



**PARAGON MINERALS CORPORATION**

**AUDITED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010**

**and**

**SEPTEMBER 30, 2009**

## AUDITORS' REPORT

To the Shareholders of Paragon Minerals Corporation

We have audited the consolidated balance sheets of Paragon Minerals Corporation as at September 30, 2010 and 2009 and the statements of operations and deficit, comprehensive loss and cash flows for each of 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 each of the years then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANTS

Vancouver, British Columbia  
January 6, 2011

# PARAGON MINERALS CORPORATION

BALANCE SHEETS  
AS AT SEPTEMBER 30

	2010	2009
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 3)	\$ 318,693	\$ 390,358
Amounts receivable	20,068	12,667
Marketable securities (Note 5)	206,890	707,225
Prepaid expenses and deposits	82,709	24,512
	628,360	1,134,762
<b>Equipment</b> (Note 4)	19,135	31,086
<b>Mineral properties</b> (Note 6)	9,096,795	9,619,538
	\$ 9,744,290	\$ 10,785,386

## LIABILITIES AND SHAREHOLDERS' EQUITY

### Current liabilities

Accounts payable and accrued liabilities	\$ 95,370	\$ 49,202
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### Shareholders' equity

#### Accumulated comprehensive loss

Deficit	(6,472,164)	(4,582,923)
Accumulated other comprehensive loss (Note 8)	(53,548)	(58,933)

(6,525,712) (4,641,856)

<b>Share capital</b> (Note 7)	14,696,513	14,058,649
<b>Contributed surplus</b> (Note 7)	1,478,119	1,319,391

9,648,920 10,736,184

\$ 9,744,290 \$ 10,785,386

Nature and continuance of operations (Note 1)

### Approved by the Board of Directors:

*"Michael Vande Guchte"*

*"David Adamson"*

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Michael J. Vande Guchte  
Director

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David W. Adamson  
Director

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

**PARAGON MINERALS CORPORATION**

## STATEMENTS OF OPERATIONS AND DEFICIT

YEAR ENDED SEPTEMBER 30

	<b>2010</b>	<b>2009</b>
<b>EXPENSES</b>		
Amortization	\$ 9,751	\$ 10,440
Investor relations	28,686	9,914
Office and miscellaneous	74,714	73,221
Part XII.6 flow-through tax	-	1,855
Professional fees	79,333	86,068
Salaries and benefits	155,354	251,270
Shareholder information	37,212	27,242
Stock-based compensation	119,518	51,870
Transfer agent and filing fees	17,235	14,748
Travel and accommodation	11,609	10,791
<b>Loss before other items</b>	<b>(533,412)</b>	<b>(537,419)</b>
<b>OTHER ITEMS</b>		
Interest income	454	9,359
Other income	476	819
Gain on disposition of mineral properties	-	363,014
Loss on sale of marketable securities	(121,328)	(12,014)
Write-off of mineral properties	(1,466,431)	(1,445,619)
	<b>(1,586,829)</b>	<b>(1,084,441)</b>
<b>Loss before income taxes</b>	<b>(2,120,241)</b>	<b>(1,621,860)</b>
<b>Future income tax recovery</b>	<b>231,000</b>	<b>218,911</b>
<b>Net loss for the year</b>	<b>(1,889,241)</b>	<b>(1,402,949)</b>
<b>Deficit, beginning of year</b>	<b>(4,582,923)</b>	<b>(3,179,974)</b>
<b>Deficit, end of the year</b>	<b>\$ (6,472,164)</b>	<b>\$ (4,582,923)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.06)</b>	<b>\$ (0.05)</b>
<b>Weighted average number of common shares outstanding</b>	<b>31,188,315</b>	<b>26,011,038</b>

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

**PARAGON MINERALS CORPORATION**

## STATEMENTS OF COMPREHENSIVE LOSS

YEAR ENDED SEPTEMBER 30

	<b>2010</b>	<b>2009</b>
<b>Net loss for the year</b>	\$ (1,889,241)	\$ (1,402,949)
Other comprehensive income		
Unrealized gain (loss) on change in fair value of marketable securities	(115,943)	45,285
Realized loss on sale of marketable securities	121,328	12,014
	5,385	57,299
<b>Comprehensive loss for the year</b>	\$ (1,883,856)	\$ (1,345,650)

# PARAGON MINERALS CORPORATION

## STATEMENTS OF CASH FLOWS

YEAR ENDED SEPTEMBER 30

	2010	2009
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (1,889,241)	\$ (1,402,949)
Items not involving cash:		
Amortization	9,751	10,440
Stock-based compensation	119,518	51,870
Other income	-	(819)
Gain on disposition of mineral properties	-	(363,014)
Loss on sale of marketable securities	121,328	12,014
Write-off of mineral properties	1,466,431	1,445,619
Future income tax recovery	(231,000)	2,840
Other non-cash item	-	(218,911)
Changes in non-cash working capital items:		
Amounts receivable	(14,298)	201,442
Prepaid expenses and deposits	(58,197)	490
Accounts payable and accrued liabilities	8,445	(58,164)
	(467,263)	(319,142)
<b>INVESTING ACTIVITIES</b>		
Mineral property costs	(888,018)	(959,379)
Proceeds on sale of equipment	-	1,742
Proceeds from sale of marketable securities	397,142	69,109
Proceeds from disposition of mineral properties	-	5,000
	(490,876)	(883,528)
<b>FINANCING ACTIVITIES</b>		
Common shares issued for cash	1,000,028	-
Share issuance costs	(113,554)	-
	886,474	-
Decrease in cash and cash equivalents during the year	(71,665)	(1,202,670)
Cash and cash equivalents, beginning of year	390,358	1,593,028
<b>Cash and cash equivalents, end of year</b>	<b>\$ 318,693</b>	<b>\$ 390,358</b>
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for Income taxes	\$ -	\$ -

### Supplemental disclosures with respect to cash flows (Note 9)

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

**PARAGON MINERALS CORPORATION**  
**SCHEDULE OF MINERAL PROPERTIES**

	Balance, September 30, 2008	Gross Expenditure/ (Recoveries)	Write-offs	Balance, September 30, 2009	Gross Expenditures/ (Recoveries)	Write-offs	Balance, September 30, 2010
<b>GOLD PROPERTIES</b>							
<b>JBP Linear</b>							
Plan of arrangement acquisition costs (1)	\$ 1,625,276	\$ -	\$ -	\$ 1,625,276	\$ -	\$ -	\$ 1,625,276
Option payments (2)	33,333	15,525	-	48,858	15,000	-	63,858
Exploration costs							
Geological and geochemical	253,911	66,926	-	320,837	22,336	-	343,173
Drilling	580,230	-	-	580,230	1,300	-	581,530
Geophysical	96,320	-	-	96,320	-	-	96,320
Travel	2,136	250	-	2,386	-	-	2,386
Other	7,275	100	-	7,375	-	-	7,375
Stock-based compensation	94,405	5,758	-	100,163	-	-	100,163
	2,692,886	88,559	-	2,781,445	38,636	-	2,820,081
Recoveries (3)	(366,016)	(2,604)	-	(368,620)	-	-	(368,620)
Project management fees	(34,114)	(386)	-	(34,500)	-	-	(34,500)
Option payments received	(6,250)	-	-	(6,250)	-	-	(6,250)
	2,286,506	85,569	-	2,372,075	38,636	-	2,410,711
<b>Golden Promise JV</b>							
Plan of arrangement acquisition costs (1)	374,829	-	-	374,829	-	-	374,829
Option payments (2)	55,000	-	-	55,000	-	-	55,000
Exploration costs							
Geological and geochemical	55,827	12,062	-	67,889	-	-	67,889
Drilling	707,451	-	-	707,451	-	-	707,451
Travel	8,789	-	-	8,789	-	-	8,789
Other	24,775	-	-	24,775	-	-	24,775
Stock-based compensation	56,364	1,260	-	57,624	-	-	57,624
	1,283,035	13,322	-	1,296,357	-	-	1,296,357
Recoveries (3)	(848,689)	(10,755)	-	(859,444)	-	-	(859,444)
Project management fees	(52,377)	(542)	-	(52,919)	-	-	(52,919)
Option payments received	(60,400)	(323,594)	-	(383,994)	-	-	(383,994)
	321,569	(321,569)	-	-	-	-	-
<b>Gold Star Property</b>							
Option payments (2)	-	-	-	-	31,600	-	31,600
Exploration costs							
Geological and geochemical	-	-	-	-	93,618	-	93,618
Staking and maintenance	-	-	-	-	10,060	-	10,060
Travel	-	-	-	-	2,697	-	2,697
	-	-	-	-	137,975	-	137,975

-Continued-

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

# PARAGON MINERALS CORPORATION

## SCHEDULE OF MINERAL PROPERTIES (continued)

	Balance, September 30, 2008	Gross Expenditure/ (Recoveries)	Write-offs	Balance, September 30, 2009	Gross Expenditures / (Recoveries)	Write-offs	Balance, September 30, 2010
<b>GOLD PROPERTIES</b> (cont'd)							
<b>Other Gold Properties</b>							
Plan of arrangement acquisition costs (1)	\$ 1,556,739	\$ -	\$ (809,040)	\$ 747,699	\$ -	\$ (609,958)	\$ 137,741
Option payments (2)	366,546	-	(192,677)	173,869	-	(18,333)	155,536
Exploration costs							
Geological and geochemical	317,447	106,127	(165,569)	258,005	8,259	(6,911)	259,353
Drilling	709,656	2,529	(4,598)	707,587	4,100	-	711,687
Geophysical	435	-	-	435	-	-	435
Travel	6,655	1,551	(328)	7,878	-	-	7,878
Other	14,962	2,917	(150)	17,729	1,920	(7,950)	11,699
Stock-based compensation	74,784	4,480	(4,589)	74,675	-	-	74,675
	3,047,224	117,604	(1,176,951)	1,987,877	14,279	(643,152)	1,359,004
Recoveries (3)	(986,717)	(18,341)	-	(1,005,058)	-	-	(1,005,058)
Project management fees	(60,404)	(1,248)	-	(61,652)	-	-	(61,652)
Option payments received	(21,250)	(25,400)	6,250	(40,400)	(22,750)	-	(63,150)
	1,978,853	72,615	(1,170,701)	880,767	(8,471)	(643,152)	229,144
<b>BASE METAL PROPERTIES</b>							
<b>South Tally Pond</b>							
Plan of arrangement acquisition costs (1)	206,558	-	(95,611)	110,947	-	-	110,947
Option payments (2)	518,500	-	(150)	518,350	-	-	518,350
Exploration costs							
Geological and geochemical	613,756	231,166	(34,949)	809,973	164,730	-	974,703
Drilling	1,542,014	335,292	(1,767)	1,875,539	458,792	-	2,334,331
Geophysical	496,284	9,925	(86,507)	419,702	62,525	-	482,227
Travel	7,117	4,464	(887)	10,694	-	-	10,694
Other	6,872	12,450	(1,625)	17,697	5,525	-	23,222
Stock-based compensation	143,774	36,450	-	180,224	-	-	180,224
	3,534,875	629,747	(221,496)	3,943,126	691,572	-	4,634,698
Recoveries (3)	(37,779)	-	-	(37,779)	-	-	(37,779)
	3,497,096	629,747	(221,496)	3,905,347	691,572	-	4,596,919

