

**SUPERIOR MINING INTERNATIONAL CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in Canadian dollars)**  
**(Unaudited – Prepared by Management)**

**FOR THE THREE MONTHS ENDED OCTOBER 31, 2010**

**SUPERIOR MINING INTERNATIONAL CORPORATION**

**UNAUDITED INTERIM FINANCIAL STATEMENTS**

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

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in Canadian dollars)  
(Unaudited – Prepared by Management)

	October 31, 2010	July 31, 2010
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 318,852	\$ 131,537
Receivables	24,232	25,835
Prepaid expenses	<u>5,716</u>	<u>12,326</u>
	348,800	169,698
<b>Mineral properties</b> (Note 3)	1,878,581	1,798,880
<b>Equipment</b> (Note 4)	5,736	6,201
<b>Investments</b> (Note 5)	<u>596,450</u>	<u>597,438</u>
	<u>\$ 2,829,567</u>	<u>\$ 2,572,217</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 152,566	\$ 150,289
Loan payable (Note 6)	<u>708,000</u>	<u>708,000</u>
	<u>860,566</u>	<u>858,289</u>
<b>Non-controlling interest</b>	<u>(18,253)</u>	<u>(11,723)</u>
<b>Shareholders' equity</b>		
Capital stock (Note 7)	16,496,623	16,114,121
Contributed surplus (Note 7)	2,296,993	2,296,331
Deficit	<u>(16,806,362)</u>	<u>(16,684,801)</u>
	<u>1,987,254</u>	<u>1,725,651</u>
	<u>\$ 2,829,567</u>	<u>\$ 2,572,217</u>

**Nature of operations and going concern** (Note 1)

**Commitment** (Note 11)

**On behalf of the Board:**

“John Proust”

Director

“Cyrus Driver”

Director

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

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**  
(Expressed in Canadian dollars)  
(Unaudited – Prepared by Management)  
**FOR THE THREE MONTHS ENDED OCTOBER 31, 2010**

	2010	2009
<b>EXPENSES</b>		
Bank charges and interest (Note 6)	\$ 7,197	\$ 5,785
Consulting (Note 9)	26,406	20,900
Filing and transfer agent fees	2,423	6,373
Foreign exchange (gain)/loss	(459)	(3,281)
Management fees (Note 9)	25,500	24,000
Office, telephone and printing (Note 9)	23,670	6,441
Professional fees (Note 9)	35,997	48,228
Property investigation	6,932	7,601
Stock-based compensation (Note 7)	662	125,124
Travel	-	31,135
<b>Loss before other items</b>	<u>(128,328)</u>	<u>(272,306)</u>
<b>OTHER ITEMS</b>		
Interest income	237	-
Write-off of loan receivable	-	(10,673)
	<u>237</u>	<u>(10,673)</u>
<b>Loss before income tax and non-controlling interest</b>	(128,091)	(282,979)
<b>Non-controlling interest</b>	<u>6,530</u>	<u>178</u>
<b>Net loss and comprehensive loss</b>	(121,561)	(282,801)
<b>Deficit, beginning of period</b>	<u>(16,684,801)</u>	<u>(15,391,071)</u>
<b>Deficit, end of period</b>	<u>\$ (16,806,362)</u>	<u>\$ (15,673,872)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>
<b>Weighted average common shares outstanding for basic loss per share</b>	<u>45,055,169</u>	<u>37,142,778</u>

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

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian dollars)  
(Unaudited – Prepared by Management)  
FOR THE THREE MONTHS ENDED OCTOBER 31, 2010

