

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)

Consolidated Financial Statements (Unaudited, prepared by management)
March 31, 2010 and 2009
(U.S. Dollars)

<u>Index</u>	<u>Page</u>
Notice to Readers	1
Consolidated Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Operations	3
Consolidated Statements of Shareholders' Equity	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 – 20

Notice to Reader

The accompanying unaudited interim consolidated financial statements of Franconia Minerals Corporation for the three month period ended March 31, 2010 have been prepared by management and approved by the Audit Committee and Board of Directors of the Corporation. These statements have not been reviewed by the Corporation's auditors.

Dated May XX, 2010

/s/ Brian Gavin

Brian Gavin, President and Chief Executive Officer

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Consolidated Balance Sheet
As at March 31, 2010
(U.S. Dollars)
(Unaudited, prepared by management)

	<u>March 31</u>	<u>September 30</u>
	<u>2010</u>	<u>2009</u>
ASSETS		
Current		
Cash and cash equivalents	\$ 3,718,099	\$ 1,586,973
Auction Rate Securities settlement	-	-
Prepaid expenses	<u>11,877</u>	<u>31,925</u>
	<u>3,729,976</u>	<u>1,618,898</u>
Mineral Property Interests (Note 4)	<u>28,767,295</u>	<u>27,384,965</u>
	<u>\$ 32,497,271</u>	<u>\$ 29,003,863</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 341,897	\$ 210,979
Long-Term		
State of Minnesota loan (Note 12)	<u>1,698,325</u>	<u>1,571,178</u>
	<u>2,040,222</u>	<u>1,782,157</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 5)	<u>37,937,369</u>	34,150,914
Contributed Surplus	<u>6,812,285</u>	5,850,602
Deficit	<u>(14,292,605)</u>	(12,779,810)
	<u>30,457,049</u>	<u>27,221,706</u>
	<u>\$ 32,497,271</u>	<u>\$ 29,003,863</u>
Commitments (Note 7)		
Subsequent Event (Note 8)		
Contingent Liability (Note 13)		

Approved on behalf of the Board:

_____ /s/ Brian Gavin Brian Gavin	Director
_____ /s/ Allan J. Marter Allan J. Marter	Director

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

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Consolidated Statements of Operations
For the periods ended March 31
(U.S. Dollars)
(Unaudited, prepared by management)

	Three months ended		Six months ended	
	March 31		March 31	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Expenses				
General administration	\$ 361,548	\$ 336,728	\$ 650,743	\$ 652,435
Stock-based compensation (Note 5)	865,517	-	865,517	-
Foreign exchange gain	-	-	-	-
General exploration	-	(15,938)	-	(15,938)
Property maintenance	-	-	-	-
Property abandonment	-	-	-	-
Loss from Operations	1,227,065	320,790	1,516,260	636,497
Interest Expense/(Income)	(2,088)	8,546	(3,466)	4,021
Net Loss and Comprehensive Loss for Period	\$ 1,224,977	\$ 329,339	\$ 1,512,794	\$ 640,518
Basic and Diluted Loss Per Share	\$ (\$0.02)	\$ (\$0.01)	\$ (\$0.03)	\$ (\$0.01)
Weighted Average Number of Common Shares Outstanding	60,891,628	59,082,572	59,977,160	59,081,050

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

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Consolidated Statements of Shareholders' equity
For the period ended March 31, 2010
(U.S. Dollars)
(Unaudited, prepared by management)

	Common Shares	Amount	Deficit	Contributed Surplus	Total Shareholders' Equity
Balance, September 30, 2008	59,062,572	\$ 34,138,491	\$ (11,684,157)	\$ 5,780,229	\$ 28,234,563
Net loss for quarter	-	-	(311,179)	-	(311,179)
Shares issued for cash					
Exercise of options	20,000	12,423	-	(4,627)	7,796
Balance, December 31, 2008	59,082,572	\$ 34,150,914	\$ (11,995,336)	\$ 5,850,602	\$ 28,006,180
Net loss for quarter	-	-	(329,339)	-	(329,339)
Shares issued for cash					
Exercise of options			-		
Balance, March 31, 2009	59,082,572	\$ 34,150,914	\$ (12,324,675)	\$ 5,850,602	\$ 27,676,841
Balance, September 30, 2009	59,082,572	\$ 34,150,914	\$ (12,779,810)	\$ 5,850,602	\$ 27,221,706
Net loss for quarter	-	-	(287,818)	-	(287,817)
Shares issued for cash					
Exercise of options			-		
Balance, December 31, 2009	59,082,572	\$ 34,150,914	\$ (13,067,628)	\$ 5,850,602	\$ 26,933,889
Net loss for quarter	-	-	(1,224,977)	-	(1,224,978)
Shares issued for cash					
Exercise of options	265,000	106,347			106,347
Private Placement – Special Warrants	9,400,000	3,680,108	-	-	3,680,108
Stock Options Granted				961,683	961,683
Balance, March 31, 2010	68,747,572	\$ 37,937,369	\$ (14,292,605)	\$ 6,812,285	\$ 30,457,049

