ROYAL ROADS CORP.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Wasserman Ramsay

Chartered Accountants

3601 Hwy 7 East, Suite 1008, Markham, Ontario L3R 0M3
Tel. 905-948-8637 Fax 905.948.8638
email: wram@wassermanramsay.ca

AUDITORS' REPORT

To the Shareholders of
Royal Roads Corp.:

We have audited the consolidated balance sheets of Royal Roads Corp. as at December 31, 2009 and 2008 and the consolidated statements of income (loss) and comprehensive income (loss), deficit and cash flows for the years then ended. These consolidated 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. These 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 December 31, 2009 and 2008 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Wasserman Ramsay

Markham, Ontario
April 22, 2010

Chartered Accountants
Licensed Public Accountants

ROYAL ROADS CORP.

CONSOLIDATED BALANCE SHEETS - DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Current:		
Cash and cash equivalents	$ 3,233,380	$ 1,274,576
Cash - flow-through funds *(Note 5)*	-	828,134
Due from Acadian Mining Corporation *(Note 10)*	-	2,779,411
Marketable securities	22,750	14,625
Amounts receivable	56,070	31,166
Prepaid expenses and deposits	67,092	32,105
	3,379,292	4,960,017
Property, plant and equipment *(Note 7)*	28,791	50,170
Mineral resource properties *(Note 8)*	12,570,437	11,530,005
	$ 15,978,520	$ 16,540,192
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	$ 85,507	$ 243,801
Due to Acadian Mining Corporation *(Note 10)*	60,979	-
	146,486	243,801
Future income taxes *(Note 11)*	1,107,228	1,479,300
SHAREHOLDERS' EQUITY		
Capital stock *(Note 9)*	16,616,774	16,736,911
Contributed surplus *(Note 13)*	1,512,436	1,392,299
Deficit	(3,404,404)	(3,312,119)
	14,724,806	14,817,091
	$ 15,978,520	$ 16,540,192

See Nature of business and going concern (Note 1)

Approved on behalf of the Board:

"Peter Lee"	***"Menachem Vorchheimer"***
Peter Lee, Director	Menachem Vorchheimer, Director

The accompanying notes form an integral part of these consolidated financial statements

ROYAL ROADS CORP.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Expenses:		
Professional fees	$ 107,956	$ 338,536
Depreciation	21,379	10,768
General and administrative *(Notes 10 and 14)*	584,568	988,894
Unrealized losses (gains) on held for trading financial instruments	(8,125)	27,626
	705,778	1,365,824
Net loss for the year before undernoted item	(705,778)	(1,365,824)
Equity interest in Buchans River Ltd. to date of acquisition	-	40,730
Interest income *(Note 10)*	241,421	220,394
Net loss before income tax	(464,357)	(1,104,700)
Future income tax recovery	(372,072)	(1,478,197)
Net income (loss) and comprehensive income (loss) for the year	$ (92,285)	$ 373,497
Income (loss) per share - basic and diluted	$ -	$ -
Weighted average number of shares outstanding - basic and diluted	112,127,489	95,485,292

CONSOLIDATED STATEMENTS OF DEFICIT

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Deficit, beginning of year	$ (3,312,119)	$ (3,685,616)
Net income (loss) for the year	(92,285)	373,497
Deficit, end of year	$ (3,404,404)	$ (3,312,119)

The accompanying notes form an integral part of these consolidated financial statements

ROYAL ROADS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash was provided by (used in) the following activities:		
Operating:		
Net income (loss) for the year	$ (92,285)	$ 373,497
Item not requiring an outlay of cash:		
Depreciation	21,379	10,768
Unrealized losses (gains) on held for trading financial instruments	(8,125)	27,625
Future income tax	(372,072)	(780,133)
Equity pick-up Buchans River Ltd. to date of acquisition	-	(40,730)
Stock-based compensation	-	-
Net change in non-cash working capital items *(Note 12)*	(157,206)	312,559
	(608,309)	(96,414)
Investing:		
Cash acquired on acquisition of Buchans River Ltd.	-	3,197,277
Expenditures on mineral resource properties	(1,040,432)	(2,734,754)
Purchase of Property, plant and equipment	-	(26,539)
	(1,040,432)	435,984
Financing:		
Loan repayment from Acadian Mining Corporation	2,779,411	(2,684,534)
Cash - flow-through funds	828,134	1,104,205
	3,607,545	(1,580,329)
Net change in cash and cash equivalents for the year	1,958,804	(1,240,759)
Cash and cash equivalents, beginning of the year	1,274,576	2,515,335
Cash and cash equivalents, end of the year	$ 3,233,380	$ 1,274,576

