

ROME RESOURCES LTD.

Consolidated Financial Statements

September 30, 2010 and 2009

AUDITORS' REPORT

To the Directors of
Rome Resources Ltd.
(An Exploration Stage Company)

We have audited the consolidated balance sheets of Rome Resources Ltd. (An Exploration Company) as at September 30, 2010 and 2009 and the consolidated statements of operations and deficit, comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

January 27, 2011



ROME RESOURCES LTD.

Consolidated Balance Sheets
As at September 30,

	2010	2009
ASSETS		
Current		
Cash and cash equivalents	\$ 1,330,609	\$ 92,389
Marketable securities (Note 2(m))	175,554	860,071
Accounts and advances receivable	21,319	11,999
Prepaid expenses	6,297	9,747
Total current assets	1,533,779	974,206
Equipment (Note 4)	4,578	5,860
Mineral interests (Note 5)	4,541,456	3,750,689
Total assets	\$ 6,079,813	\$ 4,730,755
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 334,138	\$ 286,669
Total liabilities	334,138	286,669
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	12,292,533	10,051,923
Liability to issue shares (Note 14)	1,485	—
Contributed surplus (Note 6)	2,300,675	1,520,748
Accumulated other comprehensive income (loss)	(166,034)	518,245
Deficit	(8,682,984)	(7,646,830)
Total shareholders' equity	5,745,675	4,444,086
Total liabilities and shareholders' equity	\$ 6,079,813	\$ 4,730,755

Nature of operations and going concern (Note 1)
Subsequent events (Note 14)

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

On behalf of the Board:

"Hugh Squair"

Hugh Squair

"Reiner Specht"

Reiner Specht

ROME RESOURCES LTD.

Consolidated Statements of Operations and Deficit
For the years ended September 30,

	2010	2009
Expenses		
Accounting, audit and legal	\$ 147,081	\$ 101,369
Administration and general	85,941	70,066
Amortization	1,282	1,798
Consulting	118,466	65,489
Interest and bank charges	3,850	9,643
Stock-based compensation (Note 6(d))	653,517	76,959
Property development	2,359	7,029
Foreign exchange loss	25,958	8,794
	<u>1,038,454</u>	<u>341,147</u>
Loss before the following	(1,038,454)	(341,147)
Gain on sale of marketable securities	1,699	—
Write off mineral property	—	(284,169)
Write off of accounts receivable	—	(101,747)
Other income – interest	601	2,913
	<u>2,300</u>	<u>(383,003)</u>
Loss for the year before income taxes	(1,036,154)	(724,150)
Future income tax expense (Note 10)	—	(817,583)
Net loss for the year	(1,036,154)	(1,541,733)
Deficit, beginning of year	(7,646,830)	(6,105,097)
Deficit, end of year	\$ (8,682,984)	\$ (7,646,830)
Basic and diluted loss per share for the year (Note 7)	\$ (0.07)	\$ (0.15)
Basic and diluted weighted average number of shares outstanding (Note 7)	14,666,042	10,388,672

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

ROME RESOURCES LTD.

Consolidated Statements of Comprehensive Income (Loss)
For the years ended September 30,

	2010	2009
Net Loss For The Year Before Other Comprehensive Loss	\$ (591,154)	\$ (1,541,733)
Unrealized loss on available for sale investments, net of tax (note 2(m))	(682,485)	(2,130,017)
Comprehensive Loss For The Year	\$ (1,273,639)	\$ (3,671,750)

Consolidated Statements of Accumulated Other Comprehensive Income (Loss)
For the years ended September 30,

	2010	2009
Accumulated Other Comprehensive Income – Beginning of year	\$ 518,245	\$ 2,648,262
Adjustment on disposition of shares	(1,794)	—
Fair value adjustment for available-for-sale securities, net of tax	(682,485)	(2,130,017)
Accumulated Other Comprehensive Income (Loss) – End Of The Year	\$ (166,034)	\$ 518,245

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

ROME RESOURCES LTD.

