein in the MD&A and elsewhere constitute forward-looking statements. Forward-looking statements are frequently, but not always, identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or achieved. Forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements including, without limitation, exploration/drill results and budgets; mineral reserve and resource estimates and the geology, grade and continuity of mineral deposits; metal price and foreign currency fluctuations; uncertain political and economic environments; changes in laws or policies; delays or the inability to obtain the necessary government permits; the need to obtain financing and uncertainty as to the availability and terms of future financing; uncertainties involved in dispute or litigation and other risks and uncertainties describe under Risks and Uncertainties disclosed above and in the Company's Annual Information Form. Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and the Company does not assume any obligations to update or revise them to reflect new events or circumstances, except as required by law.

**NGEx RESOURCES INC.**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(Amounts are stated in Canadian dollars)  
(Unaudited)

	<u>September 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
<b>ASSETS</b>		
Current assets		
Cash	\$ 12,605,360	\$ 14,240,947
Investments (Note 4)	7,365,000	6,308,223
Accounts receivable	45,738	5,114,646
Prepaid expenses	312,605	388,612
Due from joint venture partners	65,646	15,513
	<u>20,394,349</u>	<u>26,067,942</u>
Fixed assets, net (Note 5)	379,790	462,655
Mineral properties (Note 6)	26,055,764	26,081,009
Other assets	43,500	43,500
	<u>\$ 46,873,402</u>	<u>\$ 52,655,106</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,165,897	\$ 973,568
Due to related parties (Note 9)	2,281	147,155
Due to joint venture partners	-	613,339
	<u>1,168,177</u>	<u>1,734,063</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 8)		
146,901,649 shares (December 31, 2009 - 146,858,712 shares)	151,513,754	151,480,754
Reserved for issuance 20,348 shares	1,290	1,290
Contributed surplus - stock options	3,751,842	2,986,094
Deficit	(110,056,439)	(103,555,093)
Accumulated other comprehensive income	494,777	7,998
	<u>45,705,225</u>	<u>50,921,043</u>
	<u>\$ 46,873,402</u>	<u>\$ 52,655,106</u>

Nature and Continuance of Operations (Note 1)

ON BEHALF OF THE BOARD:

/s/William A. Rand  
Director

/s/Wojtek A. Wodzicki  
Director

**NGEx RESOURCES INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF LOSS**  
**AND COMPREHENSIVE LOSS**  
(Amounts are stated in Canadian dollars)  
(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
<b>Expenses</b>				
Exploration and project investigation (Note 7)	\$ 1,143,244	\$ 1,447,726	\$ 4,737,257	\$ 3,700,987
Management fees	135,000	162,817	405,000	390,735
Office and general	8,586	(7,810)	93,760	20,698
Professional fees	26,977	56,792	137,117	152,526
Promotion and public relations	4,349	13,427	37,752	45,265
Donation	10,000	-	10,000	-
Stock exchange and filing fees	65	4,505	35,614	30,375
Transfer agent and shareholder information	13,098	24,332	33,171	41,256
Travel	7,040	20,552	28,694	27,092
Wages and benefits	125,694	79,486	801,947	584,157
Stock based compensation	34,361	36,606	631,528	159,262
<b>Loss before the undernoted items</b>	1,508,415	1,838,433	6,951,840	5,152,355
Other (income) expenses				
Interest income	(50,965)	607	(151,662)	(29,309)
Foreign exchange (gain) loss	(109,308)	(11,763)	99,117	11,206
Other expenses (income)	41,252	27,624	151,827	92,832
Gain on sale of subsidiaries (Note 6 (c))	-	-	(682,332)	-
Write-off of mineral property interests (Note 6 (a))	24,555	-	132,555	-
<b>Net loss before income taxes</b>	1,413,950	1,854,902	6,501,345	5,227,084
Future income tax recovery	-	-	-	(403,202)
<b>Net loss for the period</b>	1,413,950	1,854,902	6,501,345	4,823,882
<b>Other comprehensive income</b>				
Unrealized gain on investments	(490,020)	-	(486,779)	-
<b>Comprehensive loss for the period</b>	\$ 923,930	\$ 1,854,902	\$ 6,014,566	\$ 4,823,882
<b>Basic loss per common share</b>	\$ 0.01	\$ 0.02	\$ 0.04	\$ 0.05
<b>Diluted loss per common share</b>	\$ 0.01	\$ 0.02	\$ 0.04	\$ 0.06
<b>Weighted average number of shares outstanding</b>	146,901,649	120,966,008	146,899,604	93,448,069
<b>Diluted weighted average number of shares outstanding</b>	146,901,649	120,966,008	146,899,604	93,048,069