The accompanying notes form an integral part of these consolidated financial statements

1. Nature of business and going concern:

The Company, considered to be in the development stage, is in the process of exploring mineral properties in Canada. The Company has not yet determined whether these properties contain economic reserves. Effective July 28, 2008, these consolidated financial statements include the accounts of Buchans River Ltd.,which became a wholly owned subsidiary of the Company on that date, following the Plan of Arrangement as more fully described in Note 6.

While these financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business, adverse conditions could cast doubt upon the validity of this assumption. At December 31, 2009, the Company had an accumulated deficit of $3,404,404 (2008 - $3,312,119). Management has estimated that the Company will have adequate funds from existing working capital to meet its corporate, administrative and property obligations for the coming year. If the Company is to advance or develop its mineral properties further, it will be necessary to obtain additional financing, and while the Company has been successful in the past, there can be no assurance that it will be able to do so in the future.

The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production. The amounts shown as mineral properties represent net costs to date and do not necessarily represent present or future values.

If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported loss and the balance sheet classifications used.

2. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Basis of Consolidation:

Effective July 28, 2008, these financial statements are consolidated with Buchans River Ltd. ("Buchans"), which became a wholly owned subsidiary of the Company on that date, following the Plan of Arrangement as more fully described in Note 6. All intercompany transaction and balances have been eliminated.

(b) Cash and cash equivalents:

Cash and cash equivalents consists of cash, demand deposits and highly liquid short term investments with an initial term of 90 days or less.

(c) Mining interests and deferred development and exploration expenditures:

The Company is in the exploration stage and does not derive any income from its mining operations. It is the Company's policy to defer expenditures related to the exploration and development of its mining properties (including direct administrative expenditures, if any) until such time as they are brought into production or are deemed economically unfeasible. Upon commencement of commercial production, the cost of acquiring the mining property and all related deferred exploration and development expenditures will be amortized on a unit of production basis. Should the properties be abandoned or be determined to be economically unfeasible they will be written off in their entirety.

The amounts shown for the mineral properties represent costs incurred to date and do not reflect present or future values. The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. Accordingly, the recoverability of these capitalized costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete their exploration and development and upon future profitable production.

(d) Property, plant and equipment:

Property, plant and equipment are recorded at cost and amortized over their estimated useful lives using the following rates and methods:

Leasehold improvements	3 years straight line
Office fixtures and equipment	20% declining balance

2. Significant accounting policies (continued):

(e) Stock based compensation:

The Company has a stock-based compensation plan that is described in Note 9. The Company has adopted the accounting recommendations relating to stock-based compensation and other stock-based payments as detailed in the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870. CICA 3870 establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments in exchange for goods and services. Compensation expense is recognized when the granted options become vested, with the same amount being recorded as contributed surplus. Stock-based compensation calculations have no effect on the Company's cash position.

(f) Earnings (loss) per share:

The Company has adopted the recommendations of the CICA Handbook section 3500, Earning per Share ("EPS"). The section requires the presentation of both basic and diluted EPS on the face of the income statement regardless of the materiality of the difference between them. In addition, the recommendations require the use of the treasury stock method to compute the dilutive effects of options, warrants and similar instruments. The section also requires the disclosure of a reconciliation of the calculation of basic and diluted EPS.