Consolidated Statements of Cash Flows
For the years ended September 30,

	2010	2009
Operating activities		
Net loss for the year	\$ (1,036,154)	\$ (1,541,733)
Add items not involving cash:		
Amortization	1,282	1,798
Stock-based compensation	653,517	76,959
Write off of accounts receivable	—	101,747
Write off mineral property	—	284,169
Gain on sale of marketable securities	(1,699)	—
Future income tax expense	—	817,583
Net change in non-cash working capital balances related to operations:		
Accounts and advances receivable	(9,320)	(29,466)
Prepaid expenses	3,450	1,380
Accounts payable and accrued liabilities	58,521	120,289
Cash used in operating activities	(330,403)	(167,274)
Investing activities		
Proceeds on the sale of marketable securities	1,937	—
Acquisition of mineral interests and exploration costs	(801,819)	(394,455)
Cash used in investing activities	(799,882)	(394,455)
Financing activities		
Liability to issue shares	1,485	—
Proceeds from issuance of shares, net of share issue costs	2,367,020	300,000
Cash provided by financing activities	2,368,505	300,000
Increase (Decrease) in cash and cash equivalents during the year	1,238,220	(261,729)
Cash and cash equivalents, beginning of year	92,389	354,118
Cash and cash equivalents, end of year	\$ 1,330,609	\$ 92,389
Supplementary Cash Flow Information		
Interest paid in cash	\$ —	\$ —
Income taxes paid in cash	—	—
	\$ —	\$ —

Supplemental Disclosure with respect to Cash Flows (Note 12).

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

ROME RESOURCES LTD.

Notes to the Consolidated Financial Statements
September 30, 2010 and 2009

1. Nature of Operations and Going Concern

Rome Resources Ltd. (the "Company") was incorporated in British Columbia on April 11, 1990 and is actively involved in the business of mineral exploration.

The Company is considered to be in the exploration stage. The Company is in the process of exploring its mineral interests and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete development and upon future profitable production.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company has incurred significant losses since incorporation and as at September 30, 2010 had an accumulated deficit of \$8,237,984.

The ability of the Company to continue as a going concern is dependent on the continued financial support from its directors, public equity financing, or achieving profitable operations in the future which cannot be predicted at this time. These financial statements do not reflect any adjustments to the carrying values and classifications of assets and liabilities that might be necessary should the Company be unable to continue realizing its assets and discharging its liabilities in the normal course of business.

During the fiscal 2010 year the Company raised a total of \$2,367,021 from private placements and warrant and stock options exercises, and as a result had working capital of \$1,199,641 at September 30, 2010, which should cover its requirements for the next year, but to further develop its properties, it will need additional funding from private placements and warrant and stock option exercises to meet these costs

Since the September 30, 2010 year-end, the Company has raised approximately \$291,000 through the issuance of shares pursuant to the exercise of stock options and share purchase warrants (Note 14).

2. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies adopted by the Company are as follows:

(a) Principles of consolidation

These consolidated financial statements include the accounts of Rome Resources Ltd. and its wholly owned subsidiaries, Minera Jackman, S.A. de C.V. and Roma Recursos de Mexico S.A. de C.V., companies incorporated in Mexico; and Rome Nevada Inc., a company incorporated in the State of Nevada, U.S.A.. All inter-company accounts and transactions have been eliminated.

ROME RESOURCES LTD.

Notes to the Consolidated Financial Statements
September 30, 2010 and 2009

2. Significant Accounting Policies

(b) Use of estimates

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

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments with maturities of less than 90 days when purchased and are readily convertible into cash. As at September 30, 2010 and 2009, cash and cash equivalents consist of cash and Canadian treasury bills and/or Canadian banker's acceptances. At September 30, 2010 the Company held \$955,233 (2009 - \$5,339) in Canadian banker's acceptances which have been included in cash equivalents.

(d) Equipment

Equipment is recorded at cost less accumulated amortization and is amortized over their estimated useful life on a declining-balance basis at the following rates:

Computer Equipment	30%
Exploration Equipment	20%

(e) Mineral interests

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

(f) Property option agreements

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

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Notes to the Consolidated Financial Statements
September 30, 2010 and 2009

2. Significant Accounting Policies, *continued*

(g) Loss per share

The calculation of basic loss per share is based on net loss divided by the weighted-average number of common shares outstanding during the year. Diluted earnings per share reflect the assumed conversion of all dilutive securities using the treasury stock method. For the years ended September 30, 2010 and 2009 the calculation of loss per share on a diluted basis excluded all potential common shares because the effect was anti-dilutive.