**NGEx RESOURCES INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts are stated in Canadian dollars)  
(Unaudited)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Cash flows used in operating activities</b>				
Net loss for the period	\$ (1,413,950)	\$ (1,854,902)	\$ (6,501,345)	\$ (4,823,883)
Items not affecting cash				
Depreciation	26,118	49,208	82,865	166,670
Stock based compensation	79,585	39,307	775,992	184,444
Gain on sale of subsidiaries	-	-	(682,332)	-
Write-off of mineral property interests	24,555	-	132,555	-
Future income tax recovery	-	-	-	(403,202)
	<u>(1,283,691)</u>	<u>(1,766,387)</u>	<u>(6,192,265)</u>	<u>(4,875,971)</u>
Changes in non-cash working capital items				
Accounts receivable and prepaid expenses	170,528	23,805	67,911	624,074
Accounts payable and accrued liabilities	369,102	(146,813)	192,329	(1,014,171)
Due to related parties	(10,514)	45,925	(144,874)	(111,902)
Advances from/(to) joint venture partners	(113,549)	773,318	(663,472)	257,762
	<u>(868,125)</u>	<u>(1,070,152)</u>	<u>(6,740,371)</u>	<u>(5,120,208)</u>
<b>Cash flows from financing activities</b>				
Common shares issued, net	-	51,582	22,757	51,582
	<u>-</u>	<u>51,582</u>	<u>22,757</u>	<u>51,582</u>
<b>Cash flows from (used in) investing activities</b>				
Net cash received from acquisitions	-	615,399	-	5,416,146
Mineral properties and related expenditures	(207,310)	-	(207,310)	(100,650)
Option payments received	100,000	-	100,000	-
Collection of accounts receivable from sale of subsidiaries	-	-	5,077,004	-
Purchase of equipment	-	-	-	(12,028)
Proceeds from sale of subsidiaries	-	-	112,332	-
Other assets	-	16,550	-	(237,142)
	<u>(107,310)</u>	<u>631,949</u>	<u>5,082,026</u>	<u>5,066,326</u>
<b>Decrease (increase) in cash</b>	(975,435)	(386,621)	(1,635,588)	(2,300)
<b>Cash, beginning of the period</b>	<u>13,580,794</u>	<u>6,518,512</u>	<u>14,240,947</u>	<u>6,134,191</u>
<b>Cash, end of the period</b>	<u>\$ 12,605,359</u>	<u>\$ 6,131,891</u>	<u>\$ 12,605,359</u>	<u>\$ 6,131,891</u>
Supplementary information regarding non-cash investing activities:				
Shares received from sale of subsidiaries	<u>\$ 570,000</u>	<u>\$ -</u>	<u>\$ 570,000</u>	<u>\$ -</u>

**NGEx RESOURCES INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010**  
**(Amounts are stated in Canadian dollars, unless otherwise stated)**  
**(Unaudited)**

**1. NATURE AND CONTINUANCE OF OPERATIONS**

NGEx Resources Inc. (the "Company") is a Canadian federal company engaged in the acquisition, exploration and development of mineral properties.

The recoverability of the cost of mineral properties expenditures is dependent upon the discovery of economically recoverable reserves, preservation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the project, and future profitable production or alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material reductions in the carrying amount of mineral properties and related fixed assets.

The mineral properties are also subject to title and sovereign risks, including political and economic instability, government regulations relating to mining, military repression, civil disorder, currency fluctuations and inflation, all or any of which may impede the Company's activities or may result in the impairment or loss of part or all of the Company's interest in the properties.