(g) Flow-though shares:

The Company accounts for the future income tax effect of flow-through share offerings as laid out in Emerging Issues Committee ("EIC") 146. As required under EIC 146 the future income tax effect of the flow-through offering is recognized as a share issue expense in the period in which the expenditures are renounced under the provision of the Income Tax Act.

(h) Asset retirement Obligations:

The recommendation of CICA Handbook Section 3110, *Asset Retirem43962ent Obligations*, became effective on January 1, 2004. This section requires the recognition of a liability for legal obligations relating to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development or normal operations of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be made, in the period in which one is identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimate of its ultimate reclamation liabilities could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

No liability accrual has been recorded as the Company is in the exploration stage on its properties and no reasonable estimate of fair value of the liability can be made.

(i) Long-lived assets:

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset.

(j) Use of estimates:

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

(k) Financial instruments:

Effective January 1, 2008, the Company adopted the following new accounting standards issued by the CICA. The new standards and accounting policy changes are as follows

(i) Section 3862 - Financial Instruments – Disclosures

This section updates the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, "Financial Instruments – Presentation" replaced Section 3861, "Financial Instruments – Disclosure and Presentation".

(ii) Section 3863 - Financial Instruments – Presentation

This section establishes standards for presentation of financial instruments and non-financial derivatives.

(iii) Section 1535 - Capital Disclosures

Establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

The additional disclosures, required as a result of the adoption of (i) Section 3862 and 3863, have been included in Note 15, Financial Instruments and (ii). Section 1535, have been included in Note 4, Capital management.

3. Change in Accounting Policies

(i) Goodwill and intangible assets

In February 2008, the CICA issued new Section 3064, "Goodwill and intangible assets", replacing Section 3062, "Goodwill and Other intangible assets", and Section 3450, "Research and development costs". Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The Section also issued amendments to Section 1000, "Financial Statement Concepts". These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and was adopted by the Company effective January 1, 2009. The objectives of the changes are to reinforce a principles-based approach to the recognition of costs as assets and to clarify the application of the concept of matching revenues and expenses in Section 1000. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards ("IFRS") and U.S. GAAP by eliminating the practice of recognizing as assets a variety of startup, preproduction and similar costs that do not meet the definition and recognition criteria of an asset. The adoption of the new standards did not have a significant effect on the Company's financial statements.

3. Change in Accounting Policies

(ii) EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC-173, which provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This Abstract applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. Adoption of this Abstract did not have any effect on the Company's financial statements.

(iii) EIC-174, Mining Exploration Costs

In March 2009, the CICA issued EIC-174, which provides guidance on the accounting and the impairment review of exploration costs. This Abstract applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. Adoption of this Abstract did not have any effect on the Company's financial statements.

Accounting pronouncements applicable to future periods

(i) International Financial Reporting Standards ("IFRS")

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The standard also requires that the comparative figures for 2010 be based on IFRS. The Company has implemented a four stage conversion process into IFRS. Phase 1 – preliminary plan and scoping, Phase 2 –detailed assessment, conversion planning and development, Phase 3 – Implementation and parallel reporting and Phase 4 – ongoing monitoring and IFRS updates. As of December 31, 2009 the Company is in Phase 1 which includes putting together an initial project plan with Board oversight, education, scoping relevant IFRS and identification of policy differences between IFRS and Canadian GAAP.

(ii) Business Combinations

In January 2009, the CICA issued Handbook Section 1582, "Business combinations," which replaces the existing standards.This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

(iii) Non-controlling interests

In January 2009, the CICA issued Handbook Section 1602, "Non-controlling interests," which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective for 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

(iv) Consolidated financial statements

In January 2009, the CICA issued Handbook Section 1601, "Consolidated financial statements," which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for 2011. standards. This section establishes the standards for preparing consolidated financial statements and is effective for 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

4. Capital Management:

The Company manages its capital to ensure that the Company will be able to continue as a going concern while attempting to maximize the return to shareholders through the optimization of a reasonable equity balance commensurate with current operating requirements. The strategy remains unchanged from 2008. The Company raises capital, as necessary, to meet its needs and to take advantage of perceived opportunities and therefore, does not have a numeric target for its capital structure. There were no changes to the Company's approach to capital management during the year ended December 31, 2009 compared to the year ended December 31, 2008.