(h) Stock-based compensation

The Company has a stock option plan as described in note 6(d). The fair value method is used to determine the expense for stock-based awards granted to employees and non-employees. Under the fair value method, compensation cost is measured at fair value at the date of grant using the Black-Scholes option pricing model with assumptions described in note 6(d). The compensation cost is expensed over the vesting period with a corresponding credit to contributed surplus. Consideration paid on the exercise of stock options plus the amount of previously recognized expense is credited to share capital when the options are exercised.

(i) Impairment of 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 where it is determined that the carrying value of the assets may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the assets exceeds the undiscounted estimate of future cash flows from the assets.

(j) Foreign currency translation

The Company's functional currency is the Canadian dollar. Foreign currency transactions and the accounts of its subsidiaries, all of which are considered to be integrated foreign operations, are translated into Canadian dollars using the temporal method. Under this method, assets and liabilities in foreign currencies related to integrated foreign operations are translated into Canadian dollars using current exchange rates at the balance sheet dates for monetary assets and liabilities, historical exchange rates for non-monetary assets and liabilities, and the average monthly exchange rate for revenues and expenses, except for amortization, which is translated at the historical exchange rate of the corresponding non-monetary assets. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations in the year incurred.

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Notes to the Consolidated Financial Statements
September 30, 2010 and 2009

2. Significant Accounting Policies, *continued*

(k) Income taxes

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

(l) Asset retirement obligations

Asset retirement obligations are recognized when a legal or constructive obligation arises. This liability is recognized at the fair value of the asset retirement obligation. When the liability is initially recorded the Company capitalizes the cost by increasing the carrying amount of the related long-lived assets. Over time the liability is accreted to its present value each period, and the capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, the Company may incur a gain or loss. As at September 30, 2010 and 2009 the Company did not have any asset retirement obligations.

(m) Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its cash and equivalents as held-for-trading. Marketable securities have been classified as available-for-sale. Amounts and advances receivable are classified as loans and receivables, and accounts payable and accrued liabilities are classified as other liabilities, which are measured at amortized cost.

CICA Handbook Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments Presentation were amended to place increased emphasis on disclosure about the nature and the extent of risks arising from financial instruments and how the entity manages those risks. Disclosure is also required about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

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Notes to the Consolidated Financial Statements
September 30, 2010 and 2009

2. Significant Accounting Policies, *continued*

(m) Financial instruments, *continued*

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The Company has adopted these amendments for the fiscal year ended September 30, 2010 and the additional required disclosures are included in Note 8.

As at September 30, 2010, marketable securities consisted of equity securities listed on the TSX Venture Exchange, the NASDAQ Bulletin Board Exchange (“NASDAQ BB”) and the Frankfurt Stock Exchange.

Accumulated other comprehensive loss consists of unrealized gains (losses) on available-for-sale financial assets of \$(166,034) (2009 - \$518,245).

Costs and fair values of available for sale marketable securities are as follows:

	<u>Cost</u>	<u>Cumulative Adjustment to Fair Value</u>	<u>Fair Value at September 30, 2010</u>
Available for sale – marketable securities	\$ <u>163,920</u>	\$ <u>11,634</u>	\$ <u>175,554</u>
		Adjustment to Fair Value	Fair Value at September 30, 2009
Available for sale – marketable securities	\$ <u>164,158</u>	\$ <u>695,913</u>	\$ <u>860,071</u>

3. Changes in Accounting Policies and Recent Accounting Pronouncements

New Accounting Standards Not Yet Adopted

International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board (ACSB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards (“IFRS”) by the end of 2011. For the Company, the transition date will be October 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. The Company has completed the diagnostic phase of planning for the implementation of IFRS. It has determined that the principal areas of impact will be IFRS 1 – first time adoption; presentation of financial statements; asset retirement obligations; impairment of assets; and share-based payments. The Company expects its detailed analysis of relevant IFRS requirements and of IFRS 1 will be complete by the end of its fiscal quarter ending June 30, 2011, along with its determination of changes to accounting policies and choices to be made. The Company has not yet reached the stage where a quantified impact of conversion on its financial statements can be measured. The Company expects to complete its quantification of financial statement impacts by the end of its fiscal year ending September 30, 2011.

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Notes to the Consolidated Financial Statements
September 30, 2010 and 2009

3. Changes in Accounting Policies and Recent Accounting Pronouncements

New Accounting Standards Not Yet Adopted

Business combinations, consolidated financial statements and non-controlling interest

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former 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. Section 1582 establishes standards for the accounting for a business combination, 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. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standards ("IAS") 27, Consolidated and Separate Financial Statements (January 2008).