**2. BASIS OF PRESENTATION**

The unaudited interim consolidated financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies and methods of application as those disclosed in Note 2 to the Company's audited consolidated financial statements for the year ended December 31, 2009.

These interim consolidated financial statements do not contain all of the information required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the consolidated financial statements included in the Company's 2009 Annual Report.

**3. CHANGES IN ACCOUNTING POLICIES**

In January 2009, the Canadian Institute of Chartered Accountants issued the following new standards:

Sections 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-controlling interests".

Section 1582 replaces Handbook section 1581 "Business Combinations" and sections 1601 and 1602 together replace Handbook section 1600 "Consolidated Financial Statements". The adoption of section 1582, and collectively, 1601 and 1602 provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3 "Business Combinations" and International Accounting Standards (IAS) 27 "Consolidated and Separate Financial Statements", respectively.

CICA 1582 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

The Company has early adopted these new rules effective from January 1, 2010. There was no material impact on the consolidated financial statements as a result of this adoption.

#### 4. INVESTMENTS

	September 30, <u>2010</u>	December 31, <u>2009</u>
Goldgroup Resources Inc's ("Goldgroup") shares	\$ 6,300,000	\$ 6,300,000
Indigo Exploration Inc's ("Indigo") shares	570,000	-
Unrealized (loss) gain on available for sale investments	<u>495,000</u>	<u>8,223</u>
Ending balance	<u>\$ 7,365,000</u>	<u>\$ 6,308,223</u>

Investments are classified as available for sale, which are reported at fair value (marked to market) based on quoted market prices, with unrealized gains or losses generated from fair value change in the shares reported as other comprehensive income or loss. The balance as at September 30, 2010 includes 9 million shares of Goldgroup and 3 million shares of Indigo.

#### 5. FIXED ASSETS, NET

September 30, 2010

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Furniture and office equipment	\$ 553,362	\$ (467,949)	\$ 85,413
Vehicles	128,089	(34,085)	94,004
Field equipment	<u>471,556</u>	<u>(272,183)</u>	<u>200,373</u>
	<u>\$ 1,154,007</u>	<u>\$ (774,217)</u>	<u>\$ 379,790</u>

December 31, 2009

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Furniture and office equipment	\$ 558,900	\$ (432,627)	\$ 126,273
Vehicles	148,077	(46,411)	101,666
Field equipment	<u>472,556</u>	<u>(237,840)</u>	<u>234,716</u>
	<u>\$ 1,179,533</u>	<u>\$ (716,878)</u>	<u>\$ 462,655</u>

## 6. MINERAL PROPERTIES

The carrying value of the Company's mineral properties, at acquisition costs, is as follows:

	September 30, 2010	December 31, 2009
<b>Canada</b>		
GJ/Kinaskan	\$ 136,997	\$ 261,552
Zymo	-	108,000
<b>South America</b>		
JoseMaria	10,782,396	10,782,396
Los Helados	2,713,261	2,713,261
Lirio	70,228	70,228
Paramillos	207,310	-
<b>Africa</b>		
Hambok	12,145,572	12,145,572
<b>Total</b>	<u>\$ 26,055,764</u>	<u>\$ 26,081,009</u>

### (a) CANADIAN PROPERTIES

#### (i) Zymo Property, B.C.

In April 2010 the Company relinquished the option with Eastfield Resources Ltd. to earn up to a 75% interest in the Zymo Property. Accordingly \$108,000 of acquisition costs were written off to operations in the three months ended March 31, 2010.

#### (ii) GJ and Kinaskan Lake Properties, B.C.

GJ Property – The Company owns a 100% interest, subject to an earn in option by Teck Resources Ltd (“Teck”) as described below, in the GJ Property, a porphyry copper-gold prospect located in the Liard Mining Division of northern British Columbia subject to an earn in.

Kinaskan Lake Property – The Company owns a 100% interest, subject to an earn in option by Teck as described below in the Kinaskan Lake mineral claims located in the Liard Mining District, British Columbia. The claims are subject to a net smelter return royalty of 1%, one-half of which may be repurchased by the Company for \$500,000 for a term of 25 years.