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (121,561)	\$ (282,801)
Items not affecting cash		
Foreign exchange	(459)	(3,281)
Unrealized loss on investment	-	664
Amortization	-	125,124
Stock-based compensation	662	-
Future income tax recovery	-	(178)
Non-controlling interest	(6,530)	-
Changes in non-cash working capital items:		
Decrease / (increase) in receivables	1,603	103,629
Increase / (decrease) in prepaid	6,610	-
Decrease / (increase) in accounts payable	<u>10,974</u>	<u>28,444</u>
Net cash used in operating activities	<u>(108,701)</u>	<u>(28,399)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mineral properties	(87,933)	(73,925)
Repayment of investment	<u>988</u>	<u>405</u>
Net cash used in investing activities	<u>(86,945)</u>	<u>(73,520)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of shares for cash	396,000	720,000
Share issue costs	<u>(13,498)</u>	<u>(47,100)</u>
Net cash provided by financing activities	<u>382,502</u>	<u>672,900</u>
<b>Foreign exchange on cash</b>	<u>459</u>	<u>3,281</u>
<b>Change in cash for the period</b>	187,315	574,262
<b>Cash, beginning of period</b>	<u>131,537</u>	<u>34,794</u>
<b>Cash, end of period</b>	<u>\$ 318,852</u>	<u>\$ 609,056</u>

Supplemental disclosure with respect to cash flows (Note 8)

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

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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FOR THE THREE MONTHS ENDED OCTOBER 31, 2010

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Superior Mining International Corporation (the "Company") is a Canadian company incorporated in the Yukon Territory. The Company is primarily engaged in the acquisition, exploration and development of mineral properties.

The recoverability of the amounts comprising mineral properties and deferred exploration costs is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their exploration and development and upon future profitable production.

These consolidated financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at October 31, 2010 the Company had an accumulated deficit of \$16,806,362 (July 31, 2010 - \$16,684,801). In addition, the Company has not generated revenues from operations. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In order to continue as a going concern and to meet its corporate objectives, which primarily consist of exploration work on its mineral properties, the Company will require additional financing through debt or equity issuances or other available means. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

Current market conditions make the present environment for raising additional equity financing unfavourable. An inability to raise additional financing may impact the future assessment of the Company as a going concern under CICA 1400 General Standards of Financial Statement Presentation. See Note 10 for further discussion regarding liquidity risk.

These consolidated financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

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

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**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Principles of consolidation**

These financial statements include:

- (i) the accounts of the Company;
- (ii) its wholly own subsidiaries: Superior Mining South Africa (PTY) Corporation, Owl Eye Trading 71 (Pty) Ltd., and Westland Minerals Limited.;
- (iii) its 50% proportionate share of Middelvlei Gold & Investments (Pty) Ltd. ; and
- (iv) its 87% ownership of Turquoise Moon Trading 403 Pty. Ltd.

All inter-company transactions are eliminated on consolidation.

**Recent accounting pronouncements**

The new primary sources of generally accepted accounting principles that have been issued that the Company has not adopted because they are not yet in effect are as follows:

*Business combinations*

In January 2009, the AcSB released Section 1582, which replaces Section 1581 “Business Combinations”. It provides the Canadian equivalent to IFRS 3 “Business Combinations”. For the Company, this section applies prospectively to business combinations for which the acquisition is subsequent to August 1, 2011. Earlier application is permitted. Section 1582 must be applied together with Section 1601 and Section 1602 if it is implemented before August 1, 2011. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements. This standard is not expected to be adopted prior to the transition to IFRS.

*Consolidated financial statements and non-controlling interests*

In January 2009, the AcSB also released Section 1601 “Consolidated financial statements” and Section 1602 “Non-controlling interest”, which replace Section 1600 “Consolidated Financial statements”. 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 consolidated financial statements of the parent, subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of IAS 27, “Consolidated and Separate Financial Statements”.

For the Company, these sections apply to interim and annual consolidated financial statements relating to the fiscal year beginning on or after August 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. These sections must be applied together with Section 1582 “Business Combinations” if they are implemented for a fiscal year beginning before August 1, 2011. The Company is currently evaluating the impact of adopting these standards on its consolidated financial statements. These standards are not expected to be adopted prior to the transition to IFRS.

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**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Recent accounting pronouncements (cont'd...)**

*International financial reporting standards (“IFRS”)*

In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of August 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended July 31, 2011. The Company is currently evaluating the impact of the conversion on the Company’s consolidated financial statements and is considering accounting policy choices available under IFRS.