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

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
For the periods ended March 31
(U.S. Dollars)
(Unaudited, prepared by management)

	Three months ended		Six months ended	
	March 31		March 31	
	2010	2009	2010	2009
Cash flows from (used in) operating activities				
Net (loss) for the period	\$ (1,224,977)	\$ (329,339)	\$ (1,512,794)	\$ (610,518)
Items not involving cash:				
Write off deferred costs	-	-	-	-
Stock-based compensation	865,517	-	865,517	-
Changes in non-cash working capital balances:				
Prepaid expenses	28,956	(5,084)	20,048	42,276
Accounts payable	94,037	14,141	73,252	(1,566,058)
	<u>(236,468)</u>	<u>(320,281)</u>	<u>(553,978)</u>	<u>(2,164,300)</u>
Cash flows from financing activities				
State of Minnesota Loan	-	2,000,000	-	2,000,000
State of Minnesota Grant received		500,000	-	500,000
Issue of share capital, net of issue costs	3,786,455	-	3,786,455	7,796
Exercise of options	110,831	-	110,831	-
	<u>3,897,286</u>	<u>2,500,000</u>	<u>3,897,286</u>	<u>2,507,796</u>
Cash flows from (used in) investing activities				
Payments for deferred acquisition and exploration costs	(579,590)	(626,368)	(1,212,182)	(847,035)
Sale of Auction Rate Securities	-	48,639	-	3,250,000
	<u>(579,590)</u>	<u>(577,729)</u>	<u>(1,212,182)</u>	<u>2,402,965</u>
Increase (decrease) in cash and equivalents	3,081,228	1,601,990	2,131,126	(5,107,428)
Cash and equivalents, beginning of period	636,871	1,405,689	1,586,973	261,219
Reclassification to Long Term Investments	-	-	-	-
Cash and equivalents, end of period	\$ 3,718,099	\$ 3,007,679	\$ 3,718,099	\$ 3,007,679
Supplemental Information				
Shares Issued for Property	\$ -	\$ 234,157	\$ -	\$ 234,157
Stock Based Compensation	865,517	-	865,517	-
Loan Interest Capitalized to Mineral Properties	16,888	-	32,411	-
Loan Discount Amortized	46,082	-	94,737	-

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

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(US Dollars)
(Unaudited, prepared by management)

1. Nature of Operations

Franconia Minerals Corporation (the "Company") was incorporated on August 7, 1998 under the Alberta *Business Corporations Act*. The Company is a public company and is listed on the Toronto Stock Exchange under the symbol "FRA".

The Company is in the process of exploring its mineral property interests and has not determined whether these properties contain economically recoverable reserves of ore. The Company has not earned significant revenues from its mineral property interests and is considered to be in the exploration stage.

2. Going Concern

These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business.

The Company's ability to continue as a going concern is dependent on the Company being able to satisfy its liabilities as they become due and to obtain the necessary financing to complete the exploration and development of its mineral property interests, the attainment of profitable mining operations, and/or the receipt of proceeds from the disposition of its mineral property interests. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

The Company has no meaningful sources of generating cash, in either the short- or long-term, other than accessing the capital markets for the placement of its equity securities. The Company is dependent on the capital markets to provide funding for future activities and outlays, and these markets can be highly variable and volatile over a multi-year cycle. A deterioration of those capital markets could have a material adverse effect on the Company's prospects for success or even for survival.

At March 31, 2010, the Company possessed working capital of \$3,388,079 (2009 - \$2,935,677). The Company is able to meet its obligations as they become due. However, the Company expects to require additional funding for the investigation, acquisition and exploration of new projects. Management believes the Company's liquidity is adequate for the 2010 fiscal year (Note 9).

3. Significant Accounting Policies

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles ("GAAP") with the United States dollar as the functional and reporting currency.

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its integrated wholly-owned subsidiary, Franconia Minerals Corporation (US) Inc. All significant inter-company transactions have been eliminated.

(b) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments with maturities of 90 days or less at the time of purchase that may be readily converted to cash with minimal price risk.

(c) Mineral property interests

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property interest acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse.

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(US Dollars)
(Unaudited, prepared by management)

3. Significant Accounting Policies (continued)

(c) Mineral property interests (continued)

All deferred mineral property interest costs are reviewed annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the mineral property interest for an amount exceeding the deferred costs, provision is made for the impairment in value.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as mineral property interest costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credited to income.

(d) Future income taxes

The asset and liability method is used for determining future income taxes. Under the asset and liability method, the income tax effects of temporary differences between the time when income and expenses are recognized in accordance with Company accounting practices and the time they are recognized for income tax purposes are reflected as future income tax assets or liabilities. Future income tax assets and liabilities are measured using substantively enacted statutory rates that are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Future tax assets are recognized to the extent they are considered more likely than not to be realized. The valuation of future income tax assets is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated realizable amount.

(e) Foreign exchange

Amounts reported in foreign currency are translated into U.S. dollars on the following bases:

- (i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Revenues and expenses, at the rate of exchange in effect at the transaction date.

