Consolidated Financial Statements of

TheMAC Resources Group Limited
(a development-stage company)

June 30, 2010 and 2009

AUDITORS' REPORT

To the Shareholders of
TheMAC Resources Group Limited

We have audited the consolidated balance sheets of **TheMAC Resources Group Limited** as at June 30, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Vancouver, Canada,
October 21, 2010.

Chartered Accountants

TheMAC Resources Group Limited
(a development stage company)
As at June 30
(Expressed in Canadian Dollars)

CONSOLIDATED BALANCE SHEETS

[See note 1: Nature of operations and going concern uncertainty]

[See note 12: Subsequent events]

	2010	2009
	$	$
ASSETS		
Current		
Cash	**24,657**	75,122
Taxes recoverable	**7,396**	2,842
Prepaid expenses and deposits	**1,800**	1,729
	33,853	79,693
Equipment *[note 3]*	**225**	321
Advance payments for purchase of Copper Flat *[note 11]*	**1,799,702**	—
	1,833,780	80,014
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**534,621**	23,391
Due to related parties *[note 6]*	**33,250**	30,000
Subscriptions received *[notes 5 and 11]*	**921,167**	—
	1,489,038	53,391
Shareholders' equity		
Share capital *[note 5]*	**5,487,840**	5,097,621
Warrants *[note 5]*	**151,964**	—
Contributed surplus *[note 5]*	**113,977**	126,866
Deficit	**(5,409,039)**	(5,197,864)
	344,742	26,623
	1,833,780	80,014

On behalf of the Board:

"Barrett Sleeman"
Director

"Kevin W. Maloney"
Director

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

TheMAC Resources Group Limited
(a development stage company)
For the years ended June 30
(Expressed in Canadian Dollars)

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

	2010	2009
	$	$
Expenses		
Consulting *[note 6]*	**74,000**	54,000
Management fees	**25,140**	11,475
Accounting and audit	**24,010**	21,070
Filing fees and transfer agent fees	**23,609**	13,238
Travel	**15,094**	1,505
Legal fees	**9,229**	4,967
Office and sundry *[note 6]*	**8,654**	7,055
Rent	**8,640**	7,440
Interest and bank charges	**1,976**	175
Telephone and communications	**884**	482
Printing and photocopying	**701**	769
Amortization *[note 3]*	**96**	137
	192,033	122,313
Operating loss	**(192,033)**	(122,313)
Other items		
Interest income	**—**	5
Gain on reversal of debt provisions *[note 7]*	**—**	33,541
Foreign exchange loss	**(8,475)**	—
Loss on settlement of debt *[notes 5 and 6]*	**(10,667)**	—
Loss and comprehensive loss for the year	**(211,175)**	(88,767)
Deficit, beginning of the year	**(5,197,864)**	(5,109,097)
Deficit, end of the year	**(5,409,039)**	(5,197,864)
Loss per share - basic and diluted	**(0.02)**	(0.01)
Weighted average number of outstanding shares - basic and diluted	**9,099,678**	6,915,256

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

TheMAC Resources Group Limited
(a development stage company)
For the years ended June 30
(Expressed in Canadian Dollars)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2010	2009
	$	$
OPERATING ACTIVITIES		
Net loss for the year	**(211,175)**	(88,767)
Add non-cash items:		
Amortization	**96**	137
Loss on settlement of debt	**10,667**	—
Gain on reversal of debt provisions	**—**	(33,541)
	(200,412)	(122,171)
Net change in non-cash working capital:		
(Increase) decrease in taxes recoverable	**(4,554)**	1,174
(Increase) decrease in prepaid expenses and deposits	**(71)**	71
Increase (decrease) in accounts payable and accrued liabilities	**51,566**	(616)
Increase in amounts due to related parties	**3,250**	20,573
Cash used in operating activities	**(150,221)**	(100,969)
INVESTMENT ACTIVITIES		
Advance payments for purchase of Copper Flat	**(1,300,038)**	—
Cash used in investment activities	**(1,300,038)**	—
FINANCING ACTIVITIES		
Proceeds from private placements	**460,000**	—
Exercise of stock options	**20,600**	—
Subscriptions received	**921,167**	—
Share issue cost	**(1,973)**	—
Cash provided by financing activities	**1,399,794**	—
Net decrease in cash position	**(50,465)**	(100,969)
Cash position, beginning of year	**75,122**	176,091
Cash position, end of year	**24,657**	75,122
Supplemental cash flow information		
Interest paid in cash	**—**	—
Capital taxes in cash	**—**	—