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

# PARAGON MINERALS CORPORATION

## SCHEDULE OF MINERAL PROPERTIES (continued)

	Balance, September 30, 2008	Gross Expenditures /(Recoveries)	Write-offs	Balance, September 30, 2009	Gross Expenditures/ (Recoveries)	Write-offs	Balance, September 30, 2010
<b>BASE METAL PROPERTIES (cont'd)</b>							
<b>Lake Douglas</b>							
Plan of arrangement acquisition costs (1)	\$ 267,720	\$ -	\$ -	\$ 267,720	\$ -	\$ -	\$ 267,720
Option payments (2)	214,000	29,500	-	243,500	65,000	-	308,500
Exploration costs							
Geological and geochemical	386,706	21,743	-	408,449	15,680	-	424,129
Drilling	322,390	-	-	322,390	-	-	322,390
Geophysical	193,281	-	-	193,281	-	-	193,281
Travel	1,593	956	-	2,549	-	-	2,549
Other	750	-	-	750	5,975	-	6,725
Stock-based compensation	111,026	3,546	-	114,572	-	-	114,572
	1,497,466	55,745	-	1,553,211	86,655	-	1,639,866
Recoveries (3)	(141,773)	-	-	(141,773)	-	-	(141,773)
	1,355,693	55,745	-	1,411,438	86,655	-	1,498,093
<b>Other Base Metal properties</b>							
Plan of arrangement acquisition costs (1)	905,059	-	-	905,059	-	(788,194)	116,865
Option payments (2)	19,520	200	-	19,720	-	(19,520)	200
Exploration costs							
Geological and geochemical	39,437	72,626	(47,352)	64,711	8,362	(5,517)	67,556
Drilling	3,538	76	-	3,614	81,035	150	84,799
Geophysical	83,229	-	(2,030)	81,199	-	-	81,199
Travel	574	540	(540)	574	-	-	574
Other	23,495	-	(3,500)	19,995	-	(19,995)	-
Stock-based compensation	6,754	1,498	-	8,252	-	-	8,252
	1,081,606	74,940	(53,422)	1,103,124	89,397	(833,076)	359,445
Recoveries (3)	(20,448)	(24,663)	-	(45,111)	(87,946)	9,797	(123,260)
Project management fees	(8,102)	-	-	(8,102)	(4,130)	-	(12,232)
	1,053,056	50,277	(53,422)	1,049,911	(2,679)	(823,279)	223,953
	\$ 10,492,773	\$ 572,384	\$(1,445,619)	\$ 9,619,538	\$ 943,688	\$(1,466,431)	\$ 9,096,795

1. Properties acquired pursuant to the Rubicon Plan of Arrangement were valued at their carrying amounts on Rubicon's books, which consisted of historical acquisition and exploration expenditures.
2. Option payments include cash, share payments, and advanced royalty payments made pursuant to various property agreements.
3. Recoveries represent exploration and acquisition costs funded by partners, exploration grants received and option payments received.

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

# PARAGON MINERALS CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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### 1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated in Canada under the Canada Business Corporations Act on July 4, 2006 and is in the business of acquiring and exploring mineral property interests in Canada. The Company was incorporated to be the recipient of the Newfoundland portfolio of mineral exploration properties previously owned by Rubicon Minerals Corporation (“Rubicon”) as part of Rubicon’s re-organization under a Plan of Arrangement. The Plan of Arrangement became effective on December 8, 2006.

Pursuant to the Rubicon Plan of Arrangement, the Company received all of Rubicon’s Newfoundland mineral properties and Newfoundland office equipment in exchange for 12,801,768 common shares of the Company, which were distributed to the Rubicon shareholders of record at that time. The Company also accepted the obligation to issue shares upon the exercise of stock options and warrants issued under the Plan of Arrangement. These options and warrants represent the portion of the value of Rubicon options and warrants outstanding at the completion of the plan of arrangement attributable to the spun-out Newfoundland assets.

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

These financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and has an accumulated operating deficit of \$6,472,164 at September 30, 2010. The ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate equity financing to fund its exploration and administrative expenses. The financial statements do not include any adjustments to the recoverability and classification of reduced asset amounts and classification of liabilities that might be necessary should the Company be unable to continue operations. These adjustments could be material.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of presentation**

These financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”).

#### **Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of any contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues earned and expenses incurred during the period. Significant areas requiring the use of management estimates relate to determination of stock-based compensation, impairment of assets, valuation of investments, provision for reclamation costs, and future income taxes. Actual results could differ from those estimates.

#### **Marketable securities**

Marketable securities are classified as available for sale and carried at their market value based upon quoted market prices.

# PARAGON MINERALS CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Equipment**

Equipment is recorded at cost less accumulated amortization. Amortization is recognized using the declining balance method at the following annual rates:

Furniture and office equipment	20%
Computer equipment	30%
Software	45%

#### **Mineral properties**

The Company records its interest in mineral properties at cost. Acquisition, option payments and direct exploration costs are deferred until the properties are placed into production, sold or abandoned, at which time these deferred costs will be amortized on a unit-of-production basis, charged to operations if sold, or written-off.

Mineral property cost includes any cash consideration and advance royalties paid, and the fair market value of shares issued, if any, on the acquisition of mineral property interests. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The recorded amounts of property claim acquisition, option payments and direct exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company's management reviews capitalized costs on its property interests on a periodic and annual basis for impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Administration and management fees earned, which generally range from 8% to 10% of the allowable expenditures associated with exploration on certain properties, are offset against the historical costs deferred on those properties. Administrative costs are expensed as incurred.

#### **Asset retirement obligation**

The Company recognizes the fair value of an Asset Retirement Obligation ("ARO") in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value is determined through a review of engineering studies, industry guidelines and managements estimate on a site-by-site basis. The fair value of the ARO is recorded as a liability, with a corresponding increase in the amount of the related asset. The capitalized amount is depleted on the unit-of-production method based on proven and probable reserves. The liability amount of accretion is expensed in the period. Actual costs incurred upon the settlement of the ARO are charged against the liability. At September 30, 2010 the Company does not have any asset retirement obligations.

#### **Impairment of long-lived assets**

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount of the asset exceeds its estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

#### **Environmental expenditures**

The operations of the Company have been and may in the future, be affected in varying degrees by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly from country to country and are not predictable. Environmental

# PARAGON MINERALS CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

expenditures that relate to ongoing environmental and reclamation programs are charged against operations as incurred or capitalized and amortized depending on their expected future economic benefit. Estimated future removal and site restoration costs are recognized when the ultimate liability is reasonably determinable, and are charged against operations over the estimated remaining life of the related business operations, net of expected recoveries.

#### **Financial instruments**

The Company classifies its financial instruments into one of the following categories: held-to-maturity investments, loans and receivables, available-for-sale, held for trading or other financial liabilities. The Company has designated its cash and cash equivalents as held-for-trading, marketable securities as available-for-sale, accounts receivable as loans and receivables and accounts payable and accrued liabilities as other financial liabilities.

All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend upon initial classification as follows: held-for-trading financial instruments 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 in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income.

Transactions costs that are directly attributable to the acquisition or issue of financial instruments and that are classified as other than held-for-trading, are expensed as incurred and included in the initial carrying value of such instruments.

#### **Loss per share**

Basic loss per share are calculated using the weighted average number of common shares outstanding.

The Company uses the treasury stock method for computing diluted loss per share. This method assumes that any proceeds obtained upon exercise of options or warrants would be used to purchase common shares at the average market price during the period.

The result of this calculation is anti-dilutive to basic loss per share and it is therefore not presented in those circumstances.

#### **Stock-based compensation**

The Company uses the fair value method for measuring compensation costs and therefore all stock based awards to employees and non-employees are recorded at fair value on the date of the grant and the associated expense is amortized over the vesting period.

Consideration received on the exercise of stock options and compensation options and warrants is recorded as share capital and the related contributed surplus, originally recognized when the options were granted, is transferred to share capital.

#### **Flow-through shares**

Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the investor may claim the tax deductions arising from the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and shareholders' equity is reduced.

# PARAGON MINERALS CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

If the Company has sufficient unused tax loss carry-forwards to offset all or part of this future income tax liability and no future income tax assets have been previously recognized for these carry-forwards, a portion of such unrecognized losses is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

#### **Income taxes**

The Company accounts for the tax consequences of the differences in the carrying amounts of assets and liabilities and their tax bases using tax rates expected to apply when these temporary differences are expected to be settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

#### **Comprehensive income (loss)**

Comprehensive income is the overall change in the net assets of the Company for the period, other than changes attributed to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income has not changed. Other comprehensive income includes gains or losses which, in accordance to Canadian GAAP, are recognized in comprehensive income, but excluded from net income.

#### **Comparative figures**

The comparative figures have been reclassified where necessary to conform to the presentation of the current fiscal year.

#### **New accounting policies adopted**

##### *Financial instruments - disclosures*

In June 2009, the CICA amended Section 3862, Financial Instruments – Disclosures, that includes additional disclosure requirements about fair value measurements for financial instruments and liquidity risk disclosures effective for fiscal years ending after September 30, 2009. Enhanced fair value measurements entail a three-level hierarchy that takes into account the significance of the inputs used in making the fair value measurements. The amendment clarifies that liquidity risk relates to financial liabilities that are settled by delivering cash or another financial asset. Enhanced liquidity risk disclosures include a maturity analysis for derivative financial liabilities based on how an entity manages liquidity risk. The Company has included the disclosure recommended by the new handbook sections in Note 11 to these financial statements.

#### **Future accounting changes**

##### *Convergence to International Financial Reporting Standards (“IFRS”)*

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition date of October 1, 2011 will require the restatement, in the fiscal 2012 financials, of amounts reported by the Company for the year ended September 30, 2012, as such comparative information will also be prepared under IFRS.

The Company’s IFRS project consists of three phases – scoping and planning, evaluation and design, and implementation and review. The Company has completed the scoping and planning stage which included putting together an initial project plan, education, and identification of a number of differences between Canadian GAAP and IFRS that relate to the Company. The Company is now in the evaluation and design stage.

# PARAGON MINERALS CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A detailed assessment of the impact of adopting IFRS on the Company's financial statements, accounting policies, information technology and data systems, internal controls over financial reporting, disclosure controls and procedures, and the various covenants and capital requirements and business activities has not been completed. The impact on such elements will depend on the particular circumstances prevailing at the adoption date and the IFRS accounting policy choices made by the Company.

The Company has not completed its quantification of the effects of adopting IFRS. The financial performance and financial position as disclosed in our Canadian GAAP financial statements may be significantly different when presented in accordance with IFRS.

#### *Business Combinations, Non-controlling Interest and Consolidated Financial Statements*

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which replace CICA Handbook Sections 1581, Business Combinations, and Section 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual financial statements for its fiscal year beginning October 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

### 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2010		2009	
Cash	\$	41,802	\$	120,367
Bankers acceptances with under 3 month maturity		276,891		269,991
	\$	318,693	\$	390,358

### 4. EQUIPMENT

The Company's equipment is summarized as follows:

	2010			2009	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	
Furniture and office equipment	\$ 5,186	\$ 2,236	\$ 2,950	\$ 3,687	
Computer equipment	55,815	42,650	13,165	18,807	
Software	23,102	20,082	3,020	8,592	
	\$ 84,103	\$ 64,968	\$ 19,135	\$ 31,086	

### 5. MARKETABLE SECURITIES

The Company's marketable securities are summarized as follows:

	2010		2009	
	Fair Value	Cost	Fair Value	Cost
Common shares in public companies	\$ 206,890	\$ 260,438	\$ 707,225	\$ 766,158

# PARAGON MINERALS CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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### 5. MARKETABLE SECURITIES *(continued)*

The fair values of marketable securities have been determined from the quoted market value of the shares on the exchange where they are listed, as of the end of the year. A change in market value of its marketable securities is included as a component of other comprehensive loss.

### 6. MINERAL PROPERTIES

The following is a summary of the Company's material exploration property transactions and holdings during the 2010 and 2009 fiscal years.

#### GOLD PROPERTIES

##### JBP Linear Property

The Company holds a 100% interest in the JBP Linear Property, subject to advance royalties of \$15,000 per year that commenced in 2007 and Net Smelter Return (NSR) royalties of up to 3%, of which up to 2% can be re-purchased by the Company.