Sections 1601 and 1602 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 evaluating the impact of the adoption of these sections.

4. Equipment

	September 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Computer Equipment	\$ 7,174	\$ 4,880	\$ 2,294
Exploration Equipment	5,720	3,436	2,284
	<u>\$ 12,894</u>	<u>\$ 8,316</u>	<u>\$ 4,578</u>
	September 30, 2009		
	Cost	Accumulated Amortization	Net Book Value
Computer Equipment	\$ 7,174	\$ 4,169	\$ 3,005
Exploration Equipment	5,720	2,865	2,855
	<u>\$ 12,894</u>	<u>\$ 7,034</u>	<u>\$ 5,860</u>

ROME RESOURCES LTD.

Notes to the Consolidated Financial Statements

September 30, 2010 and 2009

5. Mineral Interests

	Deferred Costs September 30, 2009	Acquisition and Exploration Costs	Mineral Property Recovery (Write-offs)	Deferred Costs September 30, 2010
Argentina – 100% interest in the following mineral rights:				
Varvarco, Neuquen Province	\$ 423,532	\$ 8,214	\$ —	\$ 431,746
	423,532	8,214	—	431,746
Mexico - mineral concessions in the states of Michoacan and Sonora.				
San Isidro – 90% to 100% interest	\$ 30,263	\$ 4,573	\$ —	\$ 34,836
Inguaran – 100% interest	2,184,777	(130,917)	—	2,053,860
Sonora – 100% interest	1,038,484	908,897	—	1,947,381
La Verdosa – 100% interest	73,633	—	—	73,633
	3,327,157	782,553	—	4,109,710
Total	\$ 3,750,689	\$ 790,767	\$ —	\$ 4,541,456

The following is a summary of deferred exploration costs incurred during the current year:

	Acquisition Costs	Assays and Analysis	Geological & Geophysical	Travel	Drilling	Supplies and Misc.	Mining Taxes	Option Payments Received	Total
Vavarco	\$ —	\$ —	\$ 8,214	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 8,214
San Isidro	—	—	—	—	—	—	4,573	—	4,573
Inguaran	49,745	140	15,785	5,258	—	1,636	45,094	(248,575)	(130,917)
Sonora	159,186	116,019	193,999	71,088	193,195	92,556	82,854	—	908,897
La Verdosa	—	—	—	—	—	—	—	—	—
Total	\$ 208,931	\$ 116,159	\$217,998	\$76,346	\$ 193,195	\$94,192	\$132,521	\$(248,575)	\$ 790,767

	Deferred Costs September 30, 2008	Acquisition and Exploration Costs	Mineral Property Recovery (Write-offs)	Deferred Costs September 30, 2009
Argentina – 100% interest in the following mineral rights:				
El Dorado, Neuquen Province	\$ 283,877	\$ 292	\$ (284,169)	\$ —
Varvarco, Neuquen Province	421,881	1,651	—	423,532
	705,758	1,943	(284,169)	423,532
Mexico - mineral concessions in the states of Michoacan and Sonora.				
San Isidro – 90% to 100% interest	\$ 22,140	\$ 8,123	\$ —	\$ 30,263
Inguaran – 100% interest	2,131,049	53,728	—	2,184,777
Sonora – 100% interest	696,085	342,399	—	1,038,484
La Verdosa – 100% interest	73,382	251	—	73,633
	2,922,656	404,501	—	3,327,157
Total	\$ 3,628,414	\$ 406,444	\$ (284,169)	\$ 3,750,689

ROME RESOURCES LTD.

Notes to the Consolidated Financial Statements
September 30, 2010 and 2009

5. Mineral Interests, *continued*

The following is a summary of deferred exploration costs incurred during the twelve month period to September 30, 2009:

	Acquisition Costs	Assays and Analysis	Geological & Geophysical	Travel	Supplies and Misc.	Mining Taxes	Total
El Dorado	\$ —	\$ —	\$ 292	\$ —	\$ —	\$ —	\$ 292
Vavarco	—	—	1,651	—	—	—	1,651
San Isidro	—	—	—	—	—	8,123	8,123
Inguaran	—	—	10,638	8,515	1,360	33,215	53,728
Sonora	169,405	4,972	84,283	23,207	4,141	56,391	342,399
La Verdosa	—	—	—	—	—	251	251
Total	\$ 169,405	\$ 4,972	\$ 96,864	\$ 31,722	\$ 5,501	\$ 97,980	\$ 406,444

Title to mineral property interests involves 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 property interests and, to the best of its knowledge, title to all of its interests are in good standing.

