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**FOUNDATION RESOURCES INC.**

**FINANCIAL STATEMENTS**  
**(Unaudited – Prepared by Management)**

**NINE MONTH PERIOD ENDED**  
**MARCH 31, 2010**

## **UNAUDITED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended March 31, 2010.

**FOUNDATION RESOURCES INC.**  
**BALANCE SHEETS**  
(Unaudited – Prepared by Management)

	March 31, 2010	June 30, 2009 (Audited)
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 252,976	\$ 781,186
Receivables	32,234	6,635
Prepaid expenses	<u>26,000</u>	<u>-</u>
	311,210	787,821
<b>Equipment</b> (Note 3)	707	-
<b>Mineral property and deferred exploration costs</b> (Note 5)	<u>1,066,215</u>	<u>119,415</u>
	<u>\$ 1,378,132</u>	<u>\$ 907,236</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities (Note 7)	<u>\$ 102,874</u>	<u>\$ 116,813</u>
<b>Shareholders' equity</b>		
Capital stock (Note 6)	1,768,851	1,014,767
Contributed surplus (Note 6)	90,280	77,236
Deficit	<u>(583,873)</u>	<u>(301,580)</u>
	<u>1,275,258</u>	<u>790,423</u>
	<u>\$ 1,378,132</u>	<u>\$ 907,236</u>

**Basis of presentation** (Note 1)

**Subsequent events** (Note 12)

**On behalf of the Board:**

*“John Hiner”*

*“Paul Chung”*

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

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

**FOUNDATION RESOURCES INC.**  
**STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**  
(Unaudited – Prepared by Management)

	Three month Period ended March 31, 2010	Three month Period ended March 31, 2009	Nine month Period ended March 31, 2010	Nine month Period ended March 31, 2009
<b>EXPENSES</b>				
Administration	\$ 1,500	\$ -	\$ 5,000	\$ -
Amortization	61	-	107	-
Bank charges and interest	135	-	444	-
Consulting fees	16,190	-	46,190	-
Due diligence	-	6,495	-	18,980
Insurance	-	-	9,600	-
Investor relations and promotion	19,730	(266)	52,386	2,883
Management fees	35,500	-	95,500	-
Office and miscellaneous	2,225	59	3,765	1,212
Professional fees	4,320	2,665	14,807	5,633
Registration and filing fees	1,000	5,000	8,645	8,648
Rent	4,500	-	13,500	-
Shareholder communications	8,586	-	11,825	-
Stock-based compensation	2,174	-	2,174	-
Transfer agent fees	2,226	777	7,827	4,260
Travel and related	3,687	-	9,651	-
Website design and maintenance	2,030	-	2,030	-
	(103,864)	(14,730)	(283,451)	(41,616)
<b>OTHER ITEM</b>				
Interest income	188	-	1,158	1,678
<b>Loss and comprehensive loss for the period</b>	(103,676)	(14,730)	(282,293)	(39,938)
<b>Deficit, beginning of period</b>	(480,197)	(114,445)	(301,580)	(89,237)
<b>Deficit, end of period</b>	\$ (583,873)	\$ (129,175)	\$ (583,873)	\$ (129,175)
<b>Basic and diluted loss per common share</b>	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>	11,510,104	3,500,000	9,434,357	3,500,000

