

**SUPERIOR MINING INTERNATIONAL CORPORATION**

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

**OCTOBER 31, 2009**

**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 nine month period ended October 31, 2009.

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited – Prepared by Management)

	October 31, 2009	July 31, 2009
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 609,056	\$ 34,794
Receivables	34,964	145,793
Subscriptions receivable	<u>7,200</u>	<u>-</u>
	651,220	180,587
<b>Mineral properties</b> (Note 3)	1,652,683	1,602,574
<b>Equipment</b> (Note 4)	8,194	8,858
<b>Investments</b> (Note 5)	<u>582,872</u>	<u>583,277</u>
	<u>\$ 2,894,969</u>	<u>\$ 2,375,296</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 102,744	\$ 98,116
Loan payable (Note 6)	<u>708,000</u>	<u>708,000</u>
	<u>810,744</u>	<u>806,116</u>
<b>Non-controlling interest</b>	<u>(9,032)</u>	<u>(8,854)</u>
<b>Shareholders' equity</b>		
Capital stock (Note 7)	15,673,393	15,000,493
Contributed surplus (Note 7)	2,093,736	1,968,612
Deficit	<u>(15,673,872)</u>	<u>(15,391,071)</u>
	<u>2,093,257</u>	<u>1,578,034</u>
	<u>\$ 2,894,969</u>	<u>\$ 2,375,296</u>

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

**Commitment** (Note 11)

**Subsequent events** (Note 3)

**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 AND DEFICIT**  
(Unaudited – Prepared by Management)  
**THREE MONTH PERIODS ENDED OCTOBER 31**

	2009	2008
<b>EXPENSES</b>		
Administration	\$ -	\$ 4,901
Bank charges and interest	5,785	8,433
Consulting	20,900	27,778
Filing and transfer agent fees	6,373	2,128
Foreign exchange	(3,281)	(1,484)
Management fees	24,000	24,000
Office, telephone and printing	6,441	14,990
Professional fees	48,228	71,068
Property investigation	7,601	22,870
Stock-based compensation (Note 7)	125,124	49,527
Travel	31,135	5,919
<b>Loss before other items</b>	<u>(272,306)</u>	<u>(230,130)</u>
<b>OTHER ITEMS</b>		
Interest income	-	9,306
Write off of loan receivable	(10,673)	-
Unrealized loss on investment	-	(2,220,680)
	<u>(10,673)</u>	<u>(2,211,374)</u>
<b>Loss and comprehensive loss for the period before income tax and non-controlling interest</b>	(282,979)	(2,441,504)
<b>Non-controlling interest</b>	178	(4,058)
<b>Current income tax</b>	-	(1,447)
<b>Future income tax recovery</b>	<u>-</u>	<u>9,076</u>
<b>Loss and comprehensive loss for the period</b>	(282,801)	(2,437,933)
<b>Deficit, beginning of period</b>	<u>(15,391,071)</u>	<u>(10,532,641)</u>
<b>Deficit, end of period</b>	<u>\$(15,673,872)</u>	<u>\$(12,970,574)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.01)</u>	<u>\$ (0.07)</u>
<b>Weighted average common shares outstanding for basic loss per share</b>	37,142,778	35,707,995

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

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited – Prepared by Management)  
**THREE MONTH PERIODS ENDED OCTOBER 31**

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss and comprehensive loss for the period	\$ (282,801)	\$ (2,437,933)
Items not affecting cash		
Unrealized loss on investment	-	2,220,680
Amortization	664	949
Stock-based compensation	125,124	49,527
Future income tax recovery	-	(9,076)
Non-controlling interest	(178)	4,058
Net change in non-cash working capital	<u>132,073</u>	<u>9,170</u>
Net cash used in operating activities	<u>(25,118)</u>	<u>(162,625)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mineral properties and deferred exploration costs	(73,925)	(266,238)
Acquisition of capital assets	-	-
Loan receivable	-	-
Repayment of investment	<u>405</u>	<u>-</u>
Net cash used in investing activities	<u>(73,520)</u>	<u>(266,238)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of shares for cash	720,000	-
Share issue costs	<u>(47,100)</u>	<u>-</u>
Net cash provided by financing activities	<u>672,900</u>	<u>-</u>
<b>Change in cash and cash equivalents for the period</b>	574,262	(428,863)
<b>Cash and cash equivalents, beginning of period</b>	<u>34,794</u>	<u>1,839,228</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 609,056</u>	<u>\$ 1,410,365</u>
<b>Cash and cash equivalents consist of:</b>		
Cash on hand	\$ 609,056	\$ 304,010
Term deposits	<u>-</u>	<u>1,106,355</u>
	<u>\$ 609,056</u>	<u>\$ 1,410,365</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**  
(Unaudited – Prepared by Management)  
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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, 2009 the Company had an accumulated deficit of \$15,673,872 (July 31, 2009 - \$15,391,071). In addition, the Company has not generated significant 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.