Gains and losses arising from the translation of foreign currency are included in the statement of operations for the year.

(f) Joint venture

The Company's exploration and development activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities. Joint venture accounting, which reflects the Company's proportionate interest in mineral properties, is applied by the Company only when the parties enter into formal comprehensive agreements for ownership and mining participation terms.

(g) Share capital

- (i) The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company.
- (ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.
- (iii) The proceeds from the issuance of units is allocated between common shares and common share purchase warrants on a pro-rata basis based on relative fair values using the Black-Scholes pricing model.

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(US Dollars)
(Unaudited, prepared by management)

3. Significant Accounting Policies (continued)

(h) Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or resource properties, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company does not incorporate an estimated forfeiture rate for options that will not vest but rather accounts for actual forfeitures when they occur.

(i) Revenue recognition

Interest income derived from cash and cash equivalents and other investments is recognized on an accrual basis as earned.

(j) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share. Under this method, the dilutive effect on loss per share is calculated presuming the proceeds of exercise of outstanding options, warrants and similar instruments would be used to repurchase common shares at the average market price during the period.

However, the calculation of diluted loss per shares excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(k) Asset retirement obligation (“ARO”)

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. Actual costs incurred in excess of the liability recorded are charged to operations in the period incurred. The Company assessed its mineral properties, and based on such assessments, has determined that it has no material AROs as at March 31, 2010 and 2009.

(l) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the impairment of mineral property interests, determining the fair value of financial instruments, accrued liabilities, the assumptions used in the determination of the fair value of stock-based compensation, the determination of environmental obligations and the valuation allowance for future income tax assets. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances. The actual results experienced by the Company may differ materially and adversely from the Company’s estimates and could affect future results of operations and cash flows.

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(US Dollars)
(Unaudited, prepared by management)

3. Significant Accounting Policies (continued)

(m) Financial instruments

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item.

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale financial instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are added to the fair value of the financial asset or financial liability on initial recognition.

Comprehensive income (loss) is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) consists of gains and losses affecting shareholders' equity that under GAAP are excluded from net income (loss).

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

(n) Government assistance

Government assistance is recognized when it is more likely than not that it will be realized and is recorded using the cost-reduction method. Under this method, government assistance is applied against the related expense or asset.

(o) Capitalized interest

Interest on funds used to finance further development of the Company's mineral property is capitalized for periods preceding the dates of the mineral property's substantial completion or readiness for use.

(p) Adoption of accounting policy

Mining Exploration Costs

In March 2009, the Emerging Issues Committee ("EIC") issued EIC-174, "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mining properties. It also provides guidance for development and exploration stage entities that cannot estimate future cash flows from its properties in assessing whether impairment in such properties is required. EIC-174 also provides additional discussion on recognition for long-lived assets. EIC-174 is to be applied in interim and annual financial statements for periods ending on or after the date of issuance of EIC-174. The Company adopted this recommendation, retrospectively, effective October 1, 2008 and determined that there was no impact on its consolidated financial statements.

(q) Future accounting changes

Business Combinations and Consolidated Financial Statements

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-Controlling Interests". These sections replace the former Handbook Section 1581, Business Combinations, and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(US Dollars)
(Unaudited, prepared by management)

3. Significant Accounting Policies (continued)

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently assessing the future impact of this new standard on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The new standards will be effective for the Company for interim and annual financial statements beginning on October 1, 2011. Implementation of the change will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. Mineral Property Interests

	<u>Total</u>	<u>Birch Lake</u>
Balance, September 30, 2008	\$ 26,290,782	\$ 26,290,782
Expenditures Acquisition	20,192	20,192
Exploration	<u>639,351</u>	<u>639,351</u>
Balance, December 31, 2008	<u>26,950,325</u>	<u>26,950,325</u>
Expenditures Acquisition	3,532	3,532
Exploration	<u>(198,980)</u>	<u>(198,980)</u>
Balance, March 31, 2009	<u>\$ 26,754,877</u>	<u>\$ 26,754,877</u>
Balance, September 30, 2009	\$ 27,384,966	\$ 27,384,966
Expenditures Acquisition	330,666	330,666
Exploration	<u>344,064</u>	<u>344,064</u>
Debt Discount Amortization Accrued and accreted loan interest (Note 12)	46,655	46,655
	<u>16,384</u>	<u>16,384</u>
Balance, December 31, 2009	<u>28,122,735</u>	<u>28,122,735</u>
Expenditures Acquisition	55,106	55,106
Exploration	<u>524,484</u>	<u>524,484</u>
Debt Discount Amortization Accrued and accreted loan interest (Note 12)	48,082	48,082
	<u>16,888</u>	<u>16,888</u>
Balance, March 31, 2010	<u>\$ 28,767,295</u>	<u>\$ 28,767,295</u>

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(US Dollars)
(Unaudited, prepared by management)

4. Mineral Property Interests (continued)

The Company's property interests, previously referred to as the Birch Lake Project, are now referred to as the **Duluth Complex Project** and comprise the various property interests noted below.