Neither the Company nor its subsidiaries are subject to any covenants respecting its capital ratios.

5. Cash - flow-through funds:

As disclosed in Note 9, the Company raised funds on flow-through offerings during a prior year. The Company raised $3,277,500 in 2007 pursuant to the issuance of 6,555,000 flow-though common shares. These funds are required to be expended on Canadian Exploration Expenditures ("CEE"). Of the total amount raised $2,449,366 had been expended on CEE by December 31, 2008 leaving a balance to be spent of $828,134. During the current year the Company expended the remaining balance.

During the prior year the Company renounced $3,277,500 in CEE which created $1,183,833 in future taxes which has been charged as a cost of issuing the shares as required by EIC 126. This allowed the Company to recognize non-capital losses which were previously not recognized to reduce future income tax payable.

At December 31, 2009 the Company has met all of its commitments to renounce qualifying Canadian Exploration Expenditures.

6. Acquisition of Buchans River Ltd.:

In early 2008, management provided a case to the Boards of Directors of the Company and of Buchans identifying compelling synergies between the Company and Buchans and for the Board to consider a merger by way of a plan of arrangement. In February 2008, both Boards formed independent committees to evaluate the proposal and engaged financial advisors to assist in and investigate a possible merger by plan of arrangement. On May 2, 2008 the Company and Buchans approved a binding agreement by which, subject to Court and shareholder approval, all outstanding securities of Buchans not already owned by Royal Roads would be exchanged for common shares, common share purchase warrants and common share options of the Company. On July 23, 2008, the shareholders of Buchans approved the proposal to accept an exchange rate of 1.55 common shares of the Company for each common share of Buchans held and to exchange all outstanding warrants and options of Buchans for economically equivalent warrants and options of the Company. Court approval was obtained on July 24, 2008 and Buchans became a wholly owned subsidiary on July 25, 2008. The aggregate deemed purchase price to the Company was $7,725,673. Effective July 28, 2008 the Company began consolidating the accounts of Buchans.

6. Acquisition of Buchans River Ltd.(continued):

The purchase has been accounted for using the purchase method, whereby the purchase consideration was allocated to the estimated fair values of the assets acquired and the liabilities assumed at the effective date of the acquisition July 25, 2008.

Details of this allocation are as follows:

Fair value of net assets acquired:	
Cash and cash equivalents	$ 3,197,277
Other current assets	26,696
Capital assets	11,170
Mineral properties	6,585,841
	9,820,984
Current liabilities	395,191
Future income taxes	1,074,497
Loans and advance due Royal Roads	625,623
	$ 2,095,311
Net assets acquired	$ 7,725,673
Aggregate purchase price	7,725,673
Excess of fair value over purchase price	$ -

7. Property, plant and equipment:

	Cost	Accumulated Depreciation	Net
Leasehold improvements	$ 11,616	$ 11,616	$ -
Office fixtures and equipment	64,290	35,499	28,791
Balance December 31, 2009	$ 75,906	$ 47,115	$ 28,791

	Cost	Accumulated Depreciation	Net
Leasehold improvements	$ 11,616	$ 4,538	$ 7,078
Office fixtures and equipment	64,290	21,198	43,092
Balance December 31, 2008	$ 75,906	$ 25,736	$ 50,170

8. Mineral resource properties:

Tulks North

	Balance Dec. 31, 2007	Expenditures during the year (i)	Balance Dec. 31, 2008	Expenditures during the year (i)	Balance Dec. 31, 2009
Acquisition costs					
Tulks	$ 550,919	$ -	$ 550,919	$ 14,758	$ 565,677
Buchans	-	1,029,998	1,029,998	6,670	1,036,668
Long Range	-	64,354	64,354	-	64,354
	550,919	1,094,352	1,645,271	21,428	1,666,699
Deferred exploration costs					
Tulks	3,416,892	837,703	4,254,595	(11,140)	4,243,455
Buchans	-	5,611,919	5,611,919	744,584	6,356,503
Long Range	-	18,220	18,220	285,560	303,780
	3,416,892	6,467,842	9,884,734	1,019,004	10,903,738
	$ 3,967,811	$ 7,562,194	$ 11,530,005	$ 1,040,432	$ 12,570,437

(i) Net of government assistance received

8. Mineral resource properties (Continued):

The Tulks North property comprises nine mineral claim licenses located in the Victoria Lake Mining district of west-central Newfoundland.