**Teck's Earn-In Option** - In August 2010, the Company entered into an earn-in option agreement with Teck whereby Teck can earn up to a 75% interest in the GJ and Kinaskan properties by paying the Company \$100,000 (paid) on signing of the Agreement and exercising the following options.

First Option: Teck will have the option to earn an initial 51% interest by making cumulative expenditures of \$12 million on or before December 31, 2014 of which a minimum of \$2.5 million in expenditures, including a firm commitment of 1,500 meters of drilling, must be spent on or before December 31, 2011.

Second Option: Upon exercise of the First option, Teck will have a one-time option to elect to earn an additional 9% interest for a total of 60% interest by sole funding another \$12 million in expenditures prior to December 31, 2017 with minimum annual expenditure of \$2 million per year.

Third Option: Upon exercising the second option Teck will have a one-time option to elect to earn an additional 15% interest for a total of 75% interest by sole funding another \$20 million in expenditures prior to December 31, 2020.

After the formation of a joint venture at any of the earn-in periods, expenditures are to be funded by the Company and Teck in pro rata to the interest held. If any ownership interest falls below 10% it will convert to a 2% Net Smelter Return after payback of project expenditures.

## **(b) SOUTH AMERICAN PROPERTIES**

### **(i) Vicuna Joint Exploration Agreement (“Vicuna JEA”), Argentina and Chile**

The Vicuna JEA covers a large land package located in Argentina and Chile (the “Vicuna Properties”) that is subject to a Joint Exploration Agreement with Japan Oil, Gas and Metals National Corporation (“Jogmec”) under which the Company holds a 60% participating interest and Jogmec holds a 40% participating interest. A portion of the Vicuna Properties is subject to underlying agreements.

The remainder of the property, including the Los Helados, subject to the Vicuna JEA was acquired by staking and is held directly by the partners.

### **(ii) Jose Maria Joint Exploration Agreement (“Josemaria JEA”), Argentina**

The Josemaria JEA is an agreement dated March 16, 2009 whereby Jogmec has the option to earn a 40% of the Company's interest in the two properties (Lirio-Josemaria Portion and Batidero) that jointly comprise Josemaria. Jogmec can earn its interest by: paying the Company US\$1 million (paid) and making US\$6.13 million (US\$2.4 million spent to September 30, 2010; US\$1.7 million spent to December 31, 2009) in exploration expenditures over three years. If Jogmec earns its interest, the partners will fund ongoing expenditure pro-rata to their ownership interest.

The Josemaria is 100% owned by the Company. The Batidero property is owned 75% by the Company and 25% by TNR Gold.

### **(iii) On August 23, 2010, the Company signed an amended earn in agreement with Minera del Oeste (“MIDO”) whereby the Company can earn an 80% interest in the Paramillos copper/gold properties (“Paramillos”) in Mendoza province by the payment in stages of a total of US\$2.7 million to December 28, 2013 (US\$200,000 paid September 30, 2010). The Company has the right to purchase the remaining 20% interest in the property for US\$14.3 million by March 2015 to own 100% of Paramillos.**

**(c) AFRICAN PROPERTIES**

Burkina Faso properties:

In April 2010 the Company sold its Burkina Faso subsidiary to Indigo Exploration Inc ("Indigo"). The consideration for the transaction was \$65,000 in cash and 3,000,000 shares of Indigo at a deemed price of \$0.15 per share. As a result of the sale of the subsidiaries which holds the Burkina Faso properties, the Company realized a gain of \$572,012 during the nine months ended September 30, 2010.