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

TheMAC Resources Group Limited

(a development stage company)

For the years ended June 30

(Expressed in Canadian Dollars)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Common shares		Warrants	Contributed		
	Amount	Value		surplus	Deficit	Total
		$	$	$	$	$
Balance, June 30, 2008	6,915,256	5,097,621	10,945	115,921	(5,109,097)	115,390
Pursuant to expiry of warrants	-	-	(10,945)	10,945	-	-
Net loss and comprehensive loss for the year	-	-	-	-	(88,767)	(88,767)
Balance, June 30, 2009	6,915,256	5,097,621	-	126,866	(5,197,864)	26,623
Transfer agent rounding adjustment	5	-	-	-	-	-
Settlement of debt *[note 5]*	533,333	50,667	-	-	-	50,667
Private placement *[note 5]*	5,111,111	308,036	151,964	-	-	460,000
Exercise of options *[note 5]*	105,000	33,489	-	(12,889)	-	20,600
Share issue costs	-	(1,973)	-	-	-	(1,973)
Net loss and comprehensive loss for the year	-	-	-	-	(211,175)	(211,175)
Balance, June 30, 2010	12,664,705	5,487,840	151,964	113,977	(5,409,039)	344,742

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

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

The Company was incorporated on February 24, 1997 under the Business Corporations Act (Yukon) by registration of its Articles of Incorporation. The Company is in the business of acquiring, exploring, and developing natural resource properties.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. Realization values may be substantially different from the carrying values as shown in these consolidated financial statements should the Company be unable to continue as a going concern. The Company has incurred losses since inception and has a deficit as at June 30, 2010 of $5,409,039 and a working capital deficit of $(1,455,185). These factors create significant doubt as to the ability of the Company to continue as a going concern.

The Company's ability to meet its obligations and maintain its operations is contingent upon successful completion of additional financing arrangements, the continuing support of its creditors, and the obtaining of necessary financing to fund future business projects. If the Company were unable to continue as a going concern then adjustments may be required to the classification and the carrying value of certain assets and liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned inactive subsidiary, New Mexico Copper Corporation, incorporated on June 15, 2010 in the state of New Mexico, USA.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the rate of exchange prevailing at the end of the period. Non-monetary assets and liabilities have been translated at the rate prevailing at the date of the transaction. Revenue and expense items are translated at the average rate of exchange for the period. Gains and losses are included in income for the period.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses reported during the periods. Actual results could differ from those estimates.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Computer equipment

Computer equipment is recorded at cost less accumulated amortization. Amortization is recorded on a declining balance basis at an annual rate of 30%.

Income taxes

The Company follows the liability method of accounting for income taxes. Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect on future taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not to occur.

Stock based compensation

The Company accounts for all stock-based payments and awards using the fair value-based method. Under the fair value-based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the vesting period of the award and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date. Compensation cost attributable to awards to employees is measured at fair value at the grant date and recognized over the vesting period.

Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share amounts are calculated in accordance with the treasury stock method which assumes that proceeds received from the exercise of stock options and warrants would be used to repurchase common shares at the prevailing market rate. Under the treasury stock method, the basic and diluted loss per share is the same, as the effect of common shares issuable upon the exercise of warrants and stock options of the Company would be anti-dilutive.