The Company's mineral interests now consist of a property in the Neuquen, Province of Argentina, properties in the state of Michoacan, Mexico, and in the state of Sonora, Mexico as follows:

Vavarco Property, Argentina

This property is located in the northern part of Neuquen Province in central-western Argentina. The claims were acquired by staking, and the Company holds a 100% interest.

El Dorado Property, Argentina

During the year ended September 30, 2009, the Company decided to no longer pursue the property and accordingly, all related costs were written off to operations.

San Isidro Property, Mexico

The San Isidro property is located in Michoacan State, Mexico. Certain of the claims (San Juan III and La Laguna) were acquired by staking, and the Company holds a 100% interest. The remaining claim groups were optioned from an arm's length company. During 2005 certain issues arose regarding title to certain of the San Juan claims, (part of the San Isidro property), which issues management is investigating currently. At December 31, 2005, the Company wrote down the property to recognize impairment in carrying value. The claims that are in dispute include the San Juan, San Juan I and San Juan II. The Company optioned these properties from an arm's length company in 1995. The Company complied with the terms of the option agreement, except that the Optionee refused to accept 10% of the shares of the Company's Mexican subsidiary that was called for under the agreement.

The arm's length company has not transferred title to these claims to the Company, as was called for under the agreement. The Company is pursuing appropriate action against the arm's length company to obtain its rightful title to the three claim groups.

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Notes to the Consolidated Financial Statements
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5. Mineral Interests, *continued*

Inguaran Property, Mexico

The Inguaran property is located in Michoacan State, Mexico. Except as noted below, the claims were acquired by staking or outright purchase (Manga concession) and the Company holds a 100% interest in them.

In 2006, the Company optioned additional claims to add to the Inguaran Property. The terms of these option agreements, which allowed the Company to acquire a 100% interest, consisted of payments totalling \$US140,000 over a period to 10 July, 2010, which have been paid in full.

During the year ended September 30, 2010 a third party acquired certain claims from the Company. Under the terms of the sale agreement, the Company received a total of US\$275,000.

Sonora Project, Mexico

The Sonora properties consist of the Don Luis Tungsten gold property, the La Colorada gold property and the Los Muertos gold-silver property. These concessions are owned by the Company through its wholly owned subsidiary in Mexico as follows:

Don Luis Tungsten Gold Property, was optioned by the Company. Option payments, staged over five years total US\$500,000, and if completed, these payments will allow the Company to own the property outright. The payments are as follows:

Upon signing of the agreement	US\$30,000 (Paid)
June, 2008	US\$50,000 (Paid)
June, 2009	US\$100,000 (Paid)
June, 2010	US\$150,000 (Paid)
June, 2011	US\$170,000
Total	<u>US\$500,000</u>

The La Colorada gold and Los Muertos gold-silver properties were acquired by staking.

La Verdosa Property, Mexico

Subsequent to the year end, the Company sold the La Verdosa concession subject to it receiving payments of US\$600,000 by August 2012 (Note 14).

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Notes to the Consolidated Financial Statements
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6. Share Capital

The following is a description of the authorized and issued share capital:

(a) Authorized: Unlimited common shares without par value.

Issued:	Number of Shares	Amount
Balance September 30, 2008	10,341,001	\$ 9,751,923
Issued for cash pursuant to a private placement at \$0.25 per share	600,000	150,000
Issued for cash pursuant to a private placement at \$0.15 per share	1,000,000	150,000
Balance September 30, 2009	11,941,001	10,051,923
Issued for cash pursuant to a private placement at \$0.20 per share	500,000	100,000
Issued for cash pursuant to a private placement at \$0.25 per share, net of share issue costs	4,000,000	909,875
Issued for cash pursuant to a private placement at \$0.35 per share, net of share issue costs	3,000,000	805,875
Issued for cash pursuant to the exercise of share purchase warrants at prices ranging from \$0.20 - \$0.30 per share	1,341,500	302,450
Issued for cash pursuant to the exercise of share purchase warrants at prices ranging from \$0.25 - \$0.32 including \$73,090 contributed surplus attributed to stock-based compensation recognized in previous periods	176,000	122,410
Balance September 30, 2010	20,958,501	\$ 12,292,533