Buchans River Ltd. has been issued approximately 40 mineral licences covering various areas of Newfoundland, including the historic Buchans Mining Camp and all the Camp's former producing Mines, consisting of 690 mineral exploration claims. The Company also has an interest in a further claims subject to the option arrangements as disclosed below.

A summary of the claims by mineral property, outlining the geographical area and minerals being sought, is as follows:

Property	Number of Claims	Geographical Area	Minerals Sought
Buchans	537	Central Newfoundland	Zinc, lead, copper, silver and gold
Barasway de Serf	12	South coast Newfoundland	Zinc, lead, copper, silver and gold
West Tully	25	Central Newfoundland	Zinc, lead, copper, silver and gold
Burnt Pond	15	Central Newfoundland	Zinc, lead, copper, silver and gold
Burtons Pond	27	North Coast Newfoundland	Gold and copper
Tulks Hill	20	Central Newfoundland	Zinc, lead, copper, silver and gold
Granite Lake	23	Central Newfoundland	Molybdenum, tungsten and tin
Great Northern Zinc	29	Central Newfoundland	Zinc
Tulks North	685	Central Newfoundland	Zinc, lead, copper, silver and gold
Long Range	1526	Central Newfoundland	Nickel, copper and cobalt

Long Range Property

The Long Range Nickel property is located in central Newfoundland and Labrador, 65 km southwest of Buchans and 38,150 hectares (382 km2) in six properties. The Company is the project operator and holds a 50% interest in the property, while Benton Resources Corp. owns the remaining 50%. The property is subject to net smelter royalties of up to 2%, of which 1% can be purchased for $1 million. Portions of the property are also subject to underlying option agreements requiring cash payments and share issuances to earn a 100% interest.

Burtons Pond

In December 2004, the Company finalized a joint exploration agreement with Prominex Resources Corp ("Prominex") (formally Sino Pacific Development Limited). This agreement pertains to the Company's Burtons Pond property for which Prominex had an option to earn a 70% interest in the Burtons Pond property over a four year period by incurring exploration expenses of $625,000, making cash payments totaling $35,000 and by issuing 400,000 free trading common shares over a three year period. As of December 31, 2007, $35,000 in option payments and 400,000 shares had been received; however, Prominex expenditures were approximately $250,000 short of the required amount. After subsequent discussions, Prominex terminated its option on the property and returned the entire property including adjacent claims staked by Prominex (total 29 claims, 7.25 km2) to Royal Roads (March 2009). As a result of Prominex terminating the option agreement, Royal Roads now controls a 100% interest in the property.

Tulks Hill

In December 2005, the Company finalized a joint exploration agreement with Prominex for its Tulks Hill property hosting the Tulks Hill base metal, massive sulphide deposit in central Newfoundland. The agreement granted Prominex the option to earn a 51% interest in the property over a four year period by incurring exploration expenses of $1,000,000, making cash payments of $70,000 and issuing 900,000 free trading shares to the Company over a three year period. In November 2007, Prominex earned its 51% interest in the property after meeting all conditions. Upon earning its interest, a joint venture was to be formed whereby further work is to be funded jointly by Prominex and the Company, with Prominex being the operator. Prominex are yet to propose an exploration budget and program for the joint venture.

8. Mineral resource properties (Continued):

Granite Lake

In January 2006, the Company finalized a joint exploration agreement with Playfair Mining Ltd., ("Playfair") for the Company's Granite Lake property in central Newfoundland. The agreement grants Playfair rights to earn up to 100% interest in the property over three years by incurring exploration expenses of $50,000 and issuing the Company 100,000 free trading shares.