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**3. MINERAL PROPERTIES**

October 31, 2010	Mangalisa Project, South Africa	Victory Gold Project (formerly Placer Gold Project), New Zealand	Victory North, New Zealand	Otama Project, New Zealand	Ross South (formerly Westland Project, New Zealand	Collingwood, New Zealand	Kirwans Project, New Zealand	Total
Acquisition costs:								
Balance, beginning of period	\$ 3,843	\$ 90,687	\$ -	\$ 14,609	\$ 2,447	\$ -	\$ -	\$ 111,586
Additions	-	-	36,801	-	-	-	-	36,801
Written-off	-	-	-	-	-	-	-	-
Balance, end of period	<u>3,843</u>	<u>90,687</u>	<u>36,801</u>	<u>14,609</u>	<u>2,447</u>	<u>-</u>	<u>-</u>	<u>148,387</u>
Exploration expenditures incurred during the period								
Drilling	-	-	-	-	1,328	-	-	1,328
Geological and consulting	-	17,415	2,260	5,016	11,441	1,573	3,168	40,873
Office and miscellaneous	234	-	-	-	-	-	-	234
Travel	-	-	-	-	-	-	-	-
Amortization (Note 4)	-	465	-	-	-	-	-	465
Written-off	-	-	-	-	-	-	-	-
	234	17,880	2,260	5,016	12,769	1,573	3,168	42,900
Balance, beginning of period	<u>1,137,968</u>	<u>481,955</u>	<u>12,624</u>	<u>43,045</u>	<u>11,702</u>	<u>-</u>	<u>-</u>	<u>1,687,294</u>
Total deferred exploration	<u>1,138,202</u>	<u>499,835</u>	<u>14,884</u>	<u>48,061</u>	<u>24,471</u>	<u>1,573</u>	<u>3,168</u>	<u>1,703,194</u>
Balance, end of period	\$ <u>1,142,045</u>	\$ <u>590,522</u>	\$ <u>51,685</u>	\$ <u>62,670</u>	\$ <u>26,918</u>	\$ <u>1,573</u>	\$ <u>3,168</u>	\$ <u>1,878,581</u>

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**3. MINERAL PROPERTIES**

July 31, 2010	Mangalisa Project, South Africa	Victory Gold Project (formerly Placer Gold Project), New Zealand	Victory North, New Zealand	Otama Project, New Zealand	Ross South (formerly Westland Project, New Zealand	Ray Thomas Project, New Zealand	Total
Acquisition costs:							
Balance, beginning of year	\$ 3,843	\$ 90,687	\$ -	\$ -	\$ 2,447	\$ 22,917	\$ 119,894
Additions	-	-	-	14,609	-	4,977	19,586
Written-off	-	-	-	-	-	(27,894)	(27,894)
Balance, end of year	<u>3,843</u>	<u>90,687</u>	<u>-</u>	<u>14,609</u>	<u>2,447</u>	<u>-</u>	<u>111,586</u>
Exploration expenditures incurred during the year							
Drilling	-	89,447	-	340	5,943	-	95,730
Geological and consulting	87,360	186,573	7,202	42,705	4,884	13,886	342,610
Office and miscellaneous	-	1,421	1,620	-	875	379	4,295
Travel	-	2,809	3,802	-	-	-	6,611
Amortization (Note 4)	-	1,993	-	-	-	664	2,657
Written-off	-	-	-	-	-	(247,289)	(247,289)
Balance, beginning of year	<u>87,360</u> <u>1,050,608</u>	<u>282,243</u> <u>199,712</u>	<u>12,624</u> <u>-</u>	<u>43,045</u> <u>-</u>	<u>11,702</u> <u>-</u>	<u>(232,360)</u> <u>232,360</u>	<u>204,614</u> <u>1,482,680</u>
Total deferred exploration	<u>1,137,968</u>	<u>481,955</u>	<u>12,624</u>	<u>43,045</u>	<u>11,702</u>	<u>-</u>	<u>1,687,294</u>
Balance, end of year	<u>\$ 1,141,811</u>	<u>\$ 572,642</u>	<u>\$ 12,624</u>	<u>\$ 57,654</u>	<u>\$ 14,149</u>	<u>\$ -</u>	<u>\$ 1,798,880</u>

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**3. MINERAL PROPERTIES (cont'd...)**

**Mangalisa Project, South Africa**

During the year ended July 31, 2008, the Company was granted a lease, giving it the right to explore in the eastern part of the Free State Goldfield in the village of Riebeeckstad, South Africa.