Financial Instruments

The Company classifies all financial instruments as either held-to-maturity, available-for-sale, held-for-trading, loans and receivables, or other liabilities. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statements of operations. Transaction costs are included in the carrying value of the related financial instrument except for those classified as held for trading.

The Company has designated its cash, and advances to CFC as held-for-trading, which is measured at fair value. Receivable amounts are classified as loan and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, due to related parties, and subscriptions received are classified as other liabilities, which are measured at amortized cost. The fair values of cash and accounts payable approximate their carrying values due to the short term to maturity of these financial instruments. The Company has no derivative financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Adoption of new accounting policies

In February 2008, the CICA issued Handbook Section 3064 – Goodwill and Intangible Assets ("Section 3064"), which replaces CICA Handbook Sections 3062 – Goodwill and Other Intangible Assets ("Section 3062") and 3450 – Research and Development Costs and EIC -27- Revenues and Expenditures during the Pre-Operating Period. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill are unchanged from the standards included in Section 3062. The new section was applicable to the Company's financial statements for its fiscal year beginning July 1, 2009. The adoption of this section did not have a material impact on the Company's consolidated financial statements.

In June 2009, the Company adopted the amendments to CICA Section 3862, Financial Instruments Disclosures, to include enhanced disclosures on the liquidity risk of financial instruments and new disclosures on fair value measurements of financial instruments. The adoption of these amendments did not result in a material impact on the Company's consolidated financial statements.

Accounting policies to be implemented effective June 1, 2011

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations ("Section 1582"), 1601 – Consolidated Financial Statements ("Section 1601") and 1602 – Non-controlling Interests ("Section 1602") which replaces CICA Handbook Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601, together with Section 1602, establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning July 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time.

3. EQUIPMENT

	June 30, 2010			June 30, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$539	$314	$225	$539	$218	$321

4. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, advances to CFC, accounts payable and accrued liabilities, amounts due to related parties, and subscriptions received. The fair value of cash is measured on the balance sheet using Level 1 of the fair value hierarchy as it is based on unadjusted quoted prices in active market. The fair value of accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to their short term nature.

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

Currency Risk

The Company is subject to currency risks. The Company's proposed transaction (note 11) is in the United States and many of its expenditures and obligations are, or will be denominated in US dollars. The Company maintains its principal office in Canada, and has monetary assets and liabilities in Canadian and US dollars. The currency exchange rate between the US and Canadian dollars fluctuated from a low of US$0.86 to a high of US$1 for C$1 during the year ended June 30, 2010. As such, the Company's results of operations are subject to foreign currency fluctuation risks and such fluctuations may adversely affect the financial position and operating results of the Company. The Company has not undertaken to mitigate transactional volatility in the Canadian dollar at this time. The Company does not use derivative instruments to reduce its exposure to currency risk.

Interest rate and credit risk

The Company has a cash balance and no debt other than current payables and accrued liabilities. Amounts owed to related parties do not bear interest, and are therefore not exposed to interest rate variations. The Company has no credit risk arising from operations as the debt can only be called when the Company has sufficient funds to repay, or else it is to be repaid through the issuance of shares. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its bank.

Accounts receivable typically consist of goods and services tax due from the Federal Government of Canada. Management believes that the credit risk with respect to receivables is remote.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations with respect to financial liabilities as they fall due. The Company's financial liabilities are comprised of accounts payable and accrued liabilities. The Company frequently assesses its liquidity position by reviewing the timing of amounts due and future obligations compared to the Company's current cash position and expected cash receipts. The objective of the Company is to manage its liquidity risk by maintaining sufficient cash to meet its anticipated operational needs. Due to the relatively low cash position of the Company, the Company is exposed to liquidity risk.

5. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS

[a] **Authorized:**

Unlimited common shares without par value.