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

**FOUNDATION RESOURCES INC.**  
**STATEMENTS OF CASH FLOWS**  
(Unaudited – Prepared by Management)

	Three month Period ended March 31, 2010	Three month Period ended March 31, 2009	Nine month Period ended March 31, 2010	Nine month Period ended March 31, 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (103,676)	\$ (14,730)	\$ (282,293)	\$ (39,938)
Items not affecting cash:				
Amortization of equipment	61	-	107	-
Stock-based compensation	2,174	-	2,174	-
Changes in non-cash working capital items:				
Increase in receivables	(25,671)	(266)	(25,599)	(2,568)
Increase in prepaid expenses	(17,000)	(1,893)	(26,000)	(1,362)
Decrease in accounts payable and accrued liabilities	<u>(3,634)</u>	<u>(2,703)</u>	<u>(74,829)</u>	<u>(12,316)</u>
Net cash used in operating activities	<u>(147,746)</u>	<u>(19,592)</u>	<u>(406,440)</u>	<u>(56,184)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issuance of capital stock	270,425	-	783,675	-
Capital stock issuance costs	(28,351)	-	(93,721)	-
Share subscriptions received in advance	<u>(95,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by financing activities	<u>147,074</u>	<u>-</u>	<u>689,954</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of equipment	-	-	(814)	-
Acquisition of mineral property	-	-	(29,500)	-
Deferred exploration costs	<u>(482,524)</u>	<u>-</u>	<u>(781,410)</u>	<u>-</u>
Net cash used in investing activities	<u>(482,524)</u>	<u>-</u>	<u>(811,724)</u>	<u>-</u>
<b>Change in cash for the period</b>	<b>(483,196)</b>	<b>(19,592)</b>	<b>(528,210)</b>	<b>(56,184)</b>
<b>Cash, beginning of period</b>	<u><b>736,172</b></u>	<u><b>348,558</b></u>	<u><b>781,186</b></u>	<u><b>385,150</b></u>
<b>Cash, end of period</b>	<u><b>\$ 252,976</b></u>	<u><b>\$ 328,966</b></u>	<u><b>\$ 252,976</b></u>	<u><b>\$ 328,966</b></u>

Supplemental disclosure with respect to cash flows (Note 11)

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

**1. BASIS OF PRESENTATION**

The financial statements contained herein include the accounts of Foundation Resources Inc. (the “Company”).

These interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with Canadian generally accepted accounting principles has been condensed or omitted. These interim period statements should be read together with the Company’s audited financial statements and the accompanying notes for the year ended June 30, 2009 except as discussed below. In the opinion of the Company, its unaudited interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

**2. NATURE AND CONTINUANCE OF OPERATIONS**

The Company was incorporated under the laws of the Province of British Columbia on June 1, 2006. On May 3, 2007, the Company completed its initial public offering and trading of the Company’s common shares commenced on the TSX Venture Exchange (“TSX-V”).

On June 10, 2009, the Company received TSX-V approval to earn up to a 70% interest in the Coldstream gold project located 115 kilometres west of Thunder Bay, Ontario (Note 5). This property option agreement served as the Company’s Qualifying Transaction pursuant to the policies of the TSX-V.

At the date of these financial statements, the Company has not been able to identify a known body of commercial grade minerals on its property. The ability of the Company to realize the costs it has incurred to date on the property is dependent upon the Company being able to identify a commercial mineral body, to finance its development costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the property.

These financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure continuation of the Company’s operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded in these financial statements.

**FOUNDATION RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
**MARCH 31, 2010**

**2. NATURE AND CONTINUANCE OF OPERATIONS (cont'd...)**

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

	March 31, 2010	June 30, 2009
Working capital	\$ 208,336	\$ 671,008
Deficit	(583,873)	(301,580)

**3. EQUIPMENT**

Equipment is recorded at cost less accumulated amortization. Amortization is provided annually over the estimated useful life using the following methods:

Computer equipment                      30% declining balance

	March 31, 2010			June 30, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 814	\$ 107	707	\$ -	\$ -	\$ -

**4. LETTER OF INTENT**

**San Rafael Project (Mexico)**

On January 12, 2010, the Company signed a Letter of Intent (“LOI”) to acquire up to a 70% interest in the San Rafael gold-silver property (“San Rafael”). The vendor and the Company have agreed to sign a formal agreement detailing the terms set out in the LOI. If a formal agreement cannot be reached, both parties have agreed to terminate the LOI with no payments, liabilities or penalties due to either party.

To earn the 70% interest, the Company has agreed to make payments totalling US\$400,000, issue 2,500,000 common shares and incur a total of \$2,000,000 in exploration expenditures over a four year period as follows:

- i) Issue 500,000 common shares upon receipt of TSX Venture Exchange approval;
- ii) Issue 500,000 common shares and incur a minimum of US\$150,000 in exploration expenditures within one year from the approval date;
- iii) Issue 500,000 common shares and incur an additional US\$350,000 in exploration expenditures within two years from the approval date;

**4. LETTER OF INTENT (cont'd...)**

**San Rafael Project (Mexico) (cont'd...)**

- iv) Issue 500,000 common shares and incur US\$600,000 in exploration expenditures within three years from the approval date; and
- v) Issue 500,000 common shares, pay US\$400,000 and incur US\$900,000 in exploration expenditures within four years from the approval date.