(a) Birch Lake Property

On November 12, 2002, the Company entered into the Birch Lake Option Agreement ("BLOA") to hold the option to enter into an Earn-in and Joint Venture Agreement ("BLJV Agreement") with Beaver Bay Joint Venture ("BBJV"), an entity related by virtue of common shareholders and a common director. BBJV's property is part of the Duluth Complex in the state of Minnesota (Note 7(a)).

On October 27, 2003, the Company exercised its option to enter into the BLJV Agreement to acquire up to an 82% interest in BBJV. In 2006, certain amendments to the BLOA expanded the area of interest to include the American Copper & Nickel Company Inc. ("ACNC") lands (see Note 5(b)) and modified the terms of the BLJV Agreement.

To acquire an undivided 60% legal and beneficial interest in the project, the Company must have:

- (i) Incurred \$10,000,000 in cumulative exploration expenditures as follows:
 - (a) Total of \$2,000,000 no later than January 2, 2008 (completed); and
 - (b) Complete the total of \$10,000,000 no later than January 2, 2010 (completed).
- (ii) Paid an aggregate of \$6,000,000 in cash and stock payments as follows:

<u>Dates</u>	<u>Cash</u>	<u>In Shares</u>
October 27, 2003 (Effective Date)	\$ 150,000	* \$ 125,000 *
December 17, 2004/March 1, 2006	50,000	* 125,000 *
On/before April 15, 2006	100,000	* - *
On/before June 30, 2006	50,000	* 125,000 *
On/before January 2, 2007	175,000	* 150,000 *
On/before January 2, 2008	225,000	* 225,000 *
On/before January 2, 2009	250,000	* 250,000 *
On/before January 2, 2010	3,000,000	* 1,000,000 *
Total	\$ 4,000,000	* \$ 2,000,000 *

* Completed

The number of common shares issued was calculated using the weighted average trading price of the Company's common shares converted to U.S. dollars for the month immediately preceding the month in which the payment is made.

To comply with the terms of the BLJV Agreement, the Company needed to contribute to the joint venture its 60% of required expenditures plus an additional 20% of required expenditures. The additional 20% of required expenditures paid will be recoverable by payment to the Company of 70% of the cash flow from commercial production until 100% of such amounts, including interest, have been recovered by the Company.

During 2008, the Company fulfilled its obligations by spending \$10,000,000 in exploration on the property, and by paying \$3,250,000 in cash (for a total of \$4,000,000) and \$1,250,000 (for a total of \$2,000,000) in common shares to the BBJV in accordance with the terms of the BLOA. As a result, the Company vested its 60% interest in the project, and on June 18, 2008, signed the BLJV Agreement, through its wholly-owned subsidiary, Franconia Minerals Corporation (US) Inc.

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(US Dollars)
(Unaudited, prepared by management)

4. Mineral Property Interests (continued)

The BLJV Agreement replaces the BLOA and allows the Company to advance its ownership interest in the project to 70% by spending an additional \$10,000,000 on exploration and acquisition at Birch Lake, this amount includes expenditures already incurred since spending the initial \$10,000,000, on or before July 18, 2013 and making an additional cash payment of \$1,000,000 to BBJV within 90 days of spending the additional funds on exploration and acquisition.

FMCUS reached the required expenditure level on January 31, 2010, made the \$1 million payment on April 29, 2010 and gave notice of exercise of the First Option on May 1, 2010 (see Subsequent Event, Note 8).

The Company will need to contribute to the joint venture its 70% of required expenditures plus an additional 15% of required expenditures. Again, the additional 15% of required expenditures paid will be recoverable by payment to the Company of 70% of the cash flow from commercial production until 100% of such amounts, including interest, have been recovered by the Company.

The Company may further earn up to an 82% interest in the project upon earning the 70% interest and notifying BBJV of their intention and by funding BBJV's portion of development costs of a mine to commercial production. The Company will recover these costs from BBJV's share of cash flow from commercial production.

(b) American Copper & Nickel Company Inc. - Birch Lake

On December 22, 2003, Lehmann Exploration Management, a company controlled by a shareholder and officer, as operator of BBJV, entered into a binding letter of intent to acquire from ACNC, two federal leases and ownership of certain mineral rights. The federal leases are subject to a royalty to the U.S. government on production, and are also subject in part to overriding royalties to certain private parties not to exceed 1%. All the mineral rights acquired from ACNC are subject to payment to ACNC of a royalty of 7.5% of net distributable earnings from the subject rights.

(c) Marlow Timberland LLC - Birch Lake

On April 18, 2008, the Company signed an agreement with Marlow Timberland LLC to acquire 228 acres of surface lands in Lake County, Minnesota, for \$570,000. This land now forms part of the Birch Lake Project.

(d) Rendfield Land Company - Birch Lake

During 2008, the Company paid \$360,000 to Rendfield Land Company (a subsidiary of Allete, Inc.) as earnest money on a real estate transaction in Lake County, Minnesota. The transaction was never finalized or completed and \$360,000 was recorded as a property abandonment cost.