##### Golden Promise Property

The Company holds a 40% interest in the Golden Promise Property which is subject to a joint venture agreement with Crosshair Exploration & Mining Ltd ("Crosshair"). On April 8, 2009, the Company entered into a joint venture agreement with Crosshair on the Golden Promise Property as follows:

##### *Golden Promise Joint Venture Agreement – Crosshair Exploration & Mining Ltd.*

Under the terms of the joint venture agreement Crosshair issued to the Company 2,655,000 of its common shares and earned a 60% interest in the Golden Promise project during fiscal 2009. Crosshair will provide the Company with a \$2,000,000 carried interest in exploration expenditure to be completed prior to May 2013. Crosshair can extend this time frame by one year upon issuing a further 250,000 common shares to the Company. The property is subject to Net Smelter Return (NSR) royalties of up to 2%, of which 1% can be re-purchased by the joint venture partners.

On completion of the initial \$2,000,000 in exploration expenditures, Crosshair can elect to earn an additional 10% interest (to 70%) by providing the Company with an additional \$1,000,000 carried interest in exploration expenditures within a one year period. Crosshair can extend this time frame by one year upon issuing a further 100,000 common shares to the Company. If Crosshair does not complete the additional exploration expenditures, it can purchase the 10% interest by paying to the Company the difference between the incurred additional exploration expenditures and the \$1,000,000 or retain a 60% interest.

##### Gold Star Property

On November 9, 2009, the Company entered into a letter of agreement to acquire a 100% interest in certain mineral claims located in northwestern Ontario. To earn its interest, the Company is required to make cash payments of \$95,000 and issue 200,000 common shares of the Company to the property vendor over three years as follows:

- Pay \$25,000 (paid) and issue 40,000 shares (issued with a value of \$6,600) upon signing and TSX-V approval;
- Pay \$12,000, and issue 40,000 shares on or before December 1, 2010 (completed - see Subsequent Events);
- Pay \$18,000, and issue 50,000 shares on or before December 1, 2011;
- Pay \$40,000 and issue 70,000 shares on or before December 1, 2012.

The property vendor will retain a 1.5% NSR royalty of which 50% can be purchased by the Company at any time for \$750,000. The transaction was approved by the TSX Venture Exchange on April 13, 2010.

## PARAGON MINERALS CORPORATION

### NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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#### 6. MINERAL PROPERTIES *(continued)*

On September 7, 2010, the Company signed a letter of agreement to acquire a 100% interest in one mineral claim, the Sturgeon Supreme Option, which is contiguous with and forms part of the Gold Star Property. To earn its interest, the Company is required to make cash payments of \$52,500 and issue 110,000 common shares of the Company to the property vendor over four years as follows:

- Pay \$7,500 and issue 10,000 shares on signing and TSX-V approval (completed - see Subsequent Events);
- Pay \$7,500 and issue 10,000 shares on or before September 23, 2011;
- Pay \$10,000 and issue 20,000 shares on or before September 23, 2012;
- Pay \$12,500 and issue 30,000 shares on or before September 23, 2013;
- Pay \$15,000 and issue 40,000 shares on or before September 23, 2014.

The property vendor will retain a 2% NSR royalty, of which 50% can be purchased by the Company for \$1,000,000; the Company has a right of first refusal on the remaining 1%. The transaction was subsequently approved by the TSX Venture Exchange on October 1, 2010.

#### **Other Gold Properties**

As of September 30, 2010, the Company retains a 100% interest in four other gold properties (Huxter Lane JV, Long Pond JV, Glenwood, Maritec) and a 40% interest in one gold property (South Golden Promise). These gold properties are subject to NSR royalties of up to 3%, of which up to 2% can be re-purchased by the Company at any time for varying amounts.

The Company has granted property options to acquire interests in three of these other gold properties as follows:

#### *Huxter Lane Option Agreement (Huxter Lane Property) – Golden Dory Resources Corp.*

The Company holds a 100% interest in the Huxter Lane Property. On February 17, 2009, the Company entered into an option agreement with Golden Dory Resources Corp. (“Golden Dory”) whereby Golden Dory may earn a 60% interest in the Huxter Lane Property by funding \$2,000,000 in exploration expenditures over a four year period (\$250,000 incurred) and by making cash payments of \$50,000 (\$15,000 received) and issuing 350,000 shares (125,000 shares received) to the Company. On completion of the 60% earn-in commitment, Golden Dory may then elect to earn an additional 10% interest (to 70%) by issuing an additional 150,000 shares to the Company and completing a bankable feasibility study. Golden Dory will be the operator during the earn-in period.

#### *Long Pond Option Agreement (Long Pond Property) – Metals Creek Resources Corp.*

On August 14, 2008, the Company optioned its 100% -owned Long Pond gold property located in the Baie Verte area of north central Newfoundland to Metals Creek Resources Corp. (“Metals Creek”). Under the terms of the agreement, Metals Creek must spend \$500,000 over four years, including \$50,000 firm in the first year, and make share issuances totaling 300,000 shares (100,000 shares received) to earn a 60% interest in the project. During the year ended September 30, 2010, Metals Creek notified the Company that it was withdrawing from the option agreement and accordingly Metals Creek retains no interest in the property.

The property is subject to an underlying 0.5% NSR agreement that can be purchased by the Company at any time for \$500,000.

#### *Victoria Lake Option Agreement (South Golden Promise Property) – Crosshair Exploration & Mining Ltd.*

Crosshair has completed its requirements to acquire a 60% interest in one of the Company’s other gold properties (South Golden Promise Property) and two of the Company’s base metal properties (Victoria Lake Property and Victoria Lake 10188M Property – see Other Base Metal Properties). Under the terms of this agreement, Crosshair spent \$1,750,000 over a four-year period and issued a total of 400,000 shares (issued previously to Rubicon). A formal Joint Venture agreement with Crosshair to operate this project is pending.

# PARAGON MINERALS CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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### 6. MINERAL PROPERTIES *(continued)*

#### **Gold property interests dropped**

During the year ended September 30, 2009, the Company held the option to earn a 100% interest in the Linear Property and the Bowater Property that collectively, along with the 100%-owned Appleton Property and 100%-owned Golden Bullet Property, formed the Appleton Linear Property. The Company has terminated the property options and returned all four properties to their respective vendors and retains no interest in these properties.

During the year ended September 30, 2009, the Company held the option to earn a 100% interest in the Huxter Lane SW Property, which formed part of the Huxter Lane Property. The Company terminated the property option in early January 2009 and retains no interest in the Huxter Lane SW Property.

During the year ended September 30, 2009, the Company dropped its interests in the New World Property, the Mt. Peyton Property and the Jonathan's Pond Property.

#### **BASE METAL PROPERTIES**

##### **South Tally Pond Property**

On September 1, 2006 the Company signed an option to acquire a 100% interest in 2 mineral licenses (249 claims) located in central Newfoundland. The two mineral licenses are subject to a 2% NSR royalty. In order for the Company to acquire the interest in the two mineral licenses it must:

- Fund exploration expenditures of \$30,951 incurred by the option or prior to the option effective date (paid).
- Issue 250,000 shares on December 15, 2006, the option effective date (issued);
- Issue 250,000 shares on December 15, 2007 (issued);
- Issue 500,000 shares on the earlier of December 15, 2014 or completion of a bankable feasibility study;

The South Tally Pond property consists of several contiguous claim blocks and/or properties including the two above-mentioned optioned mineral licenses, the 100% owned Harpoon Property, and other 100% owned claims staked by the Company. The Harpoon Property is subject to a 2% NSR royalty to the vendor of which the Company may purchase 1% for \$1,000,000 and a right of first refusal on the remaining 1% NSR royalty. Certain of these claims staked by the Company that occur within the 2 kilometre area of interest of the Barren Lake Property (returned) remain subject to a 2.5% NSR royalty to the Barren Lake Property vendor of which the Company may purchase 1.5% for \$1,500,000 and a right of first refusal on the remaining 1% NSR royalty.

##### **Lake Douglas Property**

Under the terms of the 2006 Plan of Arrangement the Company acquired an option to earn a 100% interest in the Lake Douglas Property by issuing 450,000 common shares and paying \$500,000 in cash over 5 years. On January 10, 2009 the agreement was amended to decrease the aggregate cash option payments from \$500,000 to \$350,000 by January 2012 (\$200,000 paid) and to increase the number of common shares to be issued from 450,000 common shares to 600,000 common shares by January, 2012 (300,000 shares issued). The remaining option payments are as follows:

- Pay \$50,000 and issue 150,000 shares on or before January 17, 2011;
- Pay \$100,000 and issue 150,000 shares on or before January 17, 2012.

The property is subject to a 2% NSR royalty, of which the Company may purchase 1% for \$1,000,000 and retains a right of first refusal on the remaining 1% NSR royalty.

# PARAGON MINERALS CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

### 6. MINERAL PROPERTIES *(continued)*

#### Other Base Metal Properties

As of December 31, 2009, the Company retains interests in three other base metal properties, including a 100% interest in the Winterhill Property and 40% interests in two properties (Victoria Lake and Victoria Lake 10188M). The properties are subject to NSR royalties of up to 2.5% of which up to 50% can be re-purchased by the Company and joint venture partners at any time for varying amounts.

The Victoria Lake and Victoria Lake 10188M Properties (collectively, the Victoria Lake Project) were subject to an option agreement with Crosshair, described earlier in these notes, pursuant to which Crosshair has earned a 60% interest in these properties (see Other Gold Properties – Victoria Lake Option Agreement).

The Company has granted property options to acquire interests in one of its other base metal properties as follows:

*Winterhill Option Agreement (Winterhill Property) – Golden Touch Resources Corp., (formerly GFE Capital Corp.)*

On May 15, 2009, the Company entered into an option agreement with Golden Touch Resources Corp. on the Winterhill Property whereby Golden Touch may earn a 70% interest in the property by funding \$700,000 in exploration expenditures over a four-year period (\$100,000 incurred) and making cash payments of \$60,000 to the Company. The property is subject to a 0.5% NSR royalty, held by a third party, which can be purchased by the Company for \$500,000. The Company will be the operator during the option earn-in period.

#### Base metal property interests dropped

During the year ended September 30, 2009, the Barren Lake Property was returned to the property vendor with the Company retaining no further interest in the property. The Company allowed the Lewis Lake Property to lapse in February, 2009. The Company and Xstrata Canada Corporation terminated the Seal Bay JV agreement in August 2009 and allowed the Seal Bay lease to expire. The three properties had initially been acquired by the Company pursuant to the 2006 Plan of Arrangement.