[b] **Issued and fully paid:**

(i) On November 26, 2009, the Company settled $40,000 due to a Director of the Company in consulting fees by issuing 533,333 common shares at $0.075 per share. The fair value of the shares issued was $50,667 and, therefore, the Company incurred a loss on settlement of debt of $10,667.

(ii) On February 19, 2010, the Company issued 5,111,111 units priced at $0.09 per unit, for gross proceeds of $460,000. Each whole unit consisted of one common share and one share purchase warrant, with each warrant exercisable into one common share at an exercise price of $0.10 per warrant until February 19, 2011. A portion of the gross proceeds was allocated to the warrants based on their relative fair value, which was estimated at $151,964 ($0.07 per warrant). The fair value of the warrants was estimated using the *Black–Scholes* option pricing model with the following assumptions:

Expected life of the warrants	1 year
Risk free interest rate	1.33%
Volatility	92.67%
Dividend yield	0%

(iii) On May 6, 2010, the Company closed a private placement of subscription receipts (note 11). A total of 5,582,556 subscription receipts were issued at $0.15 per subscription receipt for proceeds of $837,383, of which $19,500 were received subsequent to June 30, 2010. See Note 11.

(iv) The Company also received $103,284 from a director of the Company as an advance for the exercise of warrants. See Note 12, subsequent events.

[c] **Shares in escrow**: 93,750 [June 30, 2009 - 93,750] of the common shares issued are held in escrow, the release of which is subject to the direction of the regulatory authorities, and is based on the Company expending certain amounts on the exploration and development of a resource property.

[d] **Warrants:**

	Number	Exercise price	Expiry Date
Balance, June 30, 2008	1,052,631	$0.25	May 21, 2009
Expired	(1,052,631)	$0.25	May 21, 2009
Balance, June 30, 2009	-	-	
Issued [note 5(b)(ii)]	5,111,111	$0.10	February 19, 2011
Balance, June 30, 2010	5,111,111	$0.10	

As at June 30, 2010, the following warrants are outstanding:

Number of warrants	**Exercise price**	**Expiry date**
5,111,111	$0.10	February 19, 2011

See Note 12, subsequent events.

5. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS (cont'd.)

[e] **Stock options**

During the 2004 fiscal year, the Company adopted a formal stock option plan [the "Plan"]. The Plan was most recently ratified by shareholders during the December 8, 2009, annual general meeting. The Plan is referred to as a "rolling" plan and provides for an aggregate number of shares reserved for issuance of up to 10% of the Company's issued common shares at the time of the grant of a stock option under the Plan. Stock options are granted with an exercise price in accordance with the TSX Venture Exchange policy.

During the year ended June 30, 2010, an aggregate of 105,000 stock options were exercised, with exercise prices between $0.20 and $0.16, for proceeds of $20,600.

No stock options were granted, exercised or expired during the year ended June 30, 2009.

Stock options outstanding and exercisable:

	Options Outstanding & Exercisable	**Weighted average exercise price**
Balance, June 30, 2008 and 2009	458,000	$0.17
Exercised	(105,000)	$0.20
Balance, June 30, 2010	353,000	$0.16

Each option entitles the holder to purchase one common share of the Company. All options are fully vested. At June 30, 2010, the following stock options are outstanding and exercisable with average remaining life of 0.55 years and a weighted average exercise price of $0.16:

Number of options	**Weighted average exercise price**	**Expiry date**
353,000	$0.16	January 16, 2011

6. RELATED PARTY TRANSACTIONS

The aggregate of amounts paid during the year ended June 30, 2010, to parties not at arm's length to the Company consist of the following:

Paid or accrued $50,000 [2009 - $30,000] in consulting fees and $6,000 [2009 - $6,000] in office expenses to a company controlled by the president of the Company.

Accrued $24,000 [2009 - $24,000] in consulting fees to a company controlled by a director of the Company.

The Company settled a debt of $40,000 [2009: $Nil] due to a company controlled by a director of the Company through the issuance of 533,333 common shares (Note 5).