## 7. EXPLORATION COSTS AND PROJECT INVESTIGATION

	GJ, Kinaskan and Zymo Canada	Caballo Blanco Mexico	South America	Africa	Other	Total
<b>Exploration Expenditures for the nine months ended September 30, 2010</b>						
Assaying	\$ -	\$ -	\$ -	\$ 91,245	\$ -	\$ 91,245
Camp costs	-	-	-	2,800	-	2,800
Drilling	-	-	699,096	209,831	-	908,927
Environmental & community relation	-	-	91,952	-	-	91,952
Expediting and project supervision	-	-	-	358,253	-	358,253
Field supplies and equipment	-	-	-	159,562	-	159,562
Field salaries and contract labour	-	-	87,659	284,662	-	372,321
Consulting	-	-	-	121,536	-	121,536
Geological, geophysical & geochemical	3,238	-	129,529	63,629	-	196,395
Roadwork/Trenching	-	-	319,090	1,585	-	320,675
Maps, staking and reports	2,888	-	-	2,994	11,350	17,232
Office miscellaneous	-	-	308,426	101,352	-	409,778
Licenses , fees and access rights	38,063	-	220,264	18,862	-	277,188
Professional	-	-	491,644	45,592	-	537,236
Stock based compensation	-	-	90,394	54,070	-	144,464
Transport and travel	-	-	239,818	247,133	19,305	506,256
Value Added Tax	-	-	221,437	-	-	221,437
<b>Total for the period</b>	<b>\$ 44,188</b>	<b>\$ -</b>	<b>\$ 2,899,309</b>	<b>\$ 1,763,104</b>	<b>\$ 30,655</b>	<b>\$ 4,737,257</b>
<b>Exploration Expenditures for the nine months ended September 30, 2009</b>						
Assaying	\$ 28,899	\$ (12,964)	\$ -	\$ -	\$ 750	\$ 16,685
Camp costs	26,341	79,718	-	27,760	-	133,819
Drilling	147,428	553,713	47,364	-	-	748,505
Environmental & community relation	3,353	6,590	57,157	-	-	67,100
Expediting and project supervision	(3,296)	(9,292)	-	-	-	(12,588)
Field supplies and equipment	17,402	7,477	-	-	-	24,879
Field salaries and contract labour	-	384,787	55,746	5,094	-	445,627
Consulting	13,560	(6,095)	-	51,559	-	59,024
Geological, geophysical & geochemical	95,084	58,062	217,289	-	-	370,435
Roadwork/Trenching	-	74,471	88,019	-	-	162,490
Maps, staking and reports	86,078	-	-	-	-	86,078
Maps, staking and reports	1,496	125,630	-	517	-	127,643
Office miscellaneous	(4,855)	124,781	191,288	39,822	-	351,036
Licenses, fees and access rights	4,855	26,506	210,309	-	-	241,671
Professional	-	138,319	310,199	689	-	449,206
Stock based compensation	10,767	14,414	-	-	-	25,181
Transport and travel	15,150	64,336	121,718	-	-	201,204
Value Added Tax	-	-	137,626	65,368	-	202,994
<b>Total for the period</b>	<b>\$ 442,262</b>	<b>\$ 1,630,453</b>	<b>\$ 1,436,715</b>	<b>\$ 190,808</b>	<b>\$ 750</b>	<b>\$ 3,700,989</b>

## 8. SHARE CAPITAL

(a) Authorized:

Unlimited number of common shares with no par value.

(b) Issued and outstanding:

Common shares	Number of Shares	Share Capital Amount	Contributed Surplus Amount
Balance, March 31, 2009	58,108,286	\$113,522,946	\$ 2,574,503
Issued for 100% of Suramina shares	52,227,705	17,235,143	-
Issued for 100% of Sanu shares	23,825,075	12,150,788	-
Stock options exercised	269,075	142,610	-
Transfer of contributed surplus	-	23,267	(23,267)
Stock based compensation	-	-	132,584
Sanu replacement options	-	-	302,274
Private placement, net	<u>12,428,571</u>	<u>8,406,000</u>	-
Balance, December 31, 2009	146,858,712	\$151,480,754	\$ 2,986,094
Stock options exercised	42,937	22,756	-
Transfer of contributed surplus	-	10,244	(10,244)
Stock based compensation	-	-	<u>775,992</u>
Balance, September 30, 2010	<u>146,901,649</u>	<u>\$151,513,754</u>	<u>\$ 3,751,842</u>

(c) Incentive stock options issued and outstanding are as follows:

The Company has a rolling stock option plan, approved by shareholders on September 15, 2008, reserving an aggregate of 10% of the issued and outstanding shares of the Company for issuance upon the exercise of options granted. Vesting and terms of the option agreement are at the discretion of the Board of Directors.