Realization of Assets

The investment in and expenditures on mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the mineral property interests or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

Title to Mineral Property Interests

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

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(US Dollars)
(Unaudited, prepared by management)

4. Mineral Property Interests (continued)

Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral property interests, the potential for production on the property may be diminished or negated.

5. Share Capital

(a) Authorized

Unlimited number of common shares
Unlimited number of preferred shares

(b) Issued

Property acquisition

In January 2008, the Company issued 161,792 shares to BBJV, an entity managed and operated by a company controlled by a director and shareholder, at their trading price on the TSX of \$1.45 (Cdn \$1.45) per share with a total fair value of \$234,157, in accordance with the terms of the agreement on the Birch Lake properties. The agreement also required the payment of \$225,000 in cash to BBJV.

In June 2008, the Company issued 731,006 shares to BBJV, an entity managed and operated by a company controlled by a director and shareholder, at their trading price on the TSX of \$1.28 (Cdn \$1.31) per share with a total fair value of \$938,944. Further, the Company paid \$3,250,000 in cash to the BBJV. These amounts fulfill the Company's contribution requirements in the BLOA (Note 5(a) (ii)).

Special Warrant Financing

During the period, on January 28, 2010, the Company completed a private placement (the "Offering") of 9,400,000 special warrants (the "Special Warrants") at a price of Cdn\$0.45 per Special Warrant for gross proceeds of Cdn\$4.23 million (US equivalent = \$3.98 million) including the exercise of the underwriter's option. The Offering was underwritten by Wellington West Capital Markets, Inc.

Each Special Warrant was automatically exercised for one Unit (the "Units") of Franconia for no additional consideration following the receipt of a final prospectus qualifying for sale the units underlying the Special Warrants on March 12, 2010. Each Unit consists of one Common Share and one half of one Common Share purchase warrant. Each full warrant is exercisable into one common share at a price of Cdn\$0.70 for a period of 12 months from the closing date.

Net proceeds from the Offering will be used to advance the Birch Lake project and for general corporate purposes.

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(US Dollars)
(Unaudited, prepared by management)

5. Share Capital (continued)

(c) Warrants

The following summarizes information about warrants outstanding at March 31, 2010 and 2009:

<u>Expiry Date</u>	<u>Price (Cdn\$)</u>	<u>2009</u>	<u>Issued</u>	<u>Exercised</u>	<u>Expired</u>	<u>2010</u>
January 28, 2011	\$.70	-	4,700,000	-	-	4,700,000
January 28, 2011	\$.46	-	658,000	-	-	658,000
April 13, 2009	\$ 1.92	733,525	-	-	(733,525)	-
April 13, 2011	\$.70	3,667,626	-	-	-	3,667,626
April 30, 2009	\$ 1.92	268,750	-	-	(268,750)	-
April 30, 2011	\$.70	1,875,000	-	-	-	1,875,000
May 23, 2009	\$ 1.75	50,000	-	-	(50,000)	-
January 13, 2012	\$ 0.75	2,500,000	-	-	-	2,500,000
		<u>9,094,901</u>	<u>5,358,000</u>	<u>-</u>	<u>(1,052,275)</u>	<u>13,400,626</u>

<u>Expiry Date</u>	<u>Price (Cdn\$)</u>	<u>2008</u>	<u>Issued</u>	<u>Exercised</u>	<u>Expired</u>	<u>2009</u>
April 13, 2009	\$ 1.92	733,525	-	-	-	733,525
April 13, 2010	\$ 1.92	3,667,626	-	-	-	3,667,626
April 30, 2009	\$ 1.92	268,750	-	-	-	268,750
April 30, 2010	\$ 1.92	1,875,000	-	-	-	1,875,000
May 23, 2009	\$ 1.75	50,000	-	-	-	50,000
January 13, 2012	\$ 0.75	-	2,500,000	-	-	2,500,000
		<u>6,594,901</u>	<u>2,500,000</u>	<u>-</u>	<u>-</u>	<u>9,094,901</u>

The Company issued 4,700,000 warrants during the quarter under the Special Warrant financing above. As shown above, the Company also issued 658,000 Agents' Compensation Warrants as part of the financing arrangement. During the period, the Company re-priced and extended the expiry on a total of 5,542,626 warrants which had been set to expire in April 2010. The exercise price on these warrants was decreased from Cdn\$1.92 to Cdn\$0.70 and they will expire in April 2011.

(d) Options

The Company has a stock option plan available to employees, directors, officers and consultants with grants under the Plan approved from time to time by the Board of Directors. Under the Plan, the Company is authorized to issue options to purchase in aggregate up to 10% of the Company's issued and outstanding common shares, up to a maximum of 6,848,257 common shares. Each option can be exercised to acquire one common share of the Company. The term of the options and vesting provisions are determined by the Board of Directors, subject to applicable stock exchange rules. The exercise price for an option granted under the plan may not be less than the price permitted by the applicable stock exchange. The options generally vest at the time of granting and have a term of 5 years.

(e) Stock Based Compensation

During the quarter ended March 31, 2010, the Company issued 1,700,000 stock options, and recorded \$865,514 of compensation expense for the stock options granted to officers, directors and consultants using the fair value method. In addition to this amount, \$96,168 has been recorded as part of deferred acquisition and exploration costs. The fair value of stock options is determined at the date of the grant and the amount is charged to operations over the vesting period of the options.