During the year ended July 31, 2010, the Company entered into an agreement with Minco Mineral Holdings (Pty) Limited (“Minco”). Pursuant to the agreement, Minco has the option to acquire 90% of the Company’s directly controlled shares in Turquoise Moon Trading 403 Pty. Ltd (“TMT”) by spending USD\$10,000,000 (CAD\$10,202,000) on the development of TMT’s Mangalisa Project. The Company holds a 74% interest directly. The Company also holds a further 13% interest in TMT indirectly. If Minco expends the full USD\$10,000,000 (CAD\$10,202,000) the Company’s direct and indirect interest in TMT will be reduced to 20.4% (7.4% directly and 13% indirectly). The Company issued 250,000 finders warrants with a fair value of \$84,905 in connection with the agreement (Note 7).

**Ross South (Formerly Westland Project), New Zealand**

During the year ended July 31, 2009, the Company was granted a lease to explore a property close to the Ross property in New Zealand.

**Ross Alluvial Goldfield, New Zealand**

*Victory Gold Project (formerly named the Placer Property)*

During the year ended July 31, 2008, the Company entered into an option agreement to acquire a 100% ownership in certain mineral permits of a mineral property located near Ross Township, New Zealand through the purchase of all of the shares of Placer Gold Resources Limited (“Placer Gold”).

During the year ended July 31, 2010, the Company amended the option. Under the terms of the amended option agreement (the “Agreement”), Placer Gold and its shareholders have granted the Company a 24 month option to acquire a 100% interest in the permits comprising the Victory Property by carrying out an exploration program, constructing a placer mining facility (the “Plant”) on that property, and processing 10,000 cubic meters of material through the Plant. The Agreement is structured as an option to purchase all of the issued and outstanding shares in the capital of Placer Gold, a New Zealand company.

Upon exercise of the option, the Company will grant to the Placer Gold shareholders a 7% net smelter royalty on the Property. In contrast to the previous option agreement, the Company is no longer required to complete a bankable feasibility study nor pay any advance royalty prior to commencing production on the property. This will permit Superior to advance the project quickly. Subject to the results of the aforementioned work program, the Company can proceed to build the Plant for the purpose of exercising the option and advancing the project to production. During the option period the Company will be entitled to manage all of the required exploration and development work on the Victory Property

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**3. MINERAL PROPERTIES (cont'd...)**

**Ross Alluvial Goldfield, New Zealand (cont'd...)**

*Ray Thomas project*

During the year ended July 31, 2008, the Company entered into an option agreement to acquire a 100% ownership in certain mineral permits, licenses and applications to a mineral property located near Ross Township, New Zealand through the purchase of the shares of R & M Mining Limited (“R & M”).

During the year ended July 31, 2010, the Company terminated the agreement resulting in a mineral property write-off of \$275,183.

**Otama project, New Zealand**

On April 28, 2010, the Company entered into an option agreement with Lodestar Resources Limited (“Lodestar”) to purchase an 80% interest in the Otama Property in northern Southland, New Zealand by:

- i) Payment of up to NZ\$20,000 (paid) covering previous Lodestar expenses (for a 20% interest);
- ii) The undertaking by the Company of a reverse circulation drilling program at a cost no less than NZ\$50,000. (for a cumulative 51% interest);
- iii) Exploration expenditure of a further CDN\$1,000,000 over 5 years (for a cumulative 80% interest)

Should Lodestar elect not to contribute an on-going project funding once the Company has reached the 80% threshold, it's interest will be converted to a 7% net smelter royalty.

**4. EQUIPMENT**

	October 31, 2010			July 31, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Vehicle	\$ 14,887	\$ 9,151	\$ 5,736	\$ 14,887	\$ 8,686	\$ 6,201

**5. INVESTMENTS**

	October 31, 2010	July 31, 2010
Plan Notes	\$ 596,450	\$ 597,438

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**5. INVESTMENT (cont'd...)**

At October 31, 2010, investments included Master Asset Vehicle II notes received in exchange for Canadian third-party asset backed commercial paper (“ABCP”) that was held by the Company.