San Rafael is comprised of five mineral claims covering 1,005 hectares located 150 kilometres northwest of the city of Durango, Mexico.

The Company has agreed to pay the vendor a 1.5% Net Smelter Royalty (“NSR”). The Company has the right to acquire the entire NSR at any time by paying US\$1,500,000.

**5. MINERAL PROPERTY AND DEFERRED EXPLORATION COSTS**

**Title to mineral property interests**

Title to mineral property interests involve certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its interests are in good standing. However, this should not be construed as a guarantee of title. The concessions may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects.

**Coldstream Gold Project (Ontario)**

On May 20, 2009, the Company entered into a property option agreement with Alto Ventures Ltd. (“Optionor”) to earn up to a 70% interest in the Coldstream Gold Project located 115 kilometres west of Thunder Bay, Ontario.

To earn the first 60% interest in the Coldstream Gold Project the Company must issue a total of 1,000,000 common shares (issued) and incur a total of \$3,000,000 in exploration expenditures over four years as follows:

- i) Issue 500,000 common shares on closing of the transaction (issued at a value of \$75,000);
- ii) Incur minimum exploration expenditures of \$400,000 on or before April 6, 2010 (incurred);
- iii) Issue 500,000 common shares upon completion of the \$400,000 minimum exploration expenditures (issued at a value of \$75,000);
- iv) Incur additional exploration expenditures of \$250,000 on or before April 6, 2011 (incurred);
- v) Incur additional exploration expenditures of \$250,000 on or before April 6, 2012; and
- vi) Incur cumulative exploration expenditures of \$3,000,000 on or before April 6, 2013.

If the Company satisfies all of the above provisions, it will then have earned its 60% interest in the project. At that point, the Company will act as operator for a joint venture with the Optionor unless the Company elects to earn the additional 10% interest described below.

The Company has an option to earn an additional 10% interest in the Coldstream Gold Project by giving notice to the Optionor within sixty business days following the exercise of the first 60% interest option. In order to earn the additional 10% interest, the Company must complete a feasibility study on the property within a three-year period from the date the Company gives notice to the Optionor of its intention to exercise the second option.

**FOUNDATION RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**5. MINERAL PROPERTY AND DEFERRED EXPLORATION COSTS (cont'd...)**

**Coldstream Gold Project (Ontario) (cont'd...)**

If the Company earns the entire 70% interest in the project, the Optionor will have sixty days to provide written notice to the Company of whether or not it wishes to participate in a joint venture. If the Optionor does not provide notice within sixty days or the Optionor decides not to form a joint venture, the Optionor's interest in the project will be diluted to the 2.5% Net Smelter Return Royalty ("NSR") and the Company will assume 100% of the obligations of the underlying royalties.

On November 18, 2009, the Company amended the May 20, 2009 property option agreement to include additional claims for the Coldstream gold project. The Company paid \$29,500 to the optionor as consideration for the additional mineral claims. The Company also assumed all of the optionor's obligations related to the extra mineral claims.

The following mineral property and deferred exploration costs were incurred on the Company's mineral property:

	Coldstream Gold Project
Acquisition costs, beginning balance	\$ 75,000
Additions during the period	<u>104,500</u>
Acquisition costs, ending balance	<u>179,500</u>
Deferred exploration costs, beginning balance	44,415
Additions during the period	
Administration	10,477
Assaying	63,362
Camp costs	5,631
Demobilization	6,016
Drilling	287,825
Equipment rental	41,029
Field expenditures	48,580
Field personnel	111,712
Geological consulting	202,430
Licence and permits	5,560
Mapping	40,085
Mobilization	7,753
Storage	1,500
Transport and freight	804
Travel and related	<u>9,536</u>
	<u>842,300</u>
Deferred exploration costs, ending balance	<u>886,715</u>
Total mineral property and deferred exploration costs	<u>\$ 1,066,215</u>