During the year ended September 30, 2010, the Company raised:

- i) \$805,875 net of share issue costs through a private placement consisting of 3,000,000 units. Each unit consisted of one common share and one half of one share purchase warrant to purchase an additional common share at \$0.40 until September 21, 2010,
- ii) \$909,875 net of share issue costs through a private placement consisting of 4,000,000 units, each unit consisted of one common share and one half of one share purchase warrant to purchase an additional common share at \$0.30 until April 1, 2010;
- iii) \$100,000 through a private placement consisting of 500,000 units, each unit consisted on one common share and one share purchase warrant to purchase an additional common share at \$0.26 until December 11, 2011; and
- iv) \$49,320 pursuant to the exercise of 176,000 stock options, 100,000 were exercised at \$0.25 and 76,000 at \$0.32.

In relation to the private placements the Company granted a total of 488,000 agent's warrants with terms of two years, 127,500 are exercisable at \$0.40 and 360,500 exercisable at \$0.30. The fair value of the agent's warrants being \$199,500 was determined using the Black-Scholes model. The assumptions used were 2 years expected life, risk free interest rate of 2.36% volatility of 195% and a dividend yield of zero.

During the September 30, 2009 fiscal year, the Company issued a total of 1,600,000 units in two private placements of 600,000 at \$0.25 and 1,000,000 at \$0.15. Each unit consists of one share and one share purchase warrant to purchase 600,000 shares at \$0.32 until September 2, 2014 and 1,000,000 at \$0.20 until September 30, 2014.

ROME RESOURCES LTD.

Notes to the Consolidated Financial Statements
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6. Share Capital, continued

(c) Escrow Shares

As at September 30, 2010, 209,452 common shares are held in escrow; the release of the balance of these shares is subject to the approval of the regulatory authorities having jurisdiction.

(d) Stock Options

The Company has established a stock option plan the purpose of which is to attract, retain and motivate directors, officers, employees and persons engaged to provide ongoing management and consulting services (“service providers”) by providing them with the opportunity, through stock options, to acquire a proprietary interest in the Company and benefit from its growth. The maximum number of shares which may be issued under the plan is fixed at 2,068,200. This number is subject to adjustment resulting from changes in the share capital of the Company. Such adjustments are subject to approval by the TSX Venture Exchange and by the shareholders of the Company. The number of shares reserved for issuance to any one person may not exceed 5% of the issued and outstanding shares at the date of such grant. The maximum term of stock options is five years from the grant. All options granted under the Plan will become vested in full upon grant, except options granted to consultants performing investor relations activities, which options are subject to vesting restrictions such that one-quarter of the options shall vest every three months subsequent to the date of the grant of the options.

The option price of the shares which are the subject of any option shall in no circumstances be less than the market price of the shares at the date of the grant of the option.

A summary of the status of the stock options outstanding as of September 30, 2010 and 2009, and changes during the years then ended are presented below:

	September 30, 2010		September 30, 2009	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of year	1,187,000	\$0.32	1,071,000	\$0.60
Granted	1,475,000	\$0.44	520,000	\$0.32
Cancelled/Expired	—	—	(404,000)	\$0.60
Exercised	(176,000)	\$0.28	—	—
Options outstanding at end of year	2,486,000	\$0.41	1,187,000	\$0.32
Options exercisable at end of year	2,486,000	\$0.41	797,000	\$0.32

Exercise Price	Number Outstanding	Number Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$0.32 - \$0.38	1,411,000	1,411,000	2.62	\$0.33
\$0.50	1,075,000	1,075,000	4.46	\$0.50

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Notes to the Consolidated Financial Statements
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6. Share Capital, *continued***(d) Stock Options, *continued***

During the year ended September 30, 2010, the Company granted a total of 1,475,000 stock options as follows: 100,000 stock options exercisable at \$0.25 with an expiry date of November 20, 2014, 1,075,000 exercisable at \$0.50 with an expiry date of March 15, 2015; and 300,000 exercisable at \$0.38 with an expiry date of August 12, 2010. 176,000 stock options were exercised during the year, 100,000 at \$0.25 and 76,000 was exercised at \$0.32.