**Principles of consolidation**

These financial statements include the accounts of the Company, its wholly owned subsidiaries Superior Mining South Africa (PTY) Corporation, Owl Eye Trading 71 (Pty) Ltd., Cinquarnis Diamonds (Pty) Ltd., Westland

Minerals Limited., its proportionate share of Middelvlei Gold & Investments (Pty) Ltd. and its 87% ownership of Turquoise Moon Trading 403 Pty. Ltd. All inter-company transactions are eliminated on consolidation.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

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

*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 upon adoption.

*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”. The Company is currently evaluating the impact upon adoption.

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 upon adoption.

*International financial reporting standards (“IFRS”)*

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The 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. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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**3. MINERAL PROPERTIES**

October 31, 2009	Mangalisa Project, South Africa	Westland Project, New Zealand	Victory Gold Project (formerly named the Placer Property), New Zealand	Ray Thomas Project, New Zealand	Total
Acquisition costs:					
Balance, beginning of period	\$ 3,843	\$ 2,447	\$ 90,687	\$ 22,917	\$ 119,894
Additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,977</u>	<u>4,977</u>
Balance, end of period	<u>3,843</u>	<u>2,447</u>	<u>90,687</u>	<u>27,894</u>	<u>124,871</u>
Exploration expenditures incurred during the period					
Geological and consulting	20,780	-	8,328	7,801	36,909
Office and miscellaneous	7,559	-	-	-	7,559
Amortization (Note 4)	<u>-</u>	<u>-</u>	<u>332</u>	<u>332</u>	<u>664</u>
	28,339	-	8,660	8,133	45,132
Balance, beginning of period	<u>1,050,608</u>	<u>-</u>	<u>199,712</u>	<u>232,360</u>	<u>1,482,680</u>
Total deferred exploration	<u>1,078,947</u>	<u>-</u>	<u>208,372</u>	<u>240,493</u>	<u>1,527,812</u>
Balance, end of period	<u>\$ 1,082,790</u>	<u>\$ 2,447</u>	<u>\$ 299,059</u>	<u>\$ 268,387</u>	<u>\$ 1,652,683</u>

July 31, 2009	Mangalisa Project, South Africa	Westland Project, New Zealand	Placer Gold Project, New Zealand	Ray Thomas Project, New Zealand	Total
Acquisition costs:					
Balance, beginning of year	\$ -	\$ -	\$ 77,781	\$ 14,594	\$ 92,375
Additions	<u>3,843</u>	<u>2,447</u>	<u>12,906</u>	<u>8,323</u>	<u>27,519</u>
Balance, end of year	<u>3,843</u>	<u>2,447</u>	<u>90,687</u>	<u>22,917</u>	<u>119,894</u>
Exploration expenditures incurred during the year					
Drilling	616,642	-	23,596	23,596	663,834
Geological and consulting	420,688	-	46,510	55,110	522,308
Office and miscellaneous	13,278	-	7,429	5,339	26,046
Travel and accommodations	<u>-</u>	<u>-</u>	<u>2,389</u>	<u>2,389</u>	<u>4,778</u>
	1,050,608	-	79,924	86,434	1,216,966
Balance, beginning of year	<u>-</u>	<u>-</u>	<u>119,788</u>	<u>145,926</u>	<u>265,714</u>
Total deferred exploration	<u>1,050,608</u>	<u>-</u>	<u>199,712</u>	<u>232,360</u>	<u>1,482,680</u>
Balance, end of year	<u>\$ 1,054,451</u>	<u>\$ 2,447</u>	<u>\$ 290,399</u>	<u>\$ 255,277</u>	<u>\$ 1,602,574</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.

Subsequent to October 31, 2009, 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 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 the Company’s direct and indirect interest in TMT will be reduced to 20.4% (7.4% directly and 13% indirectly).

**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 (“Placer”).

Subsequent to October 31, 2009, the Company amended the option. Under the terms of the amended option agreement (the “Agreement”), Placer 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, Superior will grant to the Victory 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

*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”).

The Company can acquire 100% ownership of R & M and its permits and any other further permits by completing a feasibility report within five years. If the measured and indicated mineral resource defined in the feasibility report contains a minimum of one million ounces of gold on the property, the Company will pay \$5,500,000 AUD (approximately \$5,372,000 CAD) and \$5.00 AUD (approximately \$4.88 CAD) for each additional ounce of gold. If the ounces of gold on the property are less than one million ounces, the Company will pay a purchase price based on a formula of \$5.50 AUD (approximately \$5.37 CAD) for each ounce of gold.