The continuity of incentive stock options issued and outstanding is as follows:

	Number of Shares	Weighted-average exercise price
Outstanding at March 31, 2009	2,554,000	\$1.60
Granted	6,317,899	\$0.98
Exercised	(269,075)	\$0.53
Forfeited/Expired	<u>(1,281,535)</u>	\$1.53
Outstanding at December 31, 2009	7,321,289	\$1.12
Exercised	(42,937)	\$0.53
Forfeited/Expired	<u>(2,574,909)</u>	\$1.44
Outstanding at September 30, 2010	<u>4,703,443</u>	\$0.96
Exercisable at September 30, 2010	<u>2,683,692</u>	\$1.15

The Company uses the Black-Scholes option pricing model in calculating the fair value of stock options. The fair value of the stock options granted with the following assumptions:

	Year ended <u>December 31, 2009</u>
Dividend Yield	0%
Average risk free interest rate	1.82%
Expected volatility	82.74%
Expected life of option	3.3 years

The fair values of stock options with vesting provisions are amortized as stock-based compensation expenses over the applicable period.

The following summarized the stock options outstanding as at September 30, 2010:

Range of Exercise Prices (CDN\$)	Outstanding Options			Exercisable Options		
	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$0.53 - \$1.00	3,285,536	3.60	\$ 0.67	1,265,785	2.70	\$ 0.62
\$1.01 - \$1.30	784,315	0.78	1.21	784,315	0.78	1.21
\$1.31 - \$2.80	633,592	1.23	2.14	633,592	1.43	2.14
	<u>4,703,443</u>	<u>2.84</u>	<u>\$ 0.96</u>	<u>2,683,692</u>	<u>1.84</u>	<u>\$ 1.15</u>

(d) Share purchase warrants:

As at September 30, 2010 the following warrants were outstanding:

Exercise Price	Expiry date	Number of Warrants
CDN\$ 1.44	Oct 20, 2010	<u>14,312</u>

## 9. RELATED PARTY TRANSACTIONS

In addition to items noted elsewhere in these consolidated financial statements, during the nine months ended September 30, 2010, the Company incurred:

- (a) management fees of \$405,000 (2009 - \$390,735) in respect of office facilities and administrative services to a company controlled by a director pursuant to an agreement for services and office facilities, which is renewable on August 1, 2011. At September 30, 2010, \$2,281 (December 31, 2009 - \$3,395) was due to this company and included in amounts due to related parties.
- (b) \$11,894 for technical services to a company related by directors in common. At September 30, 2010, \$nil was due to this company in respect of technical services and expenses incurred.

In the year ended December 31, 2009 the Company incurred:

- (a) legal fees of \$89,280 to a law firm of which a partner was a director of the Company. At December 31, 2009, \$56,760 was due to this law firm and included in amounts due to related parties.
- (b) a donation of \$87,000 to Lundin for Africa Foundation, a charitable organization with two directors in common. At December 31, 2009, \$87,000 was due to this Foundation and is included in amounts due to related parties.

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## **10. SEGMENTED INFORMATION**

The Company's only business activity is the exploration for and development of minerals reserves in North and South America and Africa. Segmented information about mineral properties is disclosed elsewhere in these consolidated financial statements (Note 6). The Company's fixed assets are primarily located in Argentina.

## **11. CONTINGENCY**

The Company's Argentine subsidiary, Desarrollo de Prospectos Mineros SA "DPM", has received a claim in January 2009 from the Banco Central de la Republica Argentina ("BCRA") in connection with two foreign exchange transactions made in 2003. It has been alleged that DPM exceeded the maximum allowable limit by approximately US\$63,000 for foreign exchange conversions for foreign exchange conversions on those days. DPM have filed a statement of defence to dismiss this claim. Provisions have not been made in the consolidated financial statements as the likelihood of the loss occurring cannot be determined and the amount of loss if it should occur cannot be reasonably estimated at this early stage. DPM will continue to defend its position.