The Company issued 5,111,111 units priced at $0.09 per unit, for gross proceeds of $460,000 to a company controlled by a director of the Company. Each whole unit consisted of one common share and one share purchase warrant, with each warrant exercisable into one common share at an exercise price of $0.10 per warrant until February 19, 2011. In addition, the Company received $103,294 in advance of exercising the warrants attached to the units (See note 12, subsequent events).

6. RELATED PARTY TRANSACTIONS (cont'd)

The Company issued 75,000 common shares to a director of the Company on exercise of stock options with an exercise price of $0.20.

Amounts due to related parties as at June 30, 2010 were $33,250 [2009 - $30,000]. The indebtedness is non-interest bearing and is without stated terms of repayment.

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

7. REVERSAL OF DEBT PROVISIONS

During the year ended June 30, 2009, the Company reversed a provision of $27,971 (AUD $28,718) related to an arbitration directive to pay a consultant in Australia for services provided in 1997. As the consultant never responded to the Company on this issue, the Company now considers that the matter is closed.

During the year ended June 30, 2009, the Company reversed a provision of $5,570 for a British Columbia asset tax that was in effect when the Company originally raised funds in 1999.

8. NON-CASH TRANSACTIONS

During the year ended June 30, 2010, the Company entered into the following non-cash transactions:

Settlement of a debt of $40,000 through the issuance of 533,333 common shares at a price of $0.075 per share (Note 5).

During the year ended June 30, 2009, the Company entered into the following non-cash transactions:

Reversal of previous liability provisions of $33,541 (Note 7).

9. INCOME TAXES

[a] A reconciliation of income taxes of statutory rates with the reported taxes is as follows:

	2010	2009
Statutory tax rate	**29.25%**	30.25%
Loss for the year	**(211,175)**	(88,767)
Expected income tax recovery	**(61,770)**	26,854
Permanent and other differences	**17,083**	52
Income tax rate change	**4,315**	(34,723)
Changes in valuation allowance	**40,372**	7,817
Income tax expense	**—**	—

[b] The significant components of the Company's future income tax assets are as follows:

	2010 $	2009 $
Future income tax assets		
Non-capital and other loss carry-forwards	**244,639**	221,250
Resource properties	**546,319**	546,245
Other	**23,346**	6,437
Total future income tax assets	**814,304**	773,932
Valuation allowance	**(814,304)**	(773,932)
Net future income tax assets	—	—

[c] The Company has approximately $2,185,000 in foreign exploration development expense, available for carry-forward, which may, subject to certain restrictions, be available to offset against future taxable income. The Company also has approximately $979,000 in non-capital losses available for carry-forward. No future benefits related to these losses have been recognized in the financial statements. The non-capital losses available will expire on June 30 of the following years:

	$
2014	164,000
2015	116,000
2026	119,000
2027	149,000
2028	143,000
2029	89,000
2030	199,000
	979,000

10. CAPITAL DISCLOSURES

The Company's objective when managing capital is to maintain a flexible capital structure for the benefit of its stakeholders. The Company's main source of funds is from the issuance of common shares.

The Company keeps its cash only in chequing accounts with one of the major Canadian banks, which is an institution of high credit worthiness. At June 30, the Company had cash of $24,657 (2009: $75,122).

The Company is not subject to any externally imposed capital requirements.

11. ADVANCE PAYMENTS FOR PURCHASE OF COPPER FLAT

On March 12, 2010, the Company entered into a Heads of Agreement with Mercator Gold plc ("Mercator"), a UK public corporation listed on the Alternative Investment Market (AIM) of the London Stock Exchange (ticker: MCR), followed by a definitive transaction agreement on June 28, 2010 (the "Transaction Agreement"). Pursuant to the Transaction Agreement, the Company will acquire all of the assets of Copper Flat Corporation ("CFC"), a private New Mexico, USA, company that holds an option to acquire 100% of a project known as Copper Flat, subject only to a 3.25% Overriding Royalty (the "Acquisition").