### 7. SHARE CAPITAL

	Number of Shares	Amount	Contributed Surplus
<b>Authorized</b>			
Unlimited number of common shares without par value			
<b>Issued</b>			
Balance, September 30, 2008	25,940,079	\$ 14,054,149	\$ 1,214,529
Acquisition of mineral properties	100,000	4,500	-
Stock-based compensation - operations	-	-	51,870
Stock-based compensation - properties	-	-	52,992
Balance, September 30, 2009	26,040,079	14,058,649	1,319,391
Flow-through private placement	5,333,330	800,000	-
Non-flow-through private placement	1,428,772	200,028	-
Acquisition of mineral properties	140,000	21,600	-
Share issuance costs	-	(152,764)	39,210
Stock-based compensation - operations	-	-	119,518
Future income taxes related to flow-through share renunciation	-	(231,000)	-
Balance, September 30, 2010	32,942,181	\$ 14,696,513	\$ 1,478,119

**PARAGON MINERALS CORPORATION**

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**7. SHARE CAPITAL (continued)****Stock Options**

The Company has adopted an incentive stock option plan authorizing the issue of up to 20% of the amount of shares issued as at the initial listing date on the TSX Venture Exchange, 4,014,581 options. Under the plan, options may only be issued to directors, officers, employees and consultants of the Company and must be subject to a vesting period as required under TSX Venture Exchange policies. The term of each grant shall be no greater than 5 years from the date of grant. The option price shall be no less than the fair market value of the Company's shares on the date of the grant.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, September 30, 2008	2,618,847	\$ 0.60
Expired/cancelled	<u>(777,915)</u>	0.46
Balance, September 30, 2009	1,840,932	0.64
Options granted	1,310,000	0.15
Expired/cancelled	<u>(439,266)</u>	0.52
Balance, September 30, 2010	2,711,666	\$ 0.42
Exercisable at September 30, 2010	2,086,666	\$ 0.50
Weighted average fair value of options granted during the year		\$0.11 (2009 - \$nil)
Weighted average of remaining life in years		2.89 (2009 - 2.41)

As at September 30, 2010, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
33,333	\$ 0.49	December 14, 2010
945,000	0.70	March 1, 2012
405,000	0.61	February 5, 2013
75,000	0.30	June 3, 2013
3,333	0.67	October 20, 2013
1,250,000	0.16	December 30, 2014
2,711,666		

As at September 30, 2010, the following agent's options were outstanding:

Number of Agent's Options	Exercise Price	Expiry Date
433,333	\$ 0.15	December 18, 2011

**PARAGON MINERALS CORPORATION**

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**7. SHARE CAPITAL** *(continued)*

The fair value of stock options granted is estimated on the date of grant using the Black-Scholes option-pricing model based on the following weighted average assumptions:

	2010	2009
Risk-free interest rate	1.88%	n/a
Expected life	3 years	n/a
Expected volatility	118.89%	n/a
Expected dividend yield	0%	n/a

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect the fair value estimate and therefore it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock option grants.

**Warrants**

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, September 30, 2008	3,874,607	\$ 1.01
Expired	<u>(3,179,000)</u>	1.00
Balance, September 30, 2009	695,607	1.05
Warrants granted	4,095,435	0.22
Warrants expired	<u>(695,607)</u>	1.05
Balance, September 30, 2010	4,095,435	\$ 0.22
Exercisable at September 30, 2010	4,095,435	\$ 0.22

The following warrants to acquire common shares were outstanding at September 30, 2010:

Number of Warrants	Exercise Price	Expiry Date
2,666,663	\$ 0.23	December 18, 2010
	0.29	December 18, 2011
1,428,772	0.19	February 17, 2011
	0.24	February 17, 2012
<u>4,095,435</u>		

# PARAGON MINERALS CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

### 8. ACCUMULATED OTHER COMPREHENSIVE LOSS

	2010	2009
Accumulated other comprehensive loss, beginning of year	\$ (58,933)	\$ (116,232)
Other comprehensive income	5,385	57,299
Accumulated other comprehensive loss, end of year	\$ (53,548)	\$ (58,933)

### 9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the year ended September 30, 2010 included:

- The Company issued 433,333 agent's options with a value of \$39,210 as finder's fee for a flow-through private placement.
- The Company issued 140,000 common shares pursuant to mineral property agreements with a total value of \$21,600.
- The Company received 75,000 common shares of Golden Dory Resources Corp. pursuant to mineral property agreement with a total value of \$12,750.
- Included in accounts receivable are \$2,200 of proceeds from sale of equipment.
- Included in mineral property costs are \$38,334 related to accounts payable and accrued liabilities.

Significant non-cash transactions during the year ended September 30, 2009 included:

- The Company issued 100,000 common shares pursuant to Lake Douglas mineral property agreement with a total value of \$4,500
- Included in mineral property costs are \$9,097 related to accounts receivable.
- Included in mineral property costs are \$611 related to accounts payable and accrued liabilities.

### 10. INCOME TAXES

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

	2010	2009
Net loss before future income tax recovery for the year	\$ (2,120,241)	\$ (1,621,860)
Expected income tax recovery	(612,220)	(436,558)
Net adjustment for deductible and non-deductible expenses	479,504	346,930
Recognized benefit of tax assets	(98,284)	(79,283)
Total income tax recovery	\$ (231,000)	\$ (218,911)

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

	2010	2009
Future income tax assets (liabilities):		
Net mineral property carrying amounts in excess of tax pools	\$ (355,266)	\$ (358,174)
Non-capital loss carryforwards	669,909	541,320
Capital loss carryforwards	16,371	1,562
Other assets	46,722	69,040
Future income tax assets	377,736	253,748
Valuation allowance	(377,736)	(253,748)
Net future income tax assets	\$ -	\$ -

# PARAGON MINERALS CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

### 10. INCOME TAXES *(continued)*

At September 30, 2010, the Company, subject to certain restrictions, has mineral property expenditures of approximately \$7,700,000 and capital losses of approximately \$133,000. The Company has non-capital losses available for deduction against future taxable income amounting to \$2,577,000. The Company has not recognized any future benefit for these tax losses and resource deductions, as it is not considered likely that they will be utilized. If unused, these losses will expire through 2030. If unused, those tax losses will expire as follows:

2027	2028	2029	2030	Total
\$ 382,000	\$ 1,235,000	\$ 500,000	\$ 460,000	\$ 2,577,000

### 11. FINANCIAL INSTRUMENTS

The Company classified its cash and cash equivalents as held for trading, marketable securities as available-for-sale, accounts receivables as loans and receivables, and accounts payable and accrued liabilities as other financial liabilities. The Company's financial instruments are exposed to the following risks:

#### *Credit Risk*

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations. The Company's credit risk with respect to its cash and cash equivalents and marketable securities are minimal as they are held with high-credit quality financial institutions. Amounts receivable at September 30, 2010, includes amounts due from joint venture partners for exploration managed by the Company on the Company's joint-ventured properties, in the amount of \$1,580. The Company evaluates the credit worthiness of its partners and has the right to request cash advances for all work done on their behalf. The remaining amounts receivable is HST receivable of \$18,488 due from the Canadian government.

#### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company's only liquidity risk from financial instruments is its need to meet operating accounts payable requirements. The Company maintains sufficient cash balances to meet these needs.

#### *Market risk*

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

#### *Interest Rate Risk*

The Company is exposed to interest rate risk on its cash equivalents. The majority of these investments are in discounted instruments with pre-determined fixed yields. Interest rate movements will affect the fair value of these instruments so the Company manages maturity dates of these instruments to match cash flow needs, enabling realization at no loss in almost all cases. The interest rate risks on cash equivalents are not considered significant.

#### *Foreign Exchange Risk*

The Company has virtually no foreign exchange risk as all its activities are carried out in Canada and all its financial assets and liabilities are denominated in Canadian dollars.

# PARAGON MINERALS CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

### 11. FINANCIAL INSTRUMENTS *(continued)*

#### *Sensitivity analysis*

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to the relatively short period to maturity of these financial instruments. The fair value of marketable securities represents the market value of quoted investments.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by credit risk, liquidity risk or market risk.

#### **Fair Value**

CICA Handbook Section 3862 "Financial Instruments – disclosures" establishes a fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – inputs for the asset or liability that are not based on observable market data.

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

Assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 318,693	\$ -	\$ -	\$ 318,693
Marketable securities	<u>206,890</u>	<u>-</u>	<u>-</u>	<u>206,890</u>
Total	\$ 525,583	\$ -	\$ -	\$ 525,583

### 12. CAPITAL MANAGEMENT

The Company's objectives for the management of capital are to safeguard its ability to continue as a going concern including the preservation of capital, and to achieve reasonable returns on invested cash after satisfying the objective of preserving capital.

The Company considers its cash and short term investments to be its manageable capital. The Company's policy is to maintain sufficient cash and investment balances to cover operating and exploration costs over a reasonable future period, generally one to one and a half years. The Company accesses capital markets through equity issues as necessary and may also acquire additional funds where advantageous circumstances arise.

Excess cash investments are restricted to bankers' acceptances of major Canadian banks or instruments of equivalent or better quality. No investments in asset-backed commercial paper are permitted.

The Company currently has no externally-imposed capital requirements except to maintain sufficient cash and investment balances to meet exploration commitments entered into pursuant to flow-through share purchase agreements.

# PARAGON MINERALS CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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### 13. SUBSEQUENT EVENTS

Subsequent to the year-end September 30, 2010, the Company:

- made the first cash and share payment on the Sturgeon Supreme Option, which is contiguous with and forms part of the Gold Star Property in northwest Ontario.
- made the second cash and share payment on the Gold Star Property.
- completed a \$3.05 million non brokered private placement of 11,449,240 flow-through shares at a price of \$0.17 per share for gross proceeds of \$1,946,370 and 7,914,500 non-flow-through units at a price of \$0.14 per unit for gross proceeds of \$1,108,030. Each non-flow-through unit consisted of one common share of the Company and one common share purchase warrant with a term of 24 months from the date of closing. Each warrant will entitle the holder to acquire one additional common share of the Company at an exercise price of \$0.20 per common share. In connection with the private placement, paid Finders Fees of \$162,095 and issued 1,003,553 Broker Warrants to Citadel Securities Inc., MGI Securities Inc., Versant Partners Inc. and Haywood Securities Inc. Each Broker warrant is exercisable to acquire one common share at a price of \$0.20 for a two year period.
- signed a one year agreement with an outside investor relations and communication firm. Under the terms of the agreement, the Company will pay the firm \$6,000 per month and issue 200,000 options at \$0.22 per share expiring December 7, 2015. The options will vest in stages over a 12-month period in accordance with TSX Venture Exchange regulations.



**PARAGON MINERALS CORPORATION**  
**MANAGEMENT DISCUSSION & ANALYSIS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**PARAGON MINERALS CORPORATION**  
**Management Discussion & Analysis**  
**For the year ended September 30, 2010**

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**INTRODUCTION**

The following Management Discussion and Analysis (“MD&A”) of the financial position and results of operations of Paragon Minerals Corporation (“Paragon” or the “Company”), dated January 6, 2010, should be read in conjunction with the annual audited financial statements of the Company for the year ended September 30, 2010. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

The Company’s head office and principal business address is Suite 1500, 701 West Georgia Street, Vancouver, British Columbia, V7Y 1C6 and its registered and records office is located at 2800 Park Place, 666 Burrard Street, Vancouver, BC, V6C 2V6. The Company is a reporting issuer in the provinces of British Columbia, Alberta, Ontario and Quebec; and is listed on the TSX Venture Exchange under the symbol “PGR”.

This Management’s Discussion and Analysis contains “forward-looking statements” (see “Forward Looking Statements”) that are subject to various risks and uncertainties concerning the specific factors disclosed under the heading “Risk Factors”. Such information contained herein represents management’s best judgment as of the date hereof based on information currently available. The Company does not assume the obligation to update any forward-looking statement other than as required pursuant to applicable securities law.

**OVERVIEW**

Paragon is a Canadian-based junior exploration company engaged in the acquisition, exploration and development of mineral properties. The Company was incorporated as “Paragon Minerals Corporation” under the Canadian Business Corporations Act (“CBCA”) on July 4, 2006 in order to facilitate a Plan of Arrangement carried out by Rubicon Minerals Corporation (“Rubicon”), a public company whose shares are listed on the Toronto Stock Exchange and NYSE Amex. For additional details on the Plan of Arrangement, please refer to the Rubicon Management Information Circular dated July 7, 2006 and filed on SEDAR at [www.sedar.com](http://www.sedar.com)

The Company has a strategic focus on gold and base metal exploration in Newfoundland and Ontario, which it is exploring through a combination of Company-funded exploration and partner-funded exploration. Management of the Company remains very encouraged by the exploration results from its key 100%-owned projects including the South Tally Pond VMS property, the JBP Linear gold project, and the newly acquired Gold Star gold project, as well as results from partner-funded exploration on its joint ventured projects.