**FOUNDATION RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
**MARCH 31, 2010**

**6. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Amount	Contributed Surplus
<i>Authorized</i>			
Unlimited common shares, without par value			
<i>Common shares issued</i>			
Balance, June 30, 2009	7,723,665	\$ 1,014,767	\$ 77,236
Flow-through private placement	2,475,000	495,000	-
Non flow-through private placement	1,727,000	259,050	-
Exercise of options	180,000	25,500	-
Exercise of warrants	27,500	4,125	-
Share issue costs	-	(48,891)	-
Finders' fees	-	(44,830)	-
Agents' warrants	-	(24,966)	24,966
Shares issued for mineral property	500,000	75,000	-
Adjustment for exercised options	-	14,096	(14,096)
Stock-based compensation	-	-	2,174
	<u>12,633,165</u>	<u>\$ 1,768,851</u>	<u>\$ 90,280</u>
Balance, March 31, 2010	12,633,165	\$ 1,768,851	\$ 90,280

*Escrow shares*

As of March 31, 2010, the Company has 1,125,000 common shares subject to an escrow agreement. On June 10, 2009, 10% of the initial 1,500,000 escrow shares were released upon completion and approval of the Company's Qualifying Transaction. On December 10, 2009, an additional 225,000 common shares (15%) were released from escrow. The remaining escrow shares will be released on each six month anniversary of the completed Qualifying Transaction.

*Non flow-through private placements*

On August 18, 2009, the Company completed a non-brokered private placement of 755,000 Non-Flow-Through Units ("Units") at \$0.15 per Unit for gross proceeds of \$113,250. Each Unit is comprised of one non-flow-through common share and one-half of a non-transferable warrant. Each whole warrant is exercisable into an additional common share at \$0.15 per share until August 18, 2010.

The Company paid a total of \$2,250 in finders' fees and other issue costs totalling \$1,320 in connection with this private placement.

**FOUNDATION RESOURCES INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
(Unaudited – Prepared by Management)  
MARCH 31, 2010

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**6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

*Non flow-through private placements (cont'd...)*

On February 18, 2010, the Company completed a non-brokered private placement of 972,000 Non-Flow-Through Units (“Units”) at \$0.15 per Unit for gross proceeds of \$145,800. Each Unit is comprised of one non-flow-through common share and one non-transferable warrant. Each warrant is exercisable into an additional common share at \$0.20 per share until February 18, 2011, then at \$0.25 until February 18, 2012.

The Company paid finders’ fees of \$13,080 cash and issued 87,200 agent warrants valued at \$6,916. The agent warrants are exercisable into one non flow-through common share at \$0.20 per unit until February 18, 2011, then at \$0.25 until February 18, 2012.

An additional \$1,627 in share issue costs were paid in relation to this private placement.

*Flow-through private placement*

On December 18, 2009, the Company completed the first tranche of a private placement. The private placement was comprised of 2,000,000 units issued at a price of \$0.20 per unit for gross proceeds of \$400,000. Each unit is comprised of one flow-through common share and one half share purchase warrant. Each full warrant is exercisable into one additional non flow-through common share of the Company at \$0.25 until December 18, 2010, then at \$0.30 until December 18, 2011.

On January 7, 2010, the Company completed the second tranche of a private placement. The Company issued 475,000 units at a price of \$0.20 per unit for gross proceeds of \$95,000. Each unit is comprised of one flow-through common share and one half share purchase warrant. Each full warrant is exercisable into one additional non flow-through common share of the Company at \$0.25 until January 7, 2011, then at \$0.30 until January 7, 2012.

The Company paid finders’ fees of \$29,500 cash and issued 200,000 agent warrants valued at \$18,050. The agent warrants are exercisable into units comprised of one non flow-through common share and one half share purchase warrant at \$0.20 per unit until December 18, 2011. If the warrants are exercised, each full warrant will be exercisable into one additional non flow-through common share of the Company at \$0.25 until December 18, 2010, then at \$0.30 until December 18, 2011. The agent was paid \$21,000 to conduct due diligence.

An additional \$20,799 in legal fees and \$4,145 in other share issue costs related to the flow-through private placement were recorded as share issue costs.

*Shares for mineral property*

On March 4, 2010, the Company issued 500,000 common shares valued at \$75,000 pursuant to the Coldstream property option agreement.

**Stock-based compensation**

During the nine month period ended March 31, 2010, the Company granted 50,000 (2009 – Nil) stock options. The fair value of these options calculated using the Black-Scholes option-pricing model was \$3,870 (2009 - \$Nil). The stock-based compensation expense for the current period was \$2,174 (2009 - \$Nil), leaving an unamortized balance of \$1,696 (2009 - \$Nil).