In consideration for the Acquisition, the Company will issue to Mercator 10,500,000 common shares and 10,500,000 warrants. Each warrant will entitle the holder to acquire an additional common share for a period of 5 years after closing of the acquisition, at a price of $0.28 per share. Closing of the Acquisition is subject to a number of conditions, including receipt of all necessary regulatory approvals, delivery of a preliminary assessment on the Copper Flat Property which complies with National Instrument 43-101, completion of due diligence by each party, and completion of a minimum $5 million equity financing by the Company.

CFC holds the right to acquire the Copper Flat property pursuant to the terms of an option and purchase agreement dated July 23, 2009 with the Hydro Resources Corporation, a New Mexico corporation, Cu Flat, LLC, a New Mexico limited liability company, and GCM, Inc. as amended by a First Amendment of Option and Purchase Agreement dated January 20, 2010 (the "CFC Option Agreement"). In order to earn a 100% interest in the Copper Flat Property, CFC must pay:

i) USD $150,000 on or before August 14, 2009 (paid);
ii) USD $150,000 on or before January 31, 2010 (paid);
iii) USD $850,000 to be paid on or before March 31, 2010 (paid);
iv) USD $1,850,000 to be paid on or before August 14, 2010 [note 12(c)]; and
v) USD $7,000,000 to be paid on or before February 14, 2011.

The final payment may be deferred until May 16, 2011 upon the payment of an additional US$ 150,000 on or before February 14, 2011. The property will be subject to a 3.25% net smelter return royalty, and quarterly advance royalty payments of US$50,000 (for copper prices under US$2.00) or US$112,500 (for copper prices greater than $2.00).

As an interim commitment, Mercator and/or its nominees purchased, through a non-brokered private placement, a total of 5,582,556 subscription receipts of the Company at a price $0.15 per subscription receipt. This placement closed on May 3, 2010. Each subscription receipt will convert to one unit upon completion of the Acquisition, each unit consisting of one common share of the Company and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share of the Company for a period of one year from the date of issue at $0.28 per share. All securities issued in connection with this placement will be subject to a hold period expiring on September 4, 2010. Of the total proceeds from the subscriptions receipts of $837,383, $19,500 remained receivable as at June 30, 2010.

11. ADVANCE PAYMENTS FOR PURCHASE OF COPPER FLAT (cont'd.)

Of the total amount, Mercator purchased 4,000,000 subscription receipts for total consideration of $600,000. Upon conversion of the subscription receipts, Mercator will directly own 4,000,000 common shares of the Company, and warrants to purchase a further 4,000,000 common shares of the Company at a price of $0.28 per share for a period of one year from the date of issue of the subscription receipts. Upon conversion of the subscription receipts, assuming no other securities of the Company are issued, Mercator will hold 21.9% of the outstanding shares of the Company (35.9% of the outstanding shares of the Company, on a partially diluted basis assuming Mercator exercises all of its warrants, and no other warrants are exercised).

Pursuant to the terms of the Transaction Agreement, the Company is incurring or reimbursing all of the obligations of CFC in respect of the Copper Flat project until closing. This funding has been characterized as a loan to CFC, repayable within six months of termination of the Transaction Agreement in the event that the Acquisition is not completed. The right to demand repayment on the loan is contingent on the termination of the transaction. On closing of the Acquisition, the Company will forgive any indebtedness owed by CFC to the Company and the amount will be allocated to the acquisition price.

The option payment due by CFC on March 31 of 2010 was funded by an advance by the Company, paid from existing cash and the funds received from Mercator's subscription receipts. In addition, the Company advanced CFC certain funds to continue operations also pursuant to the terms of the Agreement. The advances made and legal costs incurred in connection with the Transaction to June 30, 2010, have been as follows:

Nature of cost	Amount in US$	Amount in Cad $
Advance for payment of option	850,000	865,215
Advances for CFC expenses	820,947	856,863
Legal fees accrued for the transaction	-	77,624
Advance payments for the purchase of Copper Flat		1,799,702

There can be no assurance that the Acquisition will be completed as proposed or at all. The Company's controlling shareholder, Marley Holdings Pty Ltd., which holds approximately 70% of the outstanding shares of the Company, has approved the Transaction.