The Company currently has three joint venture partners exploring on its properties including Crosshair Exploration & Mining Ltd. (“Crosshair”) on the Golden Promise/South Golden Promise gold properties and Victoria Lake VMS property, Golden Dory Resources Corp. (“Golden Dory”) on the Huxter Lane gold property, and Golden Touch Resources Corp. (“Golden Touch”; formerly GFE Capital Corp.) on the Winterhill VMS project.

During the year ended September 30, 2010, the Company incurred a net loss of \$1,889,241. During the year, the Company spent \$888,018 on mineral property acquisition and exploration. The Company has not earned any significant revenues to date and is in the process of exploring its resource properties. It has not yet determined whether these properties contain ore reserves that are economically recoverable.

***Financings***

In December 2009, the Company completed a non-brokered private placement of 5,333,330 flow-through units at a price of \$0.15 per unit for gross proceeds of \$800,000. In February 2010, the Company completed a non-brokered private placement of 1,428,772 non-flow-through units at a price of \$0.14 per unit for gross proceeds of \$200,028.

Subsequent to the year-ended September, 2010 the Company completed a \$3.05 million non-brokered private placement of 11,449,240 flow-through shares at a price of \$0.17 per share for gross proceeds of \$1,946,370 and 7,914,500 non-flow-through units at a price of \$0.14 per unit for gross proceeds of \$1,108,030 (see Subsequent Events).

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The Company's priority in fiscal 2011 will be advance its key 100%-owned projects including the South Tally Pond, JBP Linear and Gold Star projects; maintain its current partners and look to secure additional partners on appropriate projects; continue to evaluate new opportunities for the Company; and secure new financings for future exploration programs and operating costs.

**MINERAL PROPERTIES**

As of September 30, 2010, the Company held seven gold properties and four base metal properties in the province of Newfoundland & Labrador and one gold project in the province of Ontario. Five of the properties in Newfoundland (three gold and two base metal properties) are under option to partners or subject to joint venture agreements with partners.

During the year-ended September 30, 2010, the Company entered into a letter of agreement to acquire a 100% interest in certain mineral claims, referred to as the Gold Star property, located in northwestern Ontario. To earn its interest, the Company is required to make cash payments of \$95,000 (\$25,000 paid) and issue 200,000 common shares of the Company (40,000 shares issued) to the property vendor over a three year period. The property vendor will retain a 1.5% net smelter royalty, of which 50% can be purchased by the Company at any time for \$750,000.

On September 7, 2010, the Company signed a letter agreement to acquire a 100% interest in one mineral claim, the Sturgeon Supreme Option, which is contiguous with and forms part of the Gold Star property. To earn its interest, the Company is required to make cash payments of \$52,500 (\$7,500 subsequently paid) and issue 110,000 common shares of the Company (10,000 shares subsequently issued) to the property vendor over four years. The property vendor will retain a 2% net smelter royalty, of which 50% can be purchased by the Company for \$1,000,000 and have a right of first refusal on the remaining 1%. The transaction was subsequently approved by the TSX Venture Exchange on October 1, 2010.

Environmental liabilities associated with the Company's mineral properties are deemed to be minimal, consisting mainly of ongoing drill site and trench reclamation requirements. No historical or current mining operations exist on the Company properties.

**EXPLORATION UPDATE**

During the year-ended September 30, 2010, the Company completed exploration work on two of its 100%-owned projects including the completion of a winter drill program (10 holes, 3,489 metres) and a summer prospecting and basal till sampling program on the South Tally Pond project, and a summer prospecting and geological mapping program on the Gold Star gold project.

The Company's exploration partners funded exploration work on three projects during the year-ended September 30, 2010, including the completion of a winter drilling program by Crosshair on the Golden Promise JV Project (36 holes, 7,220 metres), the completion of a spring drill program by Golden Dory on the Huxter Lane JV Project (12 holes, 3,016 metres), and Golden Touch completed a spring drill program (1 hole, 300 metres) on the Winter Hill JV Project.

On September 28, 2010, the Company and Golden Dory announced an updated NI43-101 compliant resource on the Huxter Lane project estimating the Mosquito Hill Zone to contain an indicated resource of 11.18 million tonnes averaging 0.546 g/t gold for 196,257 ounces of gold and an inferred resource of 38.76 million tonnes averaging 0.457 g/t gold for 569,496 ounces of gold at a cutoff of 0.30 grams per tonne gold.

Results and highlights from the work completed during the fiscal year ended September 30, 2010 are summarized below with additional project information available on the Company website.

**Base Metal Projects**

***South Tally Pond VMS Project***

The South Tally Pond Project is located 35 kilometres south of the community of Millertown in central Newfoundland. The exploration target is volcanogenic massive sulphide ("VMS") deposits similar to other VMS deposits in the area (ie.

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Buchans, Duck Pond). The project consists of five, contiguous 100%-owned properties including the Harpoon property, Gills Pond property, Higher Levels property, South Tally Pond property and the South Tally Pond Extension property. The South Tally Pond property is under option from Altius Resources Inc., whereby the Company can earn a 100% interest in this property by making one remaining share payment to the vendors in 2014. The Harpoon property is subject to a 2% net smelter return royalty to the property vendors of which 50% is purchasable by the Company.

The properties are situated in the same volcanic belt and have strong similarities to the rocks that host Teck Resources Duck Pond Copper-Zinc Mine (5.48 million tonnes of 3.3% copper, 5.8% zinc, 0.9% lead, 59 g/t silver and 0.86 g/t gold). The Company has a large land position covering approximately 21,400 hectares immediately southwest of the Duck Pond Mine. The Company has made a significant base metal discovery at the Lemarchant Prospect with numerous other prospects on the property that remain to be fully evaluated.

***South Tally Pond Project - Lemarchant Prospect***

The Lemarchant prospect area is underlain by north-northwest striking sequence of bimodal submarine volcanic rocks (rhyolites and basalts) of the Tally Pond volcanic belt. The mineralization is hosted within a 4,000 metre long and 700 metre wide sequence of highly altered felsic volcanic rocks. The host rock to the polymetallic sulphide mineralization are moderate to intensely altered, proximal felsic volcanic rocks consisting of rhyolite breccias, massive flows and lesser tuffaceous felsic rocks. The footwall to the semi-massive to massive sulphide mineralization is characterized by a well developed base-metal stringer system, barium enrichment, and moderate to intense quartz-sericite-chlorite to quartz-chlorite alteration.

In 2007, the Company made a significant precious metal-rich base metal discovery at the Lemarchant Prospect, where drilling to-date has intersected semi-massive to massive sulphide mineralization over a 500-metre strike length. The mineralization remains open along strike and within the confines of the current wide-spaced drilling. Since October 2007, the Company has completed 36 drill holes (13,500 metres) at the Lemarchant prospect with significant drill intercept including 30.10 metres grading 9.30% zinc, 2.28% lead, 0.91% copper, 60.37 g/t silver and 1.41 g/t gold over 30.10 metres including 17.05 metres of 14.80% zinc, 3.56% lead, 1.40% copper, 80.90 g/t silver, 1.35 g/t gold. Results of all drill holes (including all historic drill holes) are provided on the Company website.

During the period-ended September 30, 2010 the Company completed a 10-hole diamond drill program (3,489 metres) in March, 2010 and surveyed 11 drill holes with Pulse EM ("PEM") geophysics. Highlights are summarized below:

- Intense hydrothermal alteration and proximal felsic volcanic rocks (rhyolite) intersected by drilling to date indicate a large, VMS mineralizing environment outlined over a 600-metre strike length. The mineralization remains open for expansion within the area of current drilling and along strike to the north and south.
- Infill drillhole, LM10-43 intersected 30.10 metres of 9.30% zinc, 2.28% lead, 0.91% copper, 60.37 g/t silver and 1.41 g/t gold (core length) including 17.05 metres of 14.80% zinc, 3.56% lead, 1.40% copper, 80.90 g/t silver, 1.35 g/t gold indicating significant thickening of the sulphides between 100-metre spaced drillholes.
- Down-hole geophysics outlined a strong off-hole conductor extending 200-300 metres north of previously completed drillhole LM08-19 (North Target area). Drilling intersected 6.0 metres of 6.60% zinc, 0.68% lead, 0.61% copper, 28.38 g/t silver and 0.46 g/t gold (core length) including 1.1 metres of massive sulphide of 30.54% zinc, 2.94% lead, 1.50% copper, 88.9 g/t silver and 0.72 g/t gold.
- The Pulse EM geophysical survey in 11 new drillholes has provided additional targeting information for follow-up drill testing at the Lemarchant prospect.

Wide-spaced drilling completed to-date at the Lemarchant Prospect has outlined precious metal-rich zinc-lead-copper semi-massive to massive sulphide mineralization over a 500-metre strike length from sections 101+00N to 106+00N. The mineralized zone is located approximately 200 to 400 metres below surface and appears to plunge gently to the north-northwest. Ten significant drillhole intercepts through semi-massive to massive sulphide mineralization range from 3.0 to 30.6 metres in thickness. The overall width of the sulphide mineralization is not well constrained based on the

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current wide-spaced drilling (50 to 100 metres spacing), but locally measures up to 100 metres in width on two of the sections. The mineralized zone remains open for expansion within the confines of the current drilling and along strike.

***South Tally Pond Project – Other Prospects***

A number of high priority target areas are located outside of the Lemarchant Prospect area and remain to be fully tested. These priority target areas have been identified based on airborne geophysics (short-strike length airborne EM anomalies), historical ground geophysics and rock geochemistry. Five of the high priority VMS target areas are summarized below.

*Beaver Lake Prospect* - is located approximately 17 kilometres south-southwest of the Duck Pond Mine and was previously explored by Noranda. A high priority VMS target is located in the Main Grid area, where a significant short strike-length airborne EM conductor (1.2 kilometre-long) and coincident ground EM and gravity anomalies occur near altered, proximal felsic volcanic rocks and anomalous basal till samples (200 ppm Cu, 24 ppm Pb, 1200 ppm Zn and 1.9 ppm Ag). There has been no drilling on this target.

*Duck Pond West Prospect* - is located 2.5 kilometres west of the Duck Pond Mine. The area hosts a 2 kilometre-long, poorly exposed, VMS-style alteration zone with widths up to 400 metres. Several strong and continuous EM conductors cross the area to the north and likely represent graphitic shale horizons overlying the felsic volcanics. A single historic drill hole in the area (HP90-01) intersected the interpreted west projection of the Duck Pond Thrust and the associated alteration zone. The bedrock in the area is poorly exposed, with numerous angular to sub-rounded felsic volcanic and graphitic shale boulders located on surface. Although these surface boulders are glacially dispersed, they are likely representative of local bedrock. The black graphitic shale boulders have faulted textures similar to that along the Duck Pond Thrust and felsic volcanic boulders (rhyolite) that are primarily volcanic breccias. Lithochemical sampling of felsic volcanic boulders returned weak to moderate alteration signatures.

*Bindon's Pond Prospect* - is located approximately 2 kilometres east of the Lemarchant Prospect, and is interpreted to be the folded eastern exposure of the felsic rocks seen at the Lemarchant Prospect. Rock sampling has returned intense hydrothermal alteration signatures similar to massive sulphide-bearing host rocks at the nearby Lemarchant Prospect and Duck Pond Mine. Precious metal-rich, sulphide bearing mudstone float (assaying 264 ppb Au and 3.3 ppm Ag) was discovered near a priority airborne EM target at Bindon's Pond. The nature of the sulphide-bearing mudstone is very similar to the mudstone horizon overlying the polymetallic massive sulphides at the Lemarchant Prospect. There has been no drilling on this target.