**FOUNDATION RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
**MARCH 31, 2010**

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**6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock-based compensation (cont'd...)**

The following weighted average assumptions were used for the Black-Scholes option-pricing model calculation of stock options granted during the period:

	2010	2009
Risk-free interest rate	1.32%	-
Expected life of options	1 year	-
Expected annualized volatility	100.00%	-
Expected dividend rate	0%	-

**Stock options**

The Company has a stock option plan under which it is authorized to grant options to directors, employees and consultants, to acquire up to 10% of the issued and outstanding common stock. The exercise price of each option is based on the market price of the Company's stock at the date of grant. The options can be granted for a maximum term of 5 years and vest as determined by the board of directors.

As at March 31, 2010, the following incentive stock options are available:

Number of Shares	Exercise Price	Expiry Date
125,000	\$ 0.20	December 6, 2011
415,000	0.10	June 10, 2014
<u>25,000</u>	0.20	September 8, 2010
<u>565,000</u>		

As at March 31, 2010, the following incentive stock options are fully vested:

Number of Shares	Exercise Price	Expiry Date
125,000	\$ 0.20	December 6, 2011
<u>415,000</u>	0.10	June 10, 2014
<u>540,000</u>		

**FOUNDATION RESOURCES INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
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MARCH 31, 2010

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**6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock options (cont'd...)**

*Exercised stock options*

On March 30, 2010, the Company received \$5,000 from the exercise of 25,000 options exercisable at \$0.20 per share with a September 8, 2010 expiry date. Capital stock and contributed surplus were each adjusted by \$2,173 for stock-based compensation previously recognized on these exercised stock options.

On March 31, 2010, the Company received \$10,000 from the exercise of 50,000 options exercisable at \$0.20 per share with a December 6, 2011 expiry date. Capital stock and contributed surplus were each adjusted by \$4,000 for stock-based compensation previously recognized on these exercised stock options.

On March 31, 2010, the Company received \$10,500 from the exercise of 105,000 options exercisable at \$0.10 per share with a June 10, 2014 expiry date. Capital stock and contributed surplus were each adjusted by \$7,923 for stock-based compensation previously recognized on these exercised stock options.

**Warrants**

As at March 31, 2010, the following share purchase warrants are outstanding:

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Number of Shares	Exercise Price	Expiry Date
498,500	\$ 0.15	June 10, 2010
1,363,332	0.20	June 10, 2010
350,000	0.15	August 18, 2010
1,000,000	0.25	December 18, 2010
	then at \$0.30	December 18, 2011
237,500	0.25	January 7, 2011
	0.30	January 7, 2012
972,000	0.20	February 18, 2011
	0.25	February 18, 2012
<hr/>		
4,421,332		

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*Exercised warrants*

On March 30, 2010, the Company received \$4,125 from the exercise of 27,500 warrants exercisable at \$0.15 per share with an August 18, 2010 expiry date.

**FOUNDATION RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Agent warrants**

As at March 31, 2010, the following agent warrants are outstanding:

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Number of Shares	Exercise Price	Expiry Date
200,000	\$ 0.20	December 18, 2011
87,200	0.20	February 18, 2011
<hr/>	then at \$0.25	February 18, 2012
287,200		

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**7. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties during the nine month period ended March 31, 2010:

- a) Paid or accrued \$45,000 (2009 - \$Nil) for consulting fees to a company controlled by an officer of the Company.
- b) Paid or accrued \$85,500 (2009 - \$Nil) in management fees of which \$37,500 was to a director and \$48,000 was to a company controlled by a director of the Company.

Included in accounts payable and accrued liabilities at March 31, 2010 is \$25,344 (June 30, 2009- \$15,994) due to a director, a company controlled by a director and a company controlled by an officer.

Related party transactions are in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

**8. CAPITAL MANAGEMENT**

The Company considers its capital to be the components of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, high liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements. The Company has sufficient capital to satisfy its exploration expenditure obligations for the 2010 fiscal year.

## 9. FINANCIAL INSTRUMENTS AND RISK

The Company's financial instruments consist of cash, receivables and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values due to their short term to maturity.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

### *Credit risk*

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and receivables. The Company's receivables are primarily from government agencies and are subject to certain risks that would be considered normal in this environment. The Company limits its exposure to credit loss by placing its cash with major financial institutions.

### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2010, the Company had a cash balance of \$252,976 to settle current liabilities of \$102,874. All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity prices.