In anticipation of the closing of the Acquisition, on June 15, 2010, the Company incorporated a wholly owned subsidiary in the state of New Mexico, USA, New Mexico Copper Corporation ("NMCC"). No financial transactions took place through NMCC to June 30, 2010.

12. SUBSEQUENT EVENTS

[a] The Company has made further advances to CFC amounting to $574,406 as of October 22, 2010, under the terms of the Transaction Agreement.

[b] The 5,111,111 share purchase warrants outstanding as at June 30, 2010 with an exercise price of $0.10 per share were exercised, for cash proceeds of $511,111, of which $103,284 were received prior to June 30, 2010.

[c] Pursuant to the terms of the Transaction Agreement, management continues to actively work towards completion of the closing requirements and conditions.

On July 8, 2010, the Company filed a NI 43-101 Preliminary Assessment on the Copper Flat property.

The US$ 1,850,000 to be paid on or before August 14, 2010 under the CFC Option Agreement was not paid as the parties have agreed to defer the payment until October 31, 2010. An advance of US $200,000 towards this payment has been made.

On August 3, 2010, the Company announced that it had engaged D&D Securities Inc. of Toronto, Ontario as its exclusive agent to raise, on a commercially reasonable efforts basis, a minimum of $7.0 million and a maximum of $15.0 million through the sale, on a private placement basis, of common shares of the Company at a price of $0.35 per common share (the "Offering"). D&D will have the right to over-allot the Offering by up to $5.0 million. All of the securities issued pursuant to the Offering will be subject to a four month hold period from their date of issue.

The Company will pay D&D a cash commission of 7% and issue to D&D options to acquire securities of the Company equal to 8% of the number of securities sold in the Offering. D&D will have the right to form a syndicate of other registered dealers in connection with the Offering.

The proceeds of the Offering will be used to complete the acquisition of the Copper Flat project (the "Transaction"), development of the Copper Flat project, and general working capital. The Offering will be completed concurrently with the completion of the Acquisition and is subject to the approval of the TSX Venture Exchange.

[d] On August 30, 2010, the Company entered into a loan agreement with Marley Holdings Pty Ltd. ("Marley"), a company controlled by Mr. Kevin Maloney, a director of the Company, whereby Marley lent $150,000 to the Company for working capital purposes. The loan is unsecured, repayable on demand, and bears an 8% annual interest calculated and payable monthly in arrears.

12. SUBSEQUENT EVENTS (cont'd.)

[e] The Company is negotiating a convertible loan agreement with Marley Holdings Pty Ltd. ("Marley"). Under the proposed terms, the Company will receive an aggregate of US $1,000,000, with the C$150,000 indicated in [d], above, being rolled into the new agreement and considered part of the total amount. The loan will bear interest at a rate of 8% per annum and Marley will have the option to convert the principal and accrued interest into units of the Company. Each unit would consist of one common share of the Company and one share purchase warrant, with each warrant entitling Marley to purchase one additional common share for a period of two years. The conversion price of the shares and the exercise price of the warrants are still to be determined. An Establishment Fee of C$100,000 will be paid to Marley in shares, unless shareholder approval is denied, in which case this fee will be paid in cash. The Company will pledge that its assets will not to enter into any further debt without Marley's consent. Should the proposed financing (under [c], above) with D&D fail, Marley would take a charge over the assets of the Company and its subsidiary.

This loan agreement will be subject to regulatory and shareholder approvals.

On October 8, 2010, the Company received a further US $500,000 from Marley as a further advance under the proposed agreement.

* * * * *