*Rogerson Lake Prospect* - is located 3.0 kilometres northwest of the Lemarchant Prospect. The Rogerson Lake alteration zone is a 700 metre wide and 5.6 kilometre long VMS-style alteration zone centred on the north end of Rogerson Lake. Alteration consists of intensely chlorite-altered felsic volcanic rocks (rhyolite) with locally strong silica and carbonate alteration and ubiquitous disseminated sulphide (pyrite) mineralization. Massive pyrite float has been discovered on surface in several places. Historical drillholes (28 drillholes totaling 3,514 metres) have intersected stringer to semi-massive sulphides (pyrite) hosted by graphitic sediments and felsic volcanic rocks. The widely-spaced drilling has demonstrated that the stratigraphy is very similar to that underlying the Lemarchant Prospect with geophysical EM anomalies that remain to be tested.

*Lemarchant SW Prospect* - is located 2.2 kilometres southwest of the Lemarchant massive sulphide discovery and is hosted within the same felsic volcanic stratigraphy. The prospect is characterized by a cluster of short strike length airborne EM anomalies that were drill tested (2 holes) by Noranda in 1983. Both drill holes intersected exhalative pyritic mudstone at the transition from overlying mafic volcanic rocks and underlying chlorite altered fragmental felsic volcanic rocks with stringer base metal mineralization.

During the quarter ended September 2010, the Company completed an 8-week program of systematic prospecting and till sampling on less explored areas on the South Tally Pond VMS project. A total of 296 rock samples, 27 regional stream silt samples and 44 till samples were collected during the June–July 2010 program.

The 2010 summer program resulted in the discovery of two previously unrecognized VMS hydrothermal alteration zones that have strong similarities to the Lemarchant Prospect and Duck Pond deposits. The two alteration zones occur within the less explored Gills Pond area, located between the Duck Pond Mine and the Lemarchant discovery prospect. The

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altered felsic and mafic volcanic rocks host elevated copper, lead, zinc sulphide mineralization with local semi-massive occurrences of pyrite (iron-sulphide). Assay results of up to 9550 ppm copper, 550 ppm lead, 480 ppm zinc, 206 ppb gold and 5.5 g/t silver are reported from nearby float samples. Hangingwall mafic volcanic rocks from one alteration zone assayed elevated base metals up to 520 ppm copper, 1200 ppm lead, 1600 ppm zinc, 287 ppb gold and 4.7 g/t silver. The altered zones are coincident with airborne EM geophysical conductors from an airborne survey completed by Noranda in the 1980's.

***Lake Douglas Project***

The Lake Douglas Project is located immediately south of the South Tally Pond Project approximately 25 kilometres southwest of the Duck Pond Mine. The project area is underlain by a thick sequence of volcano-sedimentary stratigraphy similar to other sediment-rich VMS base metal camps such as the world-class Bathurst Mining Camp in northern New Brunswick. Exploration work completed by the Company to date has outlined four high priority areas on the property with potential to host large-tonnage base metal VMS deposits.

*Lake Douglas Prospect* – the Lake Douglas massive sulphides discovered in 2006 are hosted in a thick sequence of pyritic, quartz-phyric felsic volcanic rocks, sedimentary rocks and lesser mafic volcanic rocks. The mineralized interval, exposed by trenching over a 60-metre strike length and intersected by drilling in 2007 is coincident with a multi-element soil geochemical anomaly (zinc-lead-silver-gold-arsenic) that extends over 1.2 kilometres. The mineralized zone is coincident with a property scale airborne EM conductor.

Drilling in 2007 (7 holes; 2,062 metres) intersected semi-massive to massive sulphide mineralization over 6.45 meters grading 6.30% zinc, 4.19% lead, 0.39% copper and 82.86 g/t silver. The zinc-lead-copper-silver sulphide mineralization is hosted within the sedimentary-volcanic sequence and is similar to the massive sulphides exposed in trenching, but lower in the volcanic stratigraphy. The other drillholes, completed along strike (in both directions) and down dip (LD07-05) of drillhole LD07-04 intersected zones of replacement-style disseminated, stringer and narrow semi-massive to massive base metal sulphides with elevated to anomalous zinc-lead-copper-silver-gold mineralization over widths of up to 23 metres.

*Flexure Prospect* – is located five kilometres southwest and along strike of the Lake Douglas massive sulphide occurrence. Geological mapping and airborne geophysical data indicate the area is underlain by the same stratigraphy that hosts the Lake Douglas massive sulphide occurrence. Altered felsic volcanic rocks mapped in the area coincide with a 1.5 kilometre-long multi-element (zinc-lead-silver-copper-gold) soil geochemical anomaly, a priority airborne EM anomaly and a multi-element till geochemical anomaly. No drilling has been completed in this area.

*Lake of the Woods Prospect* - Numerous stringer-style and disseminated base-metal showings were discovered through prospecting and geological mapping in 2006. Numerous mineralized areas have been identified and occur within or near extensively altered (sericite-iron carbonate-silica-chlorite-kaolinite) felsic volcanic rocks that are traceable for over 4.5 kilometres. Previous assays of the mineralized showings have assayed up to 3.0% zinc, 1.7% lead, 627 g/t silver and 4.3 g/t gold. In June 2009, the Company followed up on several high priority target areas in the Lake of the Woods area. A priority airborne geophysical anomaly to the immediate north of the exposed altered and mineralized rocks forms a priority drill target. The airborne conductor coincides with a mafic-felsic contact zone to the north of the outcropping mineralization. No drilling has been completed in this area.

*Lake Douglas East Area* – Reconnaissance geological mapping and prospecting in the Lake Douglas East area has outlined altered felsic volcanic rocks that exhibit strong VMS-style alteration characteristics (sericite-silica-siderite+/-chlorite) and disseminated pyrite and base metal mineralization. The altered felsic volcanic rocks are overlain by a black shale unit similar to that seen at other VMS deposits in the Victoria Lake Volcanic Belt (Duck Pond, Boomerang, and Lemarchant) and at the nearby Haven Steady base metal prospect located 6 kilometres along strike to the northeast. Five priority EM anomalies have been identified in the Lake Douglas East area that coincide with altered felsic volcanic rocks and multi-element (Cu-Pb-Zn) soil geochemical anomalies. No drilling has been completed in this area.

## **Other Base Metal Projects**

### ***Winterhill JV Project***

The 100%-owned Winterhill property is located 17 kilometres northeast of Harbour Breton on the south coast of Newfoundland, Canada. The Neoproterozoic-aged volcanic rocks underlying the Winterhill property are similar to that of the Arabian-Nubian Shield that hosts numerous large tonnage and high-grade VMS deposits. The property covers a 3.5 kilometre long zone of altered felsic volcanic and calcareous sedimentary rocks that host a number of base metal prospects including Winterhill, Winterhill East and Winterhill West Prospects. Previous drilling by Noranda at these prospects (18 holes, 3,872 metres) intersected massive sulphide mineralization with assays of 1.41% copper over 6.0 metres and 10.1 % zinc over 4.0 metres.

The Company optioned the property to Golden Touch Resources Corp. in May 2009, whereby Golden Touch may earn up to a 70% interest in the Winterhill property by funding \$700,000 in exploration expenditures over a four-year period.

In May 2010, Golden Touch funded a 300-metre drillhole on the property. The drillhole successfully tested the centre of a 700-metre long, priority airborne EM conductor and coincident ground EM conductor located below a small lake on the property. Drilling intersected a thick, strongly altered sequence of felsic volcanic rocks which contained intervals of well-bedded to banded semi-massive to massive pyrite mineralization measuring 3.8 metres (128.9-132.7 metres), 2.0 metres (183.3-185.3 metres) and 1.85 metres (199.45-201.3 metres) in thickness. Anomalous zinc is associated with the pyrite mineralization. The altered host felsic volcanic rocks are overlain by unaltered “hangingwall” mafic volcanic rocks.

### ***Victoria Lake JV Project***

The Victoria Lake JV Project is a volcanogenic massive sulphide (VMS) property located 60 kilometres southwest of the town of Buchans, NL. The property is underlain by Ordovician-aged bi-modal mafic and felsic volcanic rocks of the Long Lake Belt. Three documented alteration zones are present on the property including the Long Lake, Swamp, and Henry Waters alteration zones. Drilling in 2005 outlined base metal stringer mineralization (copper-lead-zinc) that is hosted within thick sequences of altered felsic tuff and intercalated black shale. The Victoria Lake Property bears many similarities to the nearby Boomerang and Domino base metal deposits located 5 kilometres to the northwest.

Crosshair has earned a 60% interest in the property (Paragon - 40%) and the property is subject to joint venture terms. No further work was completed on the Victoria Lake JV project during the period ended September 30, 2010. Crosshair and the Company plan on completing a 350 line kilometre airborne magnetic and electromagnetic survey over the property in late 2010 or early 2011.

## **Gold Projects**

### ***JBP Linear Project***

The 100%-owned JBP Linear gold property is a high-grade gold target located near Gander, Newfoundland. To date, wide-spaced drilling on the property (54 holes, 9,879 metres) has identified high-grade gold mineralization in quartz veins at the H-Pond and Pocket Pond Prospects over a strike length of 700 metres and 950 metres, respectively and depth of 200 metres. The mineralization remains open along strike and to depth. The gold-bearing quartz vein system at the two prospects is characterized by fine to coarse-grained gold with 20 of the drillholes containing visible gold. Broad alteration zones of moderate to intense sericite and iron carbonate alteration typically envelopes the quartz vein zones. Significant drill intercepts include 255.0 grams per tonne (g/t) gold (7.45 oz/ton) over 0.5 metres at Pocket Pond and 52.4 g/t gold (1.53 oz/ton) over 0.35 metres at the H-Pond Prospect.

The H-Pond and Pocket Pond Prospects are located along a three-kilometre long quartz-vein zone that forms part of a larger, fifteen-kilometre long “linear” trend that extends across the property. Gold-bearing angular quartz float samples assaying up to 798.8 g/t gold (23.30 oz/ton) have been located along this trend approximately 2.5 kilometres northeast of the H-Pond Prospect. The angular nature of these large quartz float boulders suggests the source is nearby along the projected quartz-vein trend.

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***Golden Promise JV Project***

The Golden Promise property is a high-grade, gold target located in central Newfoundland near the town of Badger, Newfoundland. Five quartz vein zones characterized by coarse visible gold have been discovered on the property. The Jaclyn Main Zone is the most advanced and has been intersected over a strike length of 950 metres and to a depth of 400 metres. The zone remains open for expansion along strike and to depth. A preliminary independent National Instrument (NI) 43-101 compliant resource estimate has been completed at the Jaclyn Main Zone. The report estimates an inferred resource of 89,500 ounces of gold (921,000 tonnes averaging 3.02 grams per tonne gold) at a cut-off of 1 gram per tonne gold. The resource estimate is classified as an inferred mineral resource consistent with the CIM definitions referred to in NI 43-101. The NI 43-101 compliant estimate was prepared by Gary H. Giroux, P.Eng., M.Sc., an Independent Qualified Person as defined in National Instrument 43-101

The Golden Promise JV Project is subject to a Joint Venture Agreement with Crosshair Exploration and Mining Corp., where Crosshair holds a 60% interest in the property (Paragon – 40%). As part of the Joint Venture agreement, Crosshair is required to fund the first \$2.0 million in exploration by May 2013. Crosshair can acquire a further 10% interest (to 70%) by funding a further \$1.0 million in exploration by May 2015.

During the period-ended September 30, 2010, Crosshair-funded and completed a 36 drillhole (7,220 metres) winter/spring diamond drill program on the Jaclyn Main Zone and the Jaclyn North Zone. The drilling extended the Jaclyn Main gold zone 150 metres east of the current NI43-101 compliant resource estimate and extended the Jaclyn North Zone a further 200 metres east for a total 450 metre strike length.

Subsequent to the period-ended September 30, 2010, metallurgical testing was completed on drill core samples from the Jaclyn Zone, which confirmed that the gold can effectively be recovered using gravity separation in combination with leaching (up to 96% gold recovery), or by direct leaching (up to 93% recovery). In November 2010, Crosshair and the Company completed a surface bulk-sample program on the Jaclyn Main deposit. The bulk sample program was aimed at providing a more representative gold grade, testing structural and grade continuity and mining/milling characteristics for the Jaclyn Main Deposit. Results of the bulk sample are pending.