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**4. EQUIPMENT**

	October 31, 2009			July 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Vehicle	\$ 14,887	\$ 6,693	\$ 8,194	\$ 14,887	\$ 6,029	\$ 8,858

**5. INVESTMENTS**

	October 31, 2009	July 31, 2009
Plan Notes	\$ 582,872	\$ 583,277

During the year ended July 31, 2007 the Company acquired 7,210,000 shares representing approximately a 17.575% interest in Pamodzi Gold Limited, a public company quoted on the Johannesburg Stock Exchange. At August 1, 2007 the Company recognized a \$717,864 decrease to retained earnings to reflect the opening fair value. At July 31, 2008, the share price was approximately ZAR 4.00 per share, which represented a market value of \$4,002,992, resulting in an unrealized loss on investment, during 2008, of \$17,086,258. During the year ended July 31, 2009, Pamodzi Gold Limited was taken off of the Johannesburg Stock Exchange and put into receivership and the Company determined that the shares have nil fair value and wrote off the investment, resulting in a loss on investment during the year ended July 31, 2009 of \$3,839,412.

At October 31, 2009, long-term 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. These investments were designated as held-for-trading and are accounted for at their fair value.

The market for asset-backed commercial paper not sponsored by banks froze up in early August 2007 after issuers were unable to roll over maturing notes. A Pan-Canadian Investors Committee for Third-Party Structured Asset-Backed Commercial Paper (the “Committee”) was tasked with overseeing the restructuring of the ABCP. On January 12, 2009, the Ontario Superior Court approved a deal to swap essentially non-tradable, mortgage-backed debt for new securities. On January 21, 2009, the Committee announced the successful implementation of the restructuring plan. Upon the restructuring old short-term ABCP notes were exchanged for longer-term notes of various classes with maturities that generally approximate those of the assets previously contained in the underlying conduits. The Committee also announced that interest payment in respect of interest accrued since the original liquidity disruption in August 2007 to August 31, 2008 (net of restructuring costs) would be made in two installments based on the ABCP note type.

As part of the Plan, the Company received new notes (“Plan Notes”) of various classes issued by trusts referred to as MAVII, including senior notes Class A-1, subordinated notes Class C, and ineligible tracking notes Class 13. At the time of the restructuring, DBRS assigned a rating “A” to the MAV II Class A-1 notes. The MAV II Class C and Class 13 notes have not been rated by DBRS.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**5. INVESTMENTS (cont'd...)**

Upon the restructuring, the Company received the Plan Notes as follows:

Notes	Maturity Date (1)	Interest Rate (2)	Face Value, \$	Fair Value Estimate, \$
MAV II Class A-1	July 2056	BA - 0.5%	847,870	567,350
MAV II Class C MAV II Class 13 (Ineligible Asset Tracking Notes)	July 2056 -	BA + 20% -	26,222 133,050	2,622 13,305
<b>Total</b>			<b>1,007,142</b>	<b>583,277</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.

Accounting for the exchange of the ABCP for new notes included removal of the ABCP from the Company's balance sheet and recognition of the new notes at their fair value. The new 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 is determined using a discounted cash flow approach based on the maximum use of inputs observed from the market on reporting dates.

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 7.5 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 notes are viewed as highly speculative with regard to ultimate payment of principal at maturity in 2016. Accordingly, it is expected that Class C notes will trade at approximately 10% of face par value.

The fair value of the sub-prime backed Class 13 Notes was calculated as 10% of par value. 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. As a result of the notes exchange, during the year ended July 31, 2009 the Company recorded the fair value of its new investments as \$583,277 and provision for impairment of \$218,531 (\$146,942 impairment charge recognized in the fiscal 2007). During the period ended October 31, 2009, the Company received a repayment on investment of \$405 reducing the fair value of the Plan Notes to \$582,872.

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.

**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 \$5,737 in interest during the period ended October 31, 2009.

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**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, 2008	35,707,995	\$ 15,000,493	\$ 1,877,673
Stock-based compensation	-	-	90,939
Balance, July 31, 2009	35,707,995	15,000,493	1,968,612
Private placement	6,000,000	720,000	-
Share issuance costs	-	(47,100)	-
Stock-based compensation	-	-	125,124
Balance, October 31, 2009	41,707,995	\$ 15,673,393	\$ 2,093,736

During the period ended October 31, 2009, the Company completed a non-brokered private placement for \$720,000 by issuing 6,000,000 common shares at a price of \$0.12 per share. The Company paid \$47,100 in cash for finders' fees.