On January 31st, 2008, Playfair notified the Company of having met the conditions. Upon receipt of this notice, Royal Roads has until the earlier of 24 months from the date of exercise of the option (January 31, 2010) or the expenditure of $300,000 on the property, to either: (a) purchase from Playfair a 35% participating interest in the property for an amount equal to 65% of all expenditures incurred on the property; or (b) acquire a 3% net smelter royalty of which Playfair could purchase half for $1.5 million. The Company has not yet made a decision regarding its further participation in the Granite Lake property, and has not received any additional formal correspondence from Playfair since January of 2008. The Company intends to make a decision on this matter if and when prompted by Playfair. In the event the Company elects to acquire the 3% NSR, it will pay the equivalent of 2% of the NSR to Newfoundland Mining and Exploration Ltd ("Newminex"). In the event the Company elects to purchase a 35% participating interest, it will pay Newminex 66.66% of all net revenues received in the event the venture with Playfair generates revenue after all costs incurred by the Company to purchase and maintain the 35% participating interest.

9. Capital stock:

Authorized:
Unlimited number of common shares
Unlimited number of preference shares

Capital stock is made up as follows:	2009	2008
Common shares (i)	$ 15,725,899	$ 15,725,899
Warrants (ii)	890,875	1,011,012
	$ 16,616,774	$ 16,736,911

(i) Common shares issued:

	# of shares	$ Value
Balance January 1, 2008	73,681,909	$ 13,445,400
Issued on the acquisition of Buchans River Ltd.	38,445,581	3,464,332
Less: Future income tax on renunciation of flow-through expenditures		(1,183,833)
Balance December 31, 2009 and 2008	112,127,490	$ 15,725,899

(ii) Warrants issued:

	# of warrants	$ Value
Balance December 31, 2007	9,183,572	$ 1,212,818
Expired	(6,272,571)	(262,683)
Issued on acquisition of Buchans River Ltd.	9,207,499	60,877
Balance December 31, 2008	12,118,500	$ 1,011,012
Expired	(3,581,002)	(120,137)
Balance December 31, 2009	8,537,498	$ 890,875

The fair value of the 9,207,499 common share purchase warrants issued on the acquisition of Buchans have been estimated at $60,877 using a Black-Scholes option pricing model with the following assumptions: dividend yield of 0%, expected volatility of 118%, a risk-free interest rate of 3.5% and an expected life of 18 months.

9. Capital stock (continued):

During the prior year, pursuant to a Plan of Arrangement, the Company issued 38,445,581 common shares, 9,207,499 warrants to purchase common shares and 4,975,500 options to acquire common shares as consideration for all of the remaining outstanding common shares, warrants and options of Buchans River Ltd., which it did not previously own.

During the prior year, pursuant to flow-through shares issued in the prior year, the Company renounced to investors $3,277,500 in Canadian Exploration Expenditures ("CEE"). Under EIC 146 the Company recognized, as a share issue cost, the tax benefits given up by renouncing the expenditures which amounted to $1,183,833.

Stock-based compensation plan:

The Company has a common share purchase option plan (the "Plan") for directors, officers, employees and consultants. Options granted under the Plan have a five-year term. Options are granted at a price no lower than the market price of the common shares less any discounts allowed by the TSX Venture Exchange at the time of the grant.

A summary of the Company's options at December 31, 2009 and 2008 and the changes for the years then ended is presented below:

	Options Outstanding	Weighted-Average Exercise price
At December 31, 2007	5,730,000	$ 0.32
Issued on acquisition of Buchans River Ltd.	4,975,500	$ 0.37
Exercised	-	$ -
Expired	(2,980,000)	$ 0.27
At December 31, 2008	7,725,500	$ 0.32
Expired	(937,500)	$ 0.27
At December 31, 2009	6,788,000	$ 0.28

The fair value of the stock options issued in 2008 has been estimated using a Black-Scholes option pricing model with the following assumptions: dividend yield of 0%, expected volatility of 118%, a risk-free interest rate of 3.5% and an expected life of 60 months.