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(US Dollars)
(Unaudited, prepared by management)

5. Share Capital (continued)

The Company has granted stock options to directors, officers and consultants of the Company as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price (Cdn\$)</u>
Outstanding, September 30, 2007	4,416,500	1.28
Exercised	(45,000)	0.42
Forfeited	<u>(135,000)</u>	<u>0.91</u>
Outstanding, September 30, 2008	4,236,500	1.30
Exercised	(20,000)	0.42
Forfeited	(67,500)	1.71
Expired	<u>(280,000)</u>	<u>0.40</u>
Outstanding, September 30, 2009	3,869,000	1.37
Exercised	(265,000)	.42
Issued in the quarter ended March 31, 2010	<u>1,700,000</u>	<u>.56</u>
Outstanding, March 31, 2010	<u>5,304,000</u>	<u>1.37</u>

Additional information regarding options outstanding and exercisable as at March 31, 2010 and 2009 is as follows:

Options Outstanding and Exercisable, March 31, 2010

<u>Expiry Date</u>	<u>Exercise Price (Cdn\$)</u>	<u>Shares Under Option</u>	<u>Weighted Average Remaining Contractual Life (in years)</u>
April 15, 2010	0.42	460,000	0.07
November 23, 2011	1.45	1,368,000	1.68
August 17, 2012	1.95	1,476,000	2.53
February 2, 2015	.56	<u>1,700,000</u>	<u>4.83</u>
Options outstanding and exercisable		<u>5,304,000</u>	<u>2.94</u>

Options Outstanding and Exercisable, March 31, 2009

<u>Expiry Date</u>	<u>Exercise Price (Cdn\$)</u>	<u>Shares Under Option</u>	<u>Weighted Average Remaining Contractual Life (in years)</u>
August 19, 2009	0.40	280,000	0.88
April 15, 2010	0.42	1,025,000	1.54
November 23, 2011	1.45	1,400,500	3.15
August 17, 2012	1.95	<u>1,511,000</u>	<u>3.88</u>
Options outstanding and exercisable		<u>4,216,500</u>	<u>2.86</u>

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(US Dollars)
(Unaudited, prepared by management)

6. Related Party Transactions

Except as disclosed elsewhere in these consolidated financial statements, the Company had the following related party transactions:

(a) Transactions with a director and companies controlled by that director

The Company has entered into various agreements with a director and companies controlled by that director, regarding the Birch Lake properties, and consulting and administration services. This director holds certain mining claims and leases in respect of the Birch Lake properties in trust for the Company (Note 5(a)).

Transactions between the Company and the director and companies controlled by that director were as follows:

- (i) Consulting fees charged during the quarter totaled \$33,439 (2009 - \$Nil). For the six month periods ending March 31, 2010 and March 31, 2009 fees charged were \$66,939 and \$Nil respectively. These fees have been included in deferred acquisition and exploration costs.
- (ii) Land costs reimbursed in respect of Birch Lake totaled \$1,847 (2009 - \$Nil). For the six month periods ending March 31, 2010 and March 31, 2009 fees charged were \$17,237 and \$15,549 respectively. These fees have been included in deferred acquisition and exploration costs.
- (iii) Administrative costs reimbursed totaled \$28,728 (2009 - \$Nil). For the six month periods ending March 31, 2010 and March 31, 2009 fees charged were \$59,903 and \$Nil respectively. These fees have been included in deferred acquisition and exploration costs.

All of the above amounts have been included in deferred acquisition and exploration costs and a total of \$17,363 (2009 - \$43,468) is included in accounts payable at March 31, 2010.

(b) Other transactions

- (i) Legal fees paid to a director's law firm totaled \$18,000 for the three months ended March 31, 2009 (2009 - \$17,607). For the six month periods fees paid were \$28,822 and \$35,112. These costs have been included in general administration.
- (ii) Consulting fees paid to an officer totaled \$16,950 during the quarter (2009 - \$16,950). For the six month periods fees paid were \$33,900 and \$33,900. These costs have been included in general administration.
- (iii) Monetary contribution of \$15,000 (2009 - \$15,000) to a non-profit mining industry association, which shares a common director. For the six month periods fees paid were \$30,000 and \$30,000. Of these fees, \$30,000 (2009 - \$30,000) are included in general administration costs.
- (iv) Consulting fees paid to the Company's president totaled \$37,500 during the quarter (2009 - \$37,500). For the six month periods fees paid were \$75,000 and \$75,000. These costs have been included in general administration.

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

7. Commitments

(a) Consulting contracts

The Company has entered into one-year consulting contracts, automatically renewable annually, with four (2008 - four) consultants who are also shareholders or directors of the Company. Each of these agreements provide for a consulting fee of \$450 per day and reimbursement of expenses. If these agreements were to be terminated by the Company without cause the consultants would receive severance pay from the Company in amounts ranging from \$50,000 to \$100,000 to a maximum of \$350,000 (2008 - \$350,000) in total. In addition, the Company would indemnify the consultants for any options held by them that were not exercised within 30 days of termination by payment to the consultants of the amount equal to the difference between the exercise price of the options and the average closing price of the common shares on the relevant stock exchange or trading platform during the previous 30 days.