**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. 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 period ended October 31, 2009, the Company:

- a) amended the exercise price of 1,500,000 stock options from \$0.34 to \$0.12 resulting in additional stock-based compensation using the Black-Scholes option pricing model of \$22,576. The additional weighted average fair value of resulting from the amended options was \$0.02. These amounts were also recorded as contributed surplus on the balance sheet
- b) 900,000 stock options resulting in stock-based compensation using the Black-Scholes option pricing model of \$98,900. The weighted average fair value of options granted was \$0.11. These amounts were also recorded as contributed surplus on the balance sheet.

During the year ended July 31, 2009, the Company granted 350,000 stock options resulting in stock-based compensation using the Black-Scholes option pricing model of \$15,810 of which \$3,648 was expensed in the current quarter. The weighted average fair value of options granted was \$0.05. These amounts were also recorded as contributed surplus on the balance sheet.

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

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

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

	October 31, 2009	October 31, 2008
Risk-free interest rate	2.62%	4.0%
Expected life of options	5 years	5 years
Annualized volatility	152%	115 %
Dividend rate	0.00%	0.00%

As at October 31, 2009, the following stock options were outstanding:

Number of Shares	Exercise Price	Expiry Date
1,455,000	\$ 0.25	May 10, 2011
100,000	0.34	July 26, 2011
1,500,000	0.12 *	July 26, 2011
2,800,000	0.27	August 24, 2012
250,000	0.08	May 7, 2014
100,000	0.05	May 28, 2014
900,000	0.12	September 24, 2014

\* Re-priced the exercise price during the period ended October 31, 2009 from \$0.34 to \$0.12.

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

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2008	5,955,000	\$ 0.28
Options granted	600,000	0.13
Options cancelled	(350,000)	0.22
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	900,000	0.12
Balance, October 31, 2009	7,105,000	\$ 0.21
Number of options currently exercisable	6,849,605	\$ 0.21

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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, 2008	2,764,150	\$ 0.60
Expired	<u>(2,764,150)</u>	0.60
Balance, July 31, 2009 and October 31, 2009	-	\$ -

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

	October 31, 2009	October 31, 2008
Cash paid during the period for interest	\$ 5,737	\$ 8,384
Cash paid during the period for income taxes	\$ -	\$ 1,447

During the period ended October 31, 2009, the Company had the following significant non-cash investing and financing activities.

- a) Included in accounts payable \$Nil (July 31, 2009 - \$34,816) of mineral property costs.

**9. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued professional fees of \$17,500 (2008 - \$30,000) to a partnership in which a director has an interest. As at October 31, 2009 an amount of \$29,500 (2008 - \$46,000) owing was included in accounts payable.
- b) Paid management fees of \$24,000 (2008 - \$24,000) to a corporation in which a director has an interest.
- c) Paid consulting fees of \$16,900 (2008 - \$16,428) to a director of a subsidiary.
- d) Paid administration fees of \$3,000 recorded as office fees (2008 - \$3,000) 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.

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**10. FINANCIAL INSTRUMENTS AND RISK**

The Company's financial instruments consist of cash and cash equivalents, receivables, subscriptions receivable, 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.

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, 2009, the Company had \$582,872 in Plan Notes. The Company is exposed to credit risk to the extent that the recoverability of the Plan Notes is unknown (Note 6).

*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, 2009, the Company had current assets of \$651,220 to settle current liabilities of \$810,744. 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.

(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 and developing legal and political environments.

As at October 31, 2009, the Company had the following financial instruments in ZAR\$:

	CAD \$ equivalent	ZAR \$
Cash	\$79,638	\$575,005
Accounts payable and accrued liabilities	\$14,382	\$103,840

As at October 31, 2009, ZAR\$ amounts were converted at a rate of ZAR\$1 to \$0.13850 Canadian dollars.

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

(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 Plan Notes (Note 6).

**11. COMMITMENT**

The Company has committed to rent office space for \$870 per month until February 28, 2010.

**12. JOINT VENTURE OPERATIONS**

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

	October 31, 2009	October 31, 2008
Cash	\$ 1,753	\$ 14,430
Non-cash working capital	(24,188)	(24,205)
<b>Loss for the three month period ended October 31, 2009</b>	<b>\$ (11,659)</b>	<b>\$ (2,218,665)</b>
Cash flows from operating activities for the three month period ended October 31, 2009	\$ (1,670)	\$ (9,332)
Cash flows from financing activities for the three month period ended October 31, 2009	\$ -	\$ -
Cash flows from investing activities for the three month period ended October 31, 2009	\$ -	\$ -



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**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:

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	October 31, 2009	July 31, 2009
Resource properties		
South Africa	\$ 1,082,790	\$ 1,054,451
New Zealand	569,893	548,123
Equipment – New Zealand	8,194	8,858

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**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 period.