The weighted average fair value of options granted during the prior period was $0.05.

The following table summarizes information about the options outstanding at December 31, 2009:

Exercise Price	Options outstanding and exercisable	Remaining contractual life (in years)
$ 0.15	46,500	1.10
$ 0.22	3,084,625	1.30
$ 0.25	949,375	2.40
$ 0.30	77,500	2.75
$ 0.35	2,630,000	2.40
	6,788,000	2.30

9. Capital stock (continued):

The following table summarizes information about the options outstanding at January 1, 2008:

Exercise Price	Options outstanding and exercisable	Remaining contractual life (in years)
$ 0.15	46,500	2.10
$ 0.22	3,545,625	2.30
$ 0.25	1,150,875	3.40
$ 0.30	77,500	3.75
$ 0.35	2,905,000	3.40
	7,725,500	3.30

Share purchase warrants:

A summary of the Company's warrants at December 31, 2009 and 2008 and the changes for the years then ended is presented below:

	Warrants Outstanding	Weighted-Average Exercise price
At December 31, 2007	9,183,572	$ 0.32
Issued during the year on the acquisition of Buchans River Ltd.	9,207,499	$ 0.35
Expired during the year	(6,272,571)	$ 0.32
At December 31, 2008	12,118,500	$ 0.32
Expired during the year	(3,581,002)	$ 0.37
At December 31, 2009 and 2008	8,537,498	$ 0.44

The following table summarizes information about the warrants outstanding at December 31, 2009:

Exercise Price	Warrants outstanding and exercisable	Remaining contractual life (in years)
$ 0.35	4,649,998	0.55
$ 0.54	3,887,500	0.55
	8,537,498	0.55

The following table summarizes information about the warrants outstanding at December 31, 2008:

Exercise Price	Warrants outstanding and exercisable	Remaining contractual life (in years)
$ 0.35	4,650,000	1.55
$ 0.37	3,581,000	0.50
$ 0.54	3,887,500	1.55
	12,118,500	1.25

10. Related Party Transactions:

i) The Company shares certain employment and overhead costs with Buchans River Ltd. and Acadian Mining Corporation ("Acadian"), a company that owns 29.18% of the Company. During the year $216,217 (2008 - $207,893) was paid to Acadian as office overhead costs.

The balances due to Acadian Mining Corporation in the current year are non-interest bearing, repayable on demand and unsecured.

The above transactions were in the normal course of operations and were measured at the exchange amount, which are the amounts agreed to by the related parties.

ii) Loans and advances between the Company and Acadian and its subsidiaries have fluctuated during the year, and stood at a balance due from Acadian of $2,779,411 at December 31, 2008. The advances, as evidenced by a promissory note, were due November 30, 2009, bore interest at 10% per annum payable quarterly and were secured by a fix first charge on all assets of Acadian. On November 24, 2009 the Company received $2,622,179 from Acadian representing the $2,583,566 loan balance due plus accrued interest of $38,813. Following repayment of the loan in full, the security on Acadian's assets was released. Total interest earned on this loan during the year was $236,081 and is included in interest revenue on the statement of loss and comprehensive loss.

11. Income taxes:

The Company has available approximately $5,086,100 (2008 - $4,578,850) in non-capital loss carry-forwards which can be used to reduce future taxable income until expiry as noted below. The potential benefit associated with this item has been recognized in these financial statements to offset future income tax related to flow-through share renunciations as noted below.