The notes held by the Company are referred to as MAVII, including senior notes Class A-1, subordinated notes Class C, and ineligible asset tracking notes Class 13:

Notes	Maturity Date (1)	Interest Rate (2)	Face Value, \$	Fair Value Estimate, \$
MAV II Class A-1	July 2056	BA - 0.5%	845,153	596,450
MAV II Class C	July 2056	BA + 20%	26,222	-
MAV II Class 13 (Ineligible Asset Tracking Notes)	March 2014		133,050	-
<b>Total</b>			<b>1,004,425</b>	<b>596,450</b>

(1) Maturity date reflects legal maturity date. Latest maturity date of underlying assets is December 2016.

(2) BA rate is Canadian dollar Bankers Acceptance interest rate with a maturity of 90 days.

The notes are classified as held-for-trading under the Company’s Financial Instruments Policy which requires them to be fair valued at each period end with changes in fair value included in the statement of operations in the period in which they arise.

The fair value of the Class A-1 notes was established using a discounted cash flow approach based on the following inputs: the notes will pay interest at a rate 0.5% less than the bankers’ acceptance (“BA”) rate, prospective buyers of these notes estimated to require premium yields 5% over the BA rate, average maturity of Class A -1 Notes estimated to be 6.5 years. The Class C Notes are subordinated to the Class B Notes with respect to payment of interest and principal, and no amounts will be paid with respect to the Class C Notes until the Class B Notes are repaid in full. The Class C and sub-prime backed Class 13 notes are viewed as highly speculative with regard to ultimate payment of principal at maturity. Accordingly, the Class C and sub-prime backed Class 13 notes are valued at \$Nil. In conjunction with the note exchange, the Company received a payment of \$58,392 which was its share of the accumulated interest to July 31 2009. The interest received to July 31, 2009 was accounted for as a reduction of the Company’s investment. The estimated unpaid interest up to the restructuring date of January 21, 2009 is not material and was not included in the Company’s fair value calculation. During the year ended July 31, 2010, the Company repaid interest of \$2,948 and adjusted for the increase in fair value of \$11,214.

During the three month period ended October 31, 2010, the Company received interest of \$989.

There is significant amount of uncertainty in estimating the amount and timing of cash flows associated with these notes. Until an active market develops for the MAV II notes, the fair value will be determined using a discounted cash flow approach based on the maximum use of inputs observed from market conditions on subsequent reporting dates. Therefore, the fair values may change materially in subsequent periods.

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**6. LOAN PAYABLE**

The demand non-revolving bridge loan bears interest at the HSBC Bank Prime Rate plus 1% per annum, repayable on demand by the bank. Interest is payable monthly. The loan is secured by the Company's investment in Plan Notes (Note 5). The Company has paid \$6,552 in interest during the period ended October 31, 2010 (2009 - \$5,737).

**7. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Share Amount	Contributed Surplus
Authorized			
Unlimited common voting shares, without par value			
Issued			
Balance, July 31, 2009	35,707,995	\$ 15,000,493	\$ 1,968,612
Private placement	8,000,000	1,220,000	-
Share issuance costs	-	(95,574)	-
Stock-based compensation	-	-	232,016
Fair value of finders' warrants issued for private placement	-	(10,798)	10,798
Fair value of finders' warrants issued for mineral property	-	-	84,905
	<u>-</u>	<u>-</u>	<u>84,905</u>
Balance, July 31, 2010	43,707,995	\$ 16,114,121	\$ 2,296,331
Private placement	3,300,000	396,000	-
Share issuance costs	-	(13,498)	-
Stock-based compensation	-	-	662
	<u>-</u>	<u>-</u>	<u>662</u>
Balance, October 31, 2010	47,007,995	\$ 16,496,623	\$ 2,296,993

During the three month period ended October 31, 2010, the Company completed a non-brokered private placement for \$396,000 (2009 - \$720,000) by issuing 3,300,000 (2009 - 6,000,000) common shares at a price of \$0.12 (2009 - \$0.12) per share. The Company paid \$13,498 (2009 - \$47,100) in cash in connection with the private placement.