During the fiscal year ended September 30, 2009, the Company amended the exercise price of all options from \$0.60 to \$0.32. 520,000 stock options were granted and 404,000 stock options originally exercisable at \$0.60 expired unexercised.

The fair values of the stock options granted during the periods were estimated using the Black-Scholes option pricing model with the following assumptions:

	2010	2009
Risk-free interest rate	2.49%	3.57%
Dividend yield	0%	0%
Expected volatility	136%	137%
Expected term	5 Years	5 Years

(e) Contributed surplus

The following table sets forth the continuity of contributed surplus for the years ended September 30, 2010 and 2009:

Balance, September 30, 2008	\$ 1,443,789
Stock-based compensation expense during the year	76,959
Balance, September 30, 2009	1,520,748
Stock-based compensation expense during the year	653,517
Issuance of agent's warrants	199,500
Reallocation to share capital the estimated fair value of stock options that were exercised during the year	(73,090)
Balance, September 30, 2010	\$ 2,300,675

ROME RESOURCES LTD.

Notes to the Consolidated Financial Statements
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6. Share Capital, continued

(f) Share Purchase Warrants

A summary of share purchase warrants outstanding at September 30, 2010 and 2009:

	September 30, 2010		September 30, 2009	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding at beginning of period	1,600,000	\$0.25	1,150,000	\$1.46
Granted	4,488,000	0.33	1,600,000	0.25
Expired	—	—	(1,150,000)	\$1.46
Exercised	(1,341,500)	0.23	—	—
Outstanding at end of period	4,746,500	\$0.33	1,600,000	\$0.25

As at September 30, 2010, the Company had share purchase warrants outstanding to purchase 600,000 shares at \$0.32 expiring September 2, 2014; 500,000 at \$ 0.26 expiring December 11, 2011; 2,019,000 at \$0.30 expiring April 1, 2012; and 1,627,500 at \$0.40 expiring September 21, 2012. Each share purchase warrant entitles the holder to acquire one common share of the Company.

As at September 30, 2009, the Company had share purchase warrants outstanding to purchase 600,000 shares at \$0.32 expiring September 2, 2014 and 1,000,000 shares at \$0.20 expiring September 30, 2014. Each share purchase warrant entitles the holder to acquire one common share of the Company.

7. Basic and Diluted Loss per Share

The basic and diluted loss per share is calculated based on the following at September 30:

	<u>2010</u>	<u>2009</u>
Weighted average number of common shares outstanding	14,666,042	10,388,672

The calculation of loss per share is based on net loss divided by the weighted average number of common shares outstanding during the year. The effect of options under the stock option plan and warrants to purchase shares is not presented as it would have an anti-dilutive effect on the loss per share.

8. Financial Instruments

The fair value of the Company's accounts and advances receivable, and accounts payable and accrued liabilities approximate carrying value which is the amount recorded on the consolidated balance sheet. The Company's other financial instruments, cash and cash equivalents and marketable securities, under the fair value hierarchy are based on level one quoted prices in active markets for identical assets and liabilities.

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Notes to the Consolidated Financial Statements
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8. Financial Instruments, *continued*

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to accounts receivable. The Company believes it has no significant credit risk as accounts receivable mainly relates to input tax credits receivable.

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 September 30, 2010, the Company had a cash and cash equivalent balance of \$1,330,609 (2009 - \$92,389) to settle current liabilities of \$334,138 (2009 - \$286,669). All of the Company's financial liabilities have contractual maturities of less than 30 days 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 and equity prices.

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As of September 30, 2010, the Company had \$955,233 invested in investment-grade short-term deposit certificates.

(b) Foreign currency risk

As at September 30, 2010, the Company's expenditures are in Canadian dollars, Mexican pesos, and Argentinean pesos, and any future equity raised is expected to be predominantly in Canadian dollars. As at September 30, 2010, the Company has accounts payable denominated in Mexican Pesos of 509,812, accounts receivable of 85,468 Mexican Pesos and cash of 1,751,085 Mexican Pesos. The Company also has accounts receivable of 6,515 Argentinean Pesos and accounts payable of 16,000 Argentinean Pesos. For each 10% change in the Canadian dollar versus the Mexican Peso and Argentinean Peso a \$336 gain/loss would arise.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. 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 of resources, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. The Company currently maintains investments in certain publicly listed companies. There can be no assurance that the Company can exit these positions if required, resulting in proceeds approximating the carrying value of the securities.