#### (a) Interest rate risk

The Company has cash balances and no interest-bearing debt and therefore is not exposed to risk in the event of interest rate fluctuations.

#### (b) Foreign currency risk

The Company operates in Canada only and is therefore not exposed to foreign exchange risk arising from transactions denominated in foreign currency.

#### (c) Price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices and the stock market to determine the appropriate course of action to be taken by the Company.

**FOUNDATION RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**10. SEGMENTED INFORMATION**

The Company operates in one business segment which is the development and exploration of mineral properties. The Company has mineral property acquisition costs of \$179,500 (2009 - \$Nil) and deferred exploration costs of \$886,715 (2008 - \$Nil). The Company has \$707 in computer equipment. All of the Company's assets are located in Canada.

**11. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS**

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	2010	2009
Cash paid during the period for interest	\$ -	\$ -
Cash paid during the period for income taxes	\$ -	\$ -

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The significant non-cash transactions during the nine month period ended March 31, 2010 are as follows:

- a) On December 18, 2009, the Company issued 200,000 agent warrants valued at \$18,050 as commission on the 2,000,000 unit flow-through private placement.
- b) On February 18, 2010, the Company issued 87,200 agent warrants valued at \$6,916 as commission on the 972,000 non flow-through private placement.
- c) On March 4, 2010, the Company issued 500,000 common shares valued at \$75,000 pursuant to the Coldstream property option agreement.
- d) The Company allocated \$14,096 for stock options exercised during the period to capital stock from contributed surplus.
- e) The Company accrued deferred exploration costs of \$63,095 in accounts payable and accrued liabilities.

There were no significant non-cash transactions during the nine month period ended March 31, 2009.

**12. SUBSEQUENT EVENTS**

*Exercised stock options*

Subsequent to March 31, 2010, the following stock options were exercised:

The Company received \$25,000 from the exercise of 125,000 stock options at \$0.20 per share with a December 6, 2011 expiry date.

The Company received \$7,500 from the exercise of 75,000 stock options at \$0.10 per share with a June 10, 2014 expiry date.

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**12. SUBSEQUENT EVENTS** (cont'd...)

*Exercised warrants*

Subsequent to March 31, 2010, the following warrants were exercised:

The Company received \$55,154 from the exercise of 367,691 warrants at \$0.15 per share with a June 10, 2010 expiry date.

The Company received \$193,000 from the exercise of 965,000 warrants at \$0.20 per share with a June 10, 2010 expiry date.

The Company received \$36,375 from the exercise of 242,500 warrants at \$0.15 per share with an August 18, 2010 expiry date.

*Share subscriptions received in advance*

The Company is committed to issuing common shares for the following share subscriptions received in advance:

The Company received \$1,875 from the exercise of 12,500 warrants exercisable at \$0.15 per share until August 18, 2010.

The Company received \$1,875 from the exercise of 12,500 warrants exercisable at \$0.15 per share until June 10, 2010.

The Company received \$30,000 from the exercise of 150,000 warrants exercisable at \$0.20 per share until June 10, 2010.

*Proposed private placements*

On May 7, 2010, the Company announced that it has entered into an agreement with a syndicate of agents led by Canaccord Financial Ltd. and including Fraser Mackenzie Limited (collectively, the "Agents") to sell up to 4,765,000 flow through units (the "FT Units") at a price of \$0.42 per FT Unit to raise up to \$2,001,300, on a commercially reasonable efforts private placement basis, and on the same basis, to sell up to 2,900,000 units ("Units") at a price of \$0.35 per Unit to raise up to \$1,015,000. The Company will also be raising, on a non-brokered basis, up to \$500,000 by selling a combination of Units and FT Units on the same terms as the Brokered Offering.

The FT Units will consist of one flow-through common share of the Company and one-half of one common share purchase warrant. The Units will consist of one common share of the Company and one purchase warrant. Each whole warrant shall be exercisable for one common share of the Company at a price of \$0.50 per share for a period of 18 months from the closing date of the transaction.

The Agents will receive commissions consisting of cash and agent's warrants from the gross proceeds of the Brokered Offering.

The Offering is expected to close on or around June 3, 2010 and is subject to regulatory approval, including the approval of the TSX Venture Exchange. Proceeds of the Offering will be used to fund exploration on the Company's Coldstream Property and for general working capital purposes.