**Stock options**

The Company has a fixed stock option plan whereby a maximum of 20% of the issued common shares are reserved for issuance under the plan (being an aggregate of 9,401,599 common shares). The options can be granted for a maximum term of five years and pricing and vesting as determined by the board of directors.

During the three month period ended October 31, 2010, the Company:

- a) amended the exercise price of Nil (2009 - 1,500,000) stock options (2009 - from \$0.34 to \$0.12) resulting in additional stock-based compensation using the Black-Scholes option pricing model of \$Nil (2009 - \$22,576). These amounts were recorded as contributed surplus on the balance sheet and as stock-based compensation expense on the statement of operations.

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

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

- b) granted Nil (2009 – 900,000) stock options resulting in stock-based compensation using the Black-Scholes option pricing model of \$Nil (2009 - \$98,900). The weighted average fair value of options granted during the year was \$Nil (2009 - \$0.11). These amounts were also recorded as contributed surplus on the balance sheet and as stock-based compensation expense on the statement of operations.
- c) recorded a stock-based compensation expense of \$662 (2009 – \$3,648) for options vested.

The following weighted average assumptions were used for the Black-Scholes option pricing model:

	October 31, 2010	October 31, 2009
Risk-free interest rate	-	2.62%
Expected life of options	-	5 years
Annualized volatility	-	152%
Dividend rate	-	0.00%

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2009	6,205,000	0.27
Options – exercise price amended	(1,500,000)	(0.34)
Options – exercise price amended	1,500,000	0.12
Options granted	1,430,000	0.15
Options expired	<u>(1,000,000)</u>	(0.17)
Balance, July 31, 2010 and October 31, 2010	<u>6,635,000</u>	<u>\$ 0.21</u>
Number of options currently exercisable	<u>6,547,500</u>	<u>\$ 0.21</u>

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

**Warrants**

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2009	-	\$ -
Granted	<u>338,320</u>	<u>0.40</u>
Balance, July 31, 2010 and October 31, 2010	338,320	\$ 0.40

As at October 31, 2010, the following stock options and warrants were outstanding:

	Number of Shares	Exercise Price	Expiry Date
<b>Stock options</b>	1,355,000	\$ 0.25	May 10, 2011
	1,500,000	0.12 *	July 26, 2011
	2,700,000 (i)	0.27	August 24, 2012
	250,000	0.08	May 7, 2014
	100,000	0.05	May 28, 2014
	200,000	0.12	September 24, 2014
	230,000	0.215	April 7, 2015
	300,000	0.185	June 25, 2015
<b>Warrants</b>	88,320	0.25	April 9, 2011
	250,000	0.45	April 8, 2012

\* Re-priced the exercise price during the year ended July 31, 2010 from \$0.34 to \$0.12.

(i) Subsequent to October 31, 2010, 520,000 options expired.

**8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	2010	2009
Cash paid during the year for interest	\$ 6,552	\$ 5,737
Cash paid during the year for income taxes	\$ -	\$ -

During the three month period ended October 31, 2010, the Company had the following significant non-cash investing and financing activities.

- a) included in accounts payable \$12,306 (July 31, 2010 - \$21,003) of mineral property costs.



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**8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd...)**

- b) amortization allocated to mineral properties of \$465 (2009 - \$Nil).

**9. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) paid or accrued professional fees of \$17,450 (2009 - \$17,500) to a partnership in which a director has an interest. As at October 31, 2010 an amount of \$40,144 (2009 - \$29,500) owing was included in accounts payable;
- b) paid management fees of \$25,500 (2009 - \$24,000) to a corporation owned by a director of the Company;
- c) paid consulting fees of \$17,406 (2009 - \$16,900) to a director of a subsidiary;
- d) paid administration fees of \$3,030 (2009 - \$3,000) recorded as office fees to a director of the Company.

These transactions were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties. These figures do not include stock-based compensation (see Note 7).

**10. FINANCIAL INSTRUMENTS AND RISK**

The Company's financial instruments consist of cash and cash equivalents, receivables, investments, accounts payable and accrued liabilities and loan payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

**Concentration of credit risk**

Financial instruments that potentially subject the Company to a significant concentration of credit risk due to the potential for counterparties to default on their contractual obligations consist primarily of investments and receivables. The maximum potential loss on these financial instruments is equal to the carrying amounts of these items. The Company limits its exposure to credit loss by dealing with counterparties it believes to be creditworthy.