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(US Dollars)
(Unaudited, prepared by management)

7. Commitments (continued)

(b) Other

In the ordinary course of business, the Company enters into contracts that contain indemnification provisions, such as loan agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, operating agreements, leasing agreements and asset use agreements. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement-by-agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

The following table represents contractual obligations for the Company at March 31, 2010:

<u>Contractual Obligations</u>	<u>Total</u>	<u>Less than 1 year</u>	<u>1 – 3 years</u>	<u>4 – 5 years</u>	<u>After 5 years</u>
Operating Leases	\$ <u>55,688</u>	\$ <u>20,250</u>	\$ <u>35,438</u>	\$ <u>-</u>	\$ <u>-</u>

8. Subsequent Event

On April 29, 2010 the Company made the payment of \$1 million as described in Note 4(a) above to go to a 70% ownership in the BLJV on the Duluth Complex Project.

9. Capital Disclosures

The Company's objectives when managing capital are to ensure that there are adequate resources to sustain operations and to continue as a going concern; to maintain adequate levels of funding to support acquisition and exploration of mineral projects; to maintain investor and market confidence; and to provide returns to shareholders. Funds are primarily secured through equity capital raised by way of private placements. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Exploration involves a high degree of risk and substantial uncertainties about the ultimate ability of the Company to achieve positive cash flow from operations. Consequently, management reviews its capital management approach on an ongoing basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on recommendations from management, the directors balance overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt.

The Company believes it will be able to raise equity capital as required in the long term, but recognizes there will be risks involved that may be beyond their control. The Company intends to continue to use various strategies to minimize its dependence on equity capital, including the securing of joint venture partners where appropriate.

The Company considers its capital structure to consist of debt, which is made up of the State of Minnesota loan, as disclosed in Note 14, and equity attributable to equity holders of the Company, comprising issued share capital, contributed surplus and accumulated losses.

There were no changes in the Company's approach to capital management during the period ended March 31, 2010. The Company is not subject to externally imposed capital requirements.

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(US Dollars)
(Unaudited, prepared by management)

10. Financial Instruments

The Company's financial instruments consist of and have been classified as follows:

Cash and cash equivalents	Held-for-trading
Auction Rate Securities settlement	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
State of Minnesota loan	Other financial liabilities

The carrying value of financial assets by category at March 31, 2010 and 2009 are as follows:

	2010	
Financial Assets	Held-for-trading	Loans and receivables
Cash and cash equivalents	\$ 3,718,099	\$ -
	\$ 3,718,099	\$ -
	2009	
Financial Assets	Held-for-Trading	Loans and receivables
Cash and cash equivalents	\$ 3,007,679	\$ -
	\$ 3,077,679	\$ -

The carrying value of financial liabilities by category at March 31, 2010 and 2009 are as follows:

	2010		2009	
Financial Liabilities	Other Financial Liabilities		Other Financial Liabilities	
Accounts payable and accrued liabilities	\$	341,397	\$	139,785
State of Minnesota loan		1,698,325		1,435,680
	\$	1,846,503	\$	1,575,465

The carrying amounts of cash and cash equivalents and accounts payable and accrued liabilities are a reasonable estimate of their fair values because of their short term to maturity.

The Company received \$2,000,000 in the form of a loan from the State of Minnesota (Note 12). As at March 31, 2010, an amount of \$2,078,712 including accrued interest was outstanding under this loan. The loan principal has been recognized at its discounted value of \$1,698,325, which was computed at a discount rate of 10%, plus accrued interest of \$78,712.

The Company's risk exposures in respect of financial instruments are summarized below:

(a) Credit risk

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to its holdings of cash and cash equivalents. The carrying amount of these financial assets represents the maximum credit exposure. The Company manages credit risk by placing its cash with major financial institutions in conservative cash-based liquid investments. The Company monitors its exposure to credit risk on an ongoing basis.

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(US Dollars)
(Unaudited, prepared by management)

10. Financial Instruments (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to maintain sufficient cash and cash equivalents in order to meet short-term business requirements, by forecasting cash flows from operations and anticipated investing and financing activities.

At March 31, 2009, management believes the cash balance of \$3.7 million is sufficient to meet the cash requirements for the Company's administrative overhead, maintaining its mineral property interests and continuing with its exploration program in the fiscal 2010. However, the Company will be required to raise additional capital in order to fund its future operations.

The Company's accounts payable excluding accrued liabilities of \$212,287 have contractual maturities of less than 30 days and are subject to normal trade terms, whilst the State of Minnesota loan has a contractual maturity of 7 years as disclosed in Note 12.