9. Capital Management

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Notes to the Consolidated Financial Statements
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The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral interests and to maintain flexible capital structure for its projects for the benefit of its stakeholders.

In the management of capital, the Company includes the components of shareholders' equity as well as cash, receivables and current liabilities.

The Company manages the capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, enter into joint venture property arrangements, acquire or dispose of assets or adjust the amount of cash.

Management reviews the capital structure on a regular basis to ensure that the above-noted objectives are met. There were no changes in the Company's approach to capital management during the year ended September 30, 2010.

The Company is not exposed to externally imposed capital requirements.

10. Income Taxes

A reconciliation of income taxes at statutory rates at September 30 is as follows:

	2010	2009
Net loss for the year before income taxes	\$ (1,036,154)	\$ (724,150)
Income tax recovery	(296,081)	\$ (218,150)
Changes in taxes resulting from:		
Non-deductible expenses for tax purposes	194,041	141,728
Unrealized foreign exchange loss	—	2,649
Effect of differences in foreign tax rates	91	(776)
Recognized benefit of non-capital losses	101,949	892,132
Income tax (recovery) expense	\$ —	\$ 817,583

ROME RESOURCES LTD.

Notes to the Consolidated Financial Statements
September 30, 2010 and 2009

10. Income Taxes, continued

The significant components of the Company's future income tax assets (liabilities) are as follows:

	2010	2009
Future income tax assets:		
Non-capital loss carry-forwards	\$ 584,178	\$ 732,146
Mineral interests	431,478	212,220
Other	1,329	1,758
	1,225,599	946,124
Future income tax liability:		
Marketable securities	(1,681)	(172,748)
Valuation allowance	(1,223,918)	(773,376)
Net future income tax liabilities	\$ —	\$ —

The Company has approximately \$1,550,000 of Canadian non-capital losses which may be carried forward to reduce taxable income in future years. If not utilized the Canadian non-capital losses will expire through 2030. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years.

11. Related Party Transactions

- a) The Company incurred the following expenses to September 30, to a director and a director of its subsidiary, and a corporation of which officers are employees:

	2010	2009
Mineral property exploration costs and geological consulting	\$ 213,065	\$ 96,920
Accounting, audit and legal fees	69,068	31,540
	\$ 282,133	\$ 128,460

- b) Included in accounts payable and accrued liabilities is \$24,799 (2009 - \$62,346) due to a director or a corporation controlled by a director of the Company, or to a corporation of which a former officer of the Company is an employee.
- c) Included in accounts and advances receivable is \$6,974 (2009 - \$6,795) advanced to a director of the Company and to a director of the Company's Mexican subsidiary for future travel and property expenditures.

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

Amounts due to/from related parties are non-interest bearing with no fixed terms of repayment. The fair value of the amounts due to/from related parties cannot be determined as there are no specific terms of repayment.

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Notes to the Consolidated Financial Statements
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12. Supplemental Disclosure with Respect to Cash Flows

Significant non-cash transactions for the year ended September 30, 2010 and 2009 include:

- a) Incurring mineral property expenditures of \$19,122 (2009 - \$30,174) through accounts payable.
- b) Fair market value adjustment of marketable securities, net of tax, resulting in a loss of \$682,485 (2009 - a loss of \$2,130,017) which is included in other comprehensive income.
- c) Fair market value of agent's warrants issued for private placement \$199,500 (2009 - \$Nil).

13. Segmented Information

The Company has one reportable segment, being the acquisition and exploration of mineral properties.

The Company's mineral interests are located in Mexico and Argentina, and all other assets are held in Canada.

14. Subsequent events

Subsequent to September 30, 2010, the Company:

- i) Sold the La Verdosa concession in the Inguaran area, Michoacan, Mexico, subject to total payment of \$600,000 (U.S.) by August, 2012.
- ii) Issued a total of 951,158 shares pursuant to the exercise of warrants and options for total consideration of \$291,867 of which, \$1,485 was received during the current fiscal year.
- iii) The Company approved the purchase of a track-mounted reverse circulation drill for an estimated total cost of \$600,000. In accordance with the manufacturer's requirement, the company has paid a deposit of \$200,000 to confirm the order.