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

**Fair value**

The Company estimates the fair value of its financial instruments based on current interest rates, market value and pricing of financial instruments with comparable terms. Unless otherwise indicated, the carrying value of these financial instruments approximates their fair market value because of the near maturity of those instruments.

As at October 31, 2010, the carrying amount of current financial assets and liabilities approximated the fair value because of the near maturity of those instruments and the carrying value of the demand non-revolving bridge loan (Note 6) is considered to approximate fair value since it bears interest at current rates for similar types of borrowing arrangements.

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**10. FINANCIAL INSTRUMENTS AND RISK (cont'd....)**

**Fair value (cont'd...)**

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

	Level 1	Level 2	Level 3
Assets			
Cash and cash equivalents	\$ 318,852	\$ -	\$ -
Investments	-	-	596,450

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

*Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. At October 31, 2010, the Company had \$596,450 in Investments. The Company is exposed to credit risk to the extent that the recoverability of the Investments is unknown (Note 5).

*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 October 31, 2010, the Company had current assets of \$348,820 (July 31, 2010 - \$169,698) to settle current liabilities of \$860,556 (July 31, 2010 - \$858,289), which include a \$708,000 loan that is secured by the Company's investment in Plan Notes (Note 6). All of the Company's financial liabilities are classified as current and may mature within the next fiscal period.

*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 is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to floating rate of interest. The interest rate risks on cash and on the Company's obligations are not considered significant.

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**10. FINANCIAL INSTRUMENTS AND RISK (cont'd...)**

**Fair value (cont'd...)**

*Market risk (cont'd...)*

(b) Foreign currency risk

The Company has monetary assets and liabilities denominated in foreign currencies and non-monetary assets represented by mineral exploration interests in the Republic of South Africa and New Zealand. The Company could accordingly be at risk for foreign currency fluctuations.

As at October 31, 2010, the Company had the following financial instruments in ZAR\$:

	CAD \$ equivalent	ZAR \$
Cash	18,938	129,008
Accounts receivable	10,807	73,618
Accounts payable and accrued liabilities	41,982	285,980

As at October 31, 2010, ZAR\$ amounts were converted at a rate of ZAR\$1 to \$0.1468 Canadian dollars.

As at October 31, 2010, the Company had the following financial instruments in NZD\$:

	CAD \$ equivalent	NZD \$
Cash	3,489	4,461
Accounts payable and accrued liabilities	11,996	15,336

As at October 31, 2010, NZD\$ amounts were converted at a rate of NZD\$1 to \$0.7822 Canadian dollars.

(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, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. The Company is potentially exposed to price risk on its Investments (Note 5).

**11. COMMITMENT**

The Company has committed to rent office space for \$3,193 per month until February 28, 2011.

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**12. JOINT VENTURE OPERATIONS**

The financial statements include the Company's 50% interest in MGI, as follows:

	October 31, 2010	October 31, 2009
Cash	\$ 1,778	\$ 1,753
Non-cash working deficiency	(23,860)	(24,188)
<b>Loss for the period ended October 31, 2010</b>	<b>\$ (946)</b>	<b>\$ (11,659)</b>
<b>Cash flows from operating activities for the period ended October 31, 2010</b>	<b>\$ (18)</b>	<b>\$ (1,670)</b>
<b>Cash flows from financing activities for the period ended October 31, 2010</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash flows from investing activities for the period ended October 31, 2010</b>	<b>\$ -</b>	<b>\$ -</b>

**13. SEGMENTED INFORMATION**

The Company primarily operates in one reportable operating segment, being the acquisition and exploration of mineral properties.

Geographic information is as follows:

	October 31, 2010	July 31, 2010
Resource properties		
South Africa	\$ 1,142,045	\$ 1,141,811
New Zealand	736,536	657,069
Equipment – New Zealand	5,736	6,201

**14. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern.

In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (ie. share capital, contributed surplus and deficit).

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue common shares through private placements. The Company is not exposed to any externally imposed capital requirements. The Company's policy remains unchanged from the prior year.