(c) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The significant market risk exposures to which the Company is exposed are:

(i) Interest rate risk

The Company's cash and cash equivalents and State of Minnesota loan primarily earn and accrue interest at variable interest rates. Fluctuations in market rates are not expected to have a significant impact on estimated fair values as of March 31, 2010. Future cash flows from interest income on cash and cash equivalents and future cash flows relating to repayment of long term debt will be affected by interest rate fluctuations. The Company manages interest rate risk by maintaining an investment policy for short-term investments and only obtaining debt financing that is on favourable terms to the Company. This policy focuses primarily on preservation of capital and liquidity.

(i) Foreign exchange risk

The Company's functional currency is the United States dollar. The Company is affected by currency transaction risk and currency translation risk. Consequently, fluctuations of the United States dollar in relation to other currencies impact the fair value of financial assets and liabilities and operating results. The Company does not manage currency risks through hedging or other currency management tools.

Certain short-term financial liabilities are denominated in Canadian dollars. To reduce exposure to currency transaction risk, the Company maintains cash and cash equivalents in this currency to meet short-term liquidity requirements. Financial assets and liabilities subject to currency translation risk primarily include Canadian dollar cash and accounts payable.

As at March 31, 2009, the Company had financial instruments subject to currency translation risk denominated in Canadian dollars as follows:

Cash	\$ 24,520
Accounts payable	\$ 32,729

Based on the above, assuming all other variables remained constant, any weakening or strengthening of the United States dollar against the Canadian dollar would not result in a material effect to the Company's deficit.

11. Segmented Information

The Company has one operating segment, mineral exploration and development. All assets are located in the United States.

FRANCONIA MINERALS CORPORATION
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(US Dollars)
(Unaudited, prepared by management)

12. State of Minnesota Loan

On January 13, 2009, the Company received \$2,000,000 in the form of a loan and \$500,000 in the form of a non-refundable grant from the State of Minnesota, through its economic development entity, the Office of the Commissioner of Iron Range Resources and Rehabilitation (IRR). The Loan and Grant Agreement, as amended, provides for the issuance of 1 warrant for each dollar advanced through the loan and grant. Accordingly, during the period, the Company issued 2,500,000 common share purchase warrants. Each warrant entitles the state to acquire one common share of the Company at an exercise price of Cdn \$0.75 until January 13, 2012.

Under the terms of the Loan Agreement, as amended, interest on the \$2,000,000 loan shall accrue from the Disbursement Date (January 13, 2009) at the Prime Rate, as published in the Wall Street Journal. The Prime Rate at January 13, 2009 as published was 3.25%, and this rate was used to calculate interest accrued of \$78,712 through March 31, 2009. Interest will continue to accrue at the Prime Rate until the Amortization Date, defined by the Loan Agreement as the date of the Close of financing for commercial mining operation at the Birch Lake site, or December 31, 2011, whichever comes first. Monthly payments of interest only, at Prime plus 3%, will be required for a two-year period commencing on the Amortization Date. Regular monthly payments of principal and interest will commence after the two-year period of interest payments and will be in an amount to fully amortize the outstanding balance of the loan by December 31, 2016 (the Due Date). Monthly payments will be adjusted semi-annually to reflect any change in the effective interest rate.

The borrowings have been secured by one mineral lease held, and a promissory note given, by the Company; a security agreement on intellectual property and data associated with the Birch Lake Project, and guarantees by Franconia Minerals Corporation (US) Inc., Lehmann Exploration Management, Inc. and North Central Mineral Ventures Corp.

The 2,500,000 warrants issued to the State of Minnesota were valued at \$75,000 for financial statement purposes using an estimate provided by the Black-Scholes Model. The input variables used in the model were as follows:

Warrants #	2,500,000
Issue Date:	January 13, 2009
Expiry Date:	January 13, 2012
Stock Price:	Cdn \$0.16
Exercise Price:	Cdn \$0.75
Term:	3.00 years
Volatility (3 yrs)	87.15%
Discount Rate – Bond Equivalent Yield:	1.28%
Exchange Rate Cdn \$ to US \$	1:0.84

The loan principal has been recognized at its discounted value of \$1,698,325, which was computed at a discount rate of 10%, plus accrued interest of \$78,712.

The difference between the discount value and the principal amount of the loan of \$301,674 was recorded against mineral property interests since it was considered as an additional form of government assistance. The discounted loan amount is being amortized to the principal amount through monthly accretions until December 31, 2011 with an offsetting adjustment to mineral property interests of \$212,489 through March 31, 2010.

Loan interest accrued to March 31, 2010 of \$78,712 and the fair value of the warrants of \$75,000 have been capitalized to mineral property interests. The non-refundable grant of \$500,000 has been recorded against mineral property interests.

13. Contingent Liability – Pending Litigation

The Company is the subject of a lawsuit regarding the right of a former consultant to exercise stock options, which were awarded under a number of stock option agreements. The Company has asserted that the consultant resigned his consultancy in March 2007 and that his stock option rights then forfeited. The consultant has denied that he resigned and claims that he is entitled to exercise his stock options. The Company's management, in consultation with legal counsel attending to the matter, believes the action is completely without merit and is vigorously defending against it, but cannot reasonably estimate the amount of any potential loss at this time.