The loss carry-forwards expire, if unused, as follows:

2010	$ 89,600
2014	130,000
2015	138,500
2026	329,600
2027	1,874,400
2028	1,799,000
2029	725,000
	$ 5,086,100

The following reconciles the effective tax rate to the statutory rate on a percentage basis:

	2009	2008
Statutory tax rate	29.00 %	33.50 %
Recognition of loss carryforwards	(109.13)	(167.31)
Valuation allowance	-	-
Effective tax rate	(80.13)%	(133.81)%

The Company has the following future income tax assets/(liabilities):

	2009	2008
Tax loss carryforwards	$ 1,475,000	$ 1,534,000
Mineral properties and property, plant and equipment	(2,582,228)	(3,013,300)
Liability recognized in the financial statements	$ (1,107,228)	$ (1,479,300)

12. Supplemental cash flow information:

Change in non-cash working capital:

	2009	2008
Accounts receivable	$ (24,904)	$ 233,811
Prepaid expenses and deposits	(34,987)	265,085
Accounts payable and accrued liabilities	(158,294)	(186,337)
Due to Acadian Mining Corp.	60,979	-
	$ (157,206)	$ 312,559

Non-cash financing and investing activities:	2009	2008
Value of warrants and options issued on acquisition of Buchans River Ltd.	$ -	$ 320,391
Issued on acquisition of shares of Buchans River Ltd.	$ -	$ 3,464,332
Future income tax recognized on CEE renounced in the current year	$ -	$ 1,183,833
Future income tax recognized on acquisition of Buchans	$ -	$ 264,000

13. Contributed surplus:

Balance, December 31, 2007	$ 870,201
Stock option issued on Buchans River ltd. acquisition	259,415
Transfer to contributed surplus for expired warrants	262,683
Balance, December 31, 2008	$ 1,392,299
Transfer to contributed surplus for expired warrants	120,137
Balance December 31, 2009	$ 1,512,436

14. General and administrative expenses:

General and administrative expenses consist of the following

	2009	2008
Office and general	$ 111,349	$ 171,518
Rent	53,490	37,876
Transfer agent fees	11,042	34,430
Filing fees	16,133	25,773
Investor relations	38,479	101,260
Entertainment, travel and promotion	24,941	59,038
Wages and consulting fees	329,134	558,999
	$ 584,568	$ 988,894

15. Financial Instruments:

Credit Risk

The Company's financial assets include cash and cash equivalents, restricted cash, and accounts receivable/HST receivable. The Company's maximum exposure to credit risk as at December 31, 2009, is the carrying value of it financial assets. The Company manages credit risk by maintaining bank accounts with reputable banks and financial institutions and investing only in Government of Canada Treasury Bills. Cash and cash equivalents, and restricted cash are held with on Canadian Chartered Banks and Investment firms and the risk of default is considered to be remote.

The Company was exposed to credit risk from its related party loan receivable. The Company advanced a related party $2,654,513 during the year (see Note 10(ii)). The Company's maximum exposure was the full amount of the loan plus the accrued interest of $124,898 for a total of $2,779,411. On November 24, 2009 the loan balance and interest was paid in full, relieving the Company's credit risk exposure.

Fair value of financial instruments

The book value of cash and cash equivalents, receivables, and accounts payable and accrued liabilities all approximate their fair values at December 31, 2009. The Marketable securities owned by the Company at the end of the year were marked to market resulting in a gain in the amount of $8,125 in accordance with the Company's accounting policies.

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 December 31, 2009, the Company had cash and cash equivalent balances of $3,233,380 (2008 - $1,274,576) to settle current liabilities of $146,486 (2008 - 243,801). All of the Company's financial liabilities have contractual maturities of less than 30 days, and are subject to normal trade terms

Interest rate risk

The Company's debt is limited to accounts payable and accrued liabilities and due from related parties and therefore there is limited exposure to interest rate risk.

Foreign currency rate risk

The Company does not currently have any significant foreign currency dominated transactions.

Sensitivity Analysis

The Company has designated its cash and cash equivalents and marketable securities as held-for-trading, which are measured at fair value. Financial instruments included in amounts receivable and prepaid expenses are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. As at December 31, 2009, the carrying and fair value amounts of the Company's financial instruments, other than the marketable securities which are reflected at fair value, are the same.

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

(a) For cash balances, sensitivity to a plus or minus .5% change in rates would not materially affect net loss on an annualized basis.

(b) Price risk is remote since the Company is not a producing entity.