***Gold Star Project***

The 100% owned Gold Star gold project is located near the community of Savant Lake, Ontario approximately 230 kilometres northwest of Thunder Bay, Ontario, Canada. The project is subject to two option agreements, whereby the Company can earn a 100% interest in the properties by making cash and share payments to the vendors. The property consists of 35 claims (373 units) covering 5,968 hectares.

The property is underlain by mafic and felsic volcanic rocks, with lesser mafic and felsic intrusive rocks, of the Archean Sturgeon Lake Greenstone Belt. The belt to the south is host to the past-producing Mattabi and Lyon Lake massive sulphide deposits. Numerous gold occurrences are located on the property including the Powell Prospect with up to 276.0 g/t gold (8.06 oz/ton), Davidson-Carr Prospect with up to 22.80 g/t gold (0.66 oz/ton) and the Y-Island Prospect with up to 49.8 g/t gold (1.45 oz/ton). Adjacent to the Gold Star Property is the past-producing St. Anthony Gold Mine that operated from 1934 to 1942 and resulted in the recovery of 63,310 oz. gold from 332,720 tons with an average recovered grade of 0.191 ounce gold per ton.

In August 2010, Paragon completed prospecting and a geological mapping program. The prospecting program was designed to follow-up on existing mineral occurrences sampled in 2009, as well as reconnaissance style traverses aimed at discovering new zones of mineralization and follow-up of mapped structural features from regional geological mapping and airborne geophysical surveys. A total of 344 rock float and grab samples were collected from the property. The program led to the identification of two key gold exploration areas: the Northeast Arm deformation zone and the Thomas Lake-Mine Lake Area.

**Northeast Arm deformation zone** is a five-kilometre wide, north-northeast striking, composite deformation zone that extends below the northeast arm of Sturgeon Lake and adjacent to the historic Powell, Davidson-Carr and Y-Island gold Prospects. The deformation zone is exposed on a series of small islands between and south of the historic gold prospects and shows strong variability from locally weakly to intensely deformed and altered volcanic rocks.

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Prospecting along the zone continued to add to the high-grade gold values with assays up to 169.00 g/t gold (4.93 oz/t) obtained from historic pits in the Powell prospect area. Gold-bearing quartz veins with assays up to 3.83 g/t gold (0.11 oz/t) and 5.14 g/t gold (0.15 oz/t) were identified 350 and 500 metres east of the Davidson-Carr gold prospect. To the south, sampling at the west-end of Y-Island returned 44 g/t gold (1.28 oz/t) from a 0.5 metre wide quartz vein zone. The vein zone has been traced over a strike length of 100 metres in this area and tested by a single historic drillhole.

Gold mineralization is interpreted to be associated with deformation along the Northeast Arm shear zone that occurred over a protracted period of time, where older (D1) shearing was overprinted by localized younger (D2) shears. These are typically marked by northeast striking zones of increased shear fabric development and associated iron carbonate, pyrite and sericite alteration. The historical gold prospects in the area are generally observed to be flanking the main deformation structures. The shear zones due to their friable nature are generally more recessively eroded and overlain by water. It is these zones of intense alteration that form the most interesting target to host gold mineralization.

**Thomas Lake-Mine Lake Area** is a large mineralized area that is host to multiple gold bearing quartz vein zones that include the Thomas Lake, Mine Lake, Mine Lake North, Stewart-Contact Zone and Wagon Road gold prospects. Historical work in area (1920's to 1940's) included trenching and numerous test pits, two shallow shafts and some limited underground development at Mine Lake and Stewart-Contact Zone gold prospects. Historic diamond drilling in the area is limited to 17 shallow drillholes (1,078 metres), with a majority of the drillholes completed at the Mine Lake and Mine Lake North Prospects. Assay results from the historic drilling were not reported. No drilling has been completed at the Thomas Lake or Stewart-Contact Zone gold prospects.

The prospecting and mapping program focused on all five historical prospects and the surrounding host area. Coarse visible gold was observed in a 2-metre wide composite quartz vein zone at the Thomas Lake prospect. Grab samples from the quartz vein zone assayed up to 62.80 g/t gold (1.83 oz/t). Sampling of the historic pits at the Mine Lake gold prospect and Stewart-Contact Zone Prospect returned assays of up to 29.00 g/t gold (0.84 oz/t) and up to 17.75 g/t gold (0.52 oz/t), respectively. The vein zones are interpreted to have developed within several, north striking, early-stage (D1) shear zones similar in style to the later (D2) shear zones affecting the Northeast Arm deformation zone, with development of 10+ metre wide zones of intense iron carbonate, pyrite and sericite alteration of host mafic and felsic volcanic rocks.

Subsequent to year ended September 30, 2010, Paragon completed a 3-week program of mechanical stripping, channel sampling (224 samples including blanks and standards) and detailed trench mapping following up on the results of the summer program. Highlights of the program include the discovery of a new mineralized structural trend at the Mine Lake prospect and gold assays of 20.1 g/t gold over 1.0 metres and 15.4 g/t gold over 0.5 metres (see news release dated December 9, 2010).

## **Other Gold Projects**

### ***Huxter Lane JV Project***

The 100%-owned Huxter Lane JV Project is near surface, bulk tonnage gold target located 90 kilometres south of Grand Falls-Windsor in central Newfoundland. The main target is the Mosquito Hill mineralization, a gold-bearing porphyry intrusion that has been tested by 60 broad-spaced drill holes (10,305 metres) over a strike length of 900 metres and width of 500 metres. The mineralized intrusion is exposed along its northern edge and dips gently to the southwest at about 10 degrees (nearly flat lying) and typically contains up to 5% disseminated and vein-hosted arsenopyrite-pyrite mineralization. The mineralization remains open along strike and to depth.

In February 2009, the Company optioned the property to Golden Dory Resources Corp. whereby Golden Dory may earn up to a 60% interest in the property by funding \$2,000,000 in exploration expenditures over a four year period. Golden Dory may then earn an additional 10% interest (to 70%) by completing a bankable feasibility study. Golden Dory is the operator during the earn-in period.

During the period ended September 30, 2010, Golden Dory completed a diamond drilling program consisting of 14 drill holes (3,016-metres). The drill program successfully extended the Mosquito Hill gold deposit by 150 metres up-dip and 250 metres down-dip of the existing NI43-101 compliant gold resource. Highlight assays include 0.78 g/t gold over 68 metres (HX10-47), 0.50 g/t gold over 110 metres (HX10-50) and 1.05 g/t gold over 25.85 metres (HX10-53).

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Results of the winter/spring drill program were used to calculate an updated NI43-101-compliant resource estimate on the Mosquito Hill deposit. The resource estimate was prepared by independent consultant Mr. Gary Giroux, P.Eng, of Giroux Consultants Limited. The NI43-101 resource estimates that the Mosquito Hill Deposit contains an indicated resource of 11.18 million tonnes averaging 0.546 g/t gold for 196,257 ounces gold and an inferred resource of 38.76 million tonnes averaging 0.457 g/t gold for 569,496 ounces gold at a cutoff of 0.30 grams per tonne gold. Over 90% of the resource estimate occurs at depths shallower than 200 metres. This resource estimate is not an economic assessment of the Mosquito Hill Deposit, and a range of cutoff grades are listed below.

**Mosquito Hill Zone - Indicated Resource within the mineralized solid**

<b>Au Cutoff (g/t)</b>	<b>Tonnes &gt; Cutoff (tonnes)</b>	<b>Grade &gt; Cutoff Au (g/t)</b>	<b>Contained Ounces Au</b>
0.10	16,760,000	0.438	236,015
0.20	15,020,000	0.471	227,448
<b>0.30</b>	<b>11,180,000</b>	<b>0.546</b>	<b>196,257</b>
0.40	7,560,000	0.642	156,044

**Mosquito Hill Zone - Inferred Resource within the mineralized solid**

<b>Au Cutoff (g/t)</b>	<b>Tonnes &gt; Cutoff (tonnes)</b>	<b>Grade &gt; Cutoff Au (g/t)</b>	<b>Contained Ounces Au</b>
0.10	59,400,000	0.375	716,157
0.20	52,370,000	0.404	680,228
<b>0.30</b>	<b>38,760,000</b>	<b>0.457</b>	<b>569,496</b>
0.40	21,310,000	0.548	375,452

***South Golden Promise JV Project***

The South Golden Promise JV project is located in central Newfoundland immediately south of the Golden Promise JV Project. The target is high grade gold vein systems hosted within late Ordovician sedimentary rocks of the Victoria Lake Group. Crosshair has earned a 60% interest in the property (Paragon - 40%) and is subject to joint venture terms. During the period-ended September 30, 2010, Crosshair completed a limited geochemical sampling program on selected areas of the property.

***Long Pond Project***

The 100%-owned, Long Pond project is located in the Baie Verte area of north central Newfoundland. The target is a mesothermal gold vein environment with strong similarities to the mafic-ultramafic hosted gold deposits of the Abitibi greenstone belts in Canada. During the period-ended September 30, 2010, the property was under option to Metals Creek Resources Corp. Metals Creek returned the property on July 5, 2010 and retains no interest in the property.

***Maritec Project***

The Maritec project is located in the Baie Verte area of north central Newfoundland. The target is a mesothermal gold vein environment with strong similarities to the mafic-ultramafic hosted gold deposits of the Abitibi greenstone belts in Canada. No fieldwork was completed during the fiscal year ending September 30, 2010.

***Glenwood Project***

The 100%-owned Glenwood gold project is located 25 kilometres west of the town of Gander, Newfoundland. The target is high-grade orogenic gold systems hosted with Silurian sedimentary rocks of the Botwood Basin. No fieldwork was completed during the fiscal year ending September 30, 2010.

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**EXPLORATION OUTLOOK**

The Company has a strategic focus on gold and base metal exploration in highly prospective areas in Newfoundland and Ontario that also feature political stability and infrastructure favourable for mine development. Management of the Company remains very encouraged by the exploration results at its 100%-owned South Tally Pond VMS property, the Gold Star project and results from partner-funded exploration on its joint ventured gold projects. The Company remains committed to advancing its projects through a combination of both company-funded and partner-funded exploration.

In fiscal 2010, the Company spent approximately \$900,000 on exploration work that focused mainly on the South Tally Pond VMS project and the Gold Star gold project. Partner-funded exploration is estimated at approximately \$2,200,000 in 2010. Subsequent to the year-ended September 30, 2010, the Company completed an equity financing of \$3.05 million on December 3, 2010. The Company anticipates continuing aggressive exploration on its key projects in 2011 and locating new joint venture partners.

**QUALIFIED PERSONS**

The property update information in this document has been reviewed and approved by David Copeland, M.Sc., P.Geo., Exploration Manager for the Company and Qualified Person as defined by National Instrument (NI) 43-101.

Work on the Company's 100%-owned exploration projects and the Winterhill JV project is being carried out by the Company's employees and consultants and is supervised by David Copeland, M.Sc., P.Geo., Exploration Manager for the Company and Qualified Person as defined by NI 43-101. Historical results were obtained from published reports available in the public domain.

Exploration work on partner-funded joint venture projects (excluding the Winter Hill JV project) is being carried out by the JV partner employees and consultants and supervised by Qualified Persons of the JV partner. NI 43-101 resources estimates on Golden Promise JV project and Huxter Lane JV project were prepared for Crosshair and Golden Dory, respectively by independent consultant Mr. Gary Giroux, P.Eng, M.Sc of Giroux Consultants Limited, an Independent Qualified Person as defined in NI 43-101

**SELECTED ANNUAL INFORMATION**

The following table sets out selected financial information for the Company which has been derived from the Company's audited financial statements for the fiscal years ended September 30, 2010, 2009 and 2008. These financial statements were prepared in accordance with accounting principles generally accepted in Canada and are in Canadian dollars.

<b>Year ended September 30,</b>	<b>Fiscal 2010 (\$)</b>	<b>Fiscal 2009 (\$)</b>	<b>Fiscal 2008 (\$)</b>
<b>Income Statement Data</b>			
Revenues	-	-	-
Income (loss) before discontinued operations and extraordinary items	(1,889,241)	(1,402,949)	(2,203,724)
Net income (loss) for the year	(1,889,241)	(1,402,949)	(2,203,724)
<b>Income (loss) per common share outstanding - basic and diluted:</b>			
Income (loss) before discontinued operations and extraordinary items	(0.06)	(0.05)	(0.09)
Net income (loss) for the year	(0.06)	(0.05)	(0.09)
<b>Balance Sheet Data</b>			
Total assets	9,744,290	10,785,386	12,526,365
Total long-term liabilities	-	-	-
<b>Dividends</b>	-	-	-

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Factors That Affect the Comparability of the Annual Financial Data Disclosed Above

During fiscal 2010, 2009 and 2008 the Company incurred net loss of \$1,889,241, \$1,402,949, and \$2,203,724, respectively. The significant variance was mainly attributable to general operating expenses (2010 - \$533,412, 2009 - \$537,419, 2008 - \$1,086,819), write-off of mineral property (2010 - \$1,466,431, 2009 - \$1,445,619, 2008 - \$2,486,581), gain on disposition of mineral properties (2010 - \$nil, 2009 - \$363,014, 2008 - \$nil), and future income tax recovery (2010 - \$231,000, 2009 - \$218,911, 2008 - \$1,238,098). The general operating expenses excluding other items as listed above and stock based compensation for 2010 was \$413,894 (2009 - \$485,549, 2008 - \$818,501). The decrease in operating expenses is a result of cost containment measures implemented since 2009.

**RESULT OF OPERATIONS**

During the year ended September 30, 2010, the Company incurred a net loss of \$1,889,241 compared to a net loss of \$1,402,949 incurred during fiscal 2009. The net loss in the current period is inclusive of general operating expenses of \$533,412 (2009 - \$537,419), loss from other items of \$1,586,829 (2009 - \$1,084,441), and future income tax recovery of \$231,000 (2009 - \$218,911). Some of the significant expense items included in general operating expenses are as follows:

- Investor relations of \$28,686 (2009 - \$9,914) is higher than the comparative period due to the increased investor relations activities including two investor conferences and promotional materials.
- Office and miscellaneous of \$74,714 (2009 - \$73,221) relates to the fees paid for the general office maintenance costs and are comparable to the prior year expenses.
- Professional fees of \$79,333 (2009 - \$86,068) are lower than the comparative period due to reduced legal fees related to general corporate and mineral property activities in the current year.
- Salaries and benefits of \$155,354 (2009 - \$251,270) are lower than the comparative period as a result of downsizing and severance payment in December, 2008.
- Shareholder information of \$37,212 (2009 - \$27,242) includes the costs of the annual general meeting and news dissemination. The increase is mainly due to increased corporate and mineral exploration activities.
- Stock-based compensation expenses of \$119,518 (2009 - \$51,870), a non-cash charge, are the estimated fair value of the vesting portion of stock options granted in fiscal 2010 and 2009. The Company used the Black-Scholes option pricing model for the fair value calculation.

The Company incurred a loss of \$1,586,829 from other items compared to a loss of \$1,084,441 in 2009. The loss from other items in the current year was mainly attributable to the loss of \$121,328 on sale of marketable securities (2009 - \$12,014) and write-off of mineral properties of \$1,466,431 (2009 - \$1,445,619). Future income tax recovery of \$231,000 (2009 - \$218,911) was a result of adjustments to tax pool balances due to renunciation of exploration expenditures to flow-through share investors.

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**SUMMARY OF QUARTERLY RESULTS**

Results for the eight most recent quarters ending with the last quarter for the three months ending on September 30, 2010 are:

	For the Three Months Ending							
	Fiscal 2010				Fiscal 2009			
	Sept 30, 2010	Jun 30, 2010	Mar. 31, 2010	Dec. 31, 2009	Sept. 30, 2009	Jun. 30, 2009	Mar. 31, 2009	Dec. 31, 2008
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Income Statement Data</b>								
Total revenues	-	-	-	-	-	-	-	-
Income (loss) before discontinued operations and extraordinary items	(1,348,490)	(153,070)	(226,104)	(161,577)	(1,455,770)	325,589	82,339	(355,107)
Net income (loss)	(1,348,490)	(153,070)	(226,104)	(161,577)	(1,455,770)	325,589	82,339	(355,107)
<b>Income (loss) per common share outstanding – basic and diluted</b>								
Income (loss) before discontinued operations and extraordinary items	(0.01)	(0.00)	(0.01)	(0.01)	(0.05)	0.01	0.00	(0.01)
Net income (loss) per share	(0.01)	(0.00)	(0.01)	(0.01)	(0.05)	0.01	0.00	(0.01)

The financial data presented above is derived from the Company's financial statements, which are prepared in accordance with accounting principles generally accepted in Canada and in Canadian dollars.

**FOURTH QUARTER**

In the fourth quarter ended September 30, 2010, the Company incurred a net loss of \$1,348,490 (2009 - \$1,455,770). The significant loss incurred in the fourth quarter was mainly a result of writing down mineral properties by \$1,466,431 (2009 - \$1,421,861), mitigated by future income tax recovery of \$231,000 (2009 - \$218,911). The current period's loss also included general operating expenses of \$113,314 (2009 - \$98,187). Factors affecting the general administrative expenses for the current quarter are similar to those explained under the "Results of Operations" Section.

During the quarter ended September 2010, the Company completed an 8-week program of systematic prospecting and till sampling on less explored areas on the South Tally Pond VMS project. A total of 296 rock samples, 27 regional stream silt samples and 44 till samples were collected during the June–July 2010 program. Highlights of the work are summarized in the Exploration Update – South Tally Pond Project-Other prospects.

The Company also completed a prospecting and geological mapping program at the Gold Star property in August 2010. A total of 344 rock float and grab samples were collected. The prospecting program was designed to follow-up on existing mineral occurrences sampled in 2009. Highlights of the work are summarized in the Exploration Update– Gold Star Project.

**LIQUIDITY AND CAPITAL RESOURCES**

As at September 30, 2010, the Company had a cash and cash equivalents of \$318,693 compared to \$390,358 as at September 30, 2009. The Company had working capital as at September 30, 2010 of \$532,990 compared to working

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capital of \$1,085,560 as at September 30, 2009. The Company's working capital decreased during the current year primarily as a result of expenditures on operations and mineral properties.

Cash used in operating activities during the year ended September 30, 2010 was \$469,263 (2009 - \$319,142).

Cash used for investing activities during the year ended September 30, 2010 was \$490,876 (2009 - \$883,528). The Company's principal investing activity is the acquisition and exploration of its resource properties. During the year ended September 30, 2010, the Company spent \$888,018 (2008 - \$959,379) on its resource properties. During the current year, the Company sold a portion of its marketable securities for net proceeds of \$397,142 (2009 - \$69,109).

Cash provided by financing activities during fiscal 2010 was \$886,474 (2009 - \$nil).

At January 7, 2011, management believes the current working capital is sufficient to pay for its operating costs and accomplish planned exploration for its resource properties for the fiscal 2011. The Company completed a non-brokered \$3.05 million financing on December 3, 2010 (see Subsequent Events) The Company's priority in 2011 will be to maintain its current partners, secure additional partners for several of its 100%-owned gold and base metal projects, evaluate new opportunities for the Company, and secure new financings for future exploration programs.

### **GOING CONCERN**

At present, the Company's operations do not generate cash flow and its financial success is dependent on management's ability to discover economically viable mineral deposits. The mineral exploration process can take many years and is subject to factors that are beyond the Company's control. 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. Management believes it will be able to raise equity capital as required in the long term, but recognizes there will be risks involved that may be beyond their control. The annual and interim financial statements do not include any adjustments to the recoverability and classification of reduced asset amounts and classification of liabilities that might be necessary should the Company be unable to continue operations. These adjustments could be material. The Company is not subject to material externally-imposed capital constraints.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements.

### **CRITICAL ACCOUNTING 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Significant areas requiring the use of management estimates relate to determination of stock-based compensation, impairment of assets, valuation of investments and future income taxes. Actual results could differ from these estimates.

### **CHANGES IN ACCOUNTING POLICIES**

#### **New accounting policies adopted**

##### *Financial instruments - disclosures*

In June 2009, the CICA amended Section 3862, Financial Instruments – Disclosures, that includes additional disclosure requirements about fair value measurements for financial instruments and liquidity risk disclosures effective for fiscal years ending after September 30, 2009. Enhanced fair value measurements entail a three-level hierarchy that takes into

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account the significance of the inputs used in making the fair value measurements. The amendment clarifies that liquidity risk relates to financial liabilities that are settled by delivering cash or another financial asset. Enhanced liquidity risk disclosures include a maturity analysis for derivative financial liabilities based on how an entity manages liquidity risk. The Company has included the disclosure recommended by the new handbook sections in Note 12 to these financial statements.

**Future accounting changes**

*Convergence to international Financial Reporting Standards (“IFRS”)*

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition date of October 1, 2011 will require the restatement for comparative purposes, amounts reported by the Company for the year ended September 30, 2011, for which the current and comparative information will be prepared under IFRS. The detail of the Company’s IFRS project is summarized under **Changeover Plan to International Financial Reporting Standards**.

*Business Combinations, Non-controlling Interest and Consolidated Financial Statements*

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which replace CICA Handbook Sections 1581, Business Combinations, and Section 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s interim and annual financial statements for its fiscal year beginning October 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

**FINANCIAL INSTRUMENTS**

The Company classified its cash and cash equivalents as held for trading, marketable securities as available-for-sale, accounts receivables as loans and receivables, and accounts payable and accrued liabilities as other financial liabilities. The Company’s financial instruments are exposed to the following risks:

*Credit Risk*

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations. The Company’s credit risk with respect to its cash and cash equivalents and marketable securities are minimal as they are held with high-credit quality financial institutions. Amounts receivable at September 30, 2010, includes amounts due from joint venture partners for exploration managed by the Company on the Company’s joint-ventured properties, in the amount of \$1,580. The Company evaluates the credit worthiness of its partners and has the right to request cash advances for all work done on their behalf. The remaining amounts receivable is GST receivable of \$18,488 due from the Canadian government.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company’s only liquidity risk from financial instruments is its need to meet operating accounts payable requirements. The Company maintains sufficient cash balances to meet these needs.

*Market risk*

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

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*Interest Rate Risk*

The Company is exposed to interest rate risk on its cash equivalents. The majority of these investments are in discounted instruments with pre-determined fixed yields. Interest rate movements will affect the fair value of these instruments so the Company manages maturity dates of these instruments to match cash flow needs, enabling realization at no loss in almost all cases. The interest rate risks on cash equivalents are not considered significant.

*Foreign Exchange Risk*

The Company has virtually no foreign exchange risk as all its activities are carried out in Canada and all its financial assets and liabilities are denominated in Canadian dollars.

*Sensitivity analysis*

The carrying values of cash and cash equivalent, accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to the relatively short period to maturity of these financial instruments. The fair value of marketable securities represents the market value of quoted investments.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by credit risk, liquidity risk or market risk.

**Fair Value**

CICA Handbook Section 3862 "Financial Instruments – disclosures" establishes a fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – inputs for the asset or liability that are not based on observable market data.

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

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Assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalent	\$ 318,693	\$ -	\$ -	\$ 318,693
Marketable securities	<u>206,890</u>	<u>-</u>	<u>-</u>	<u>206,890</u>
Total	\$ 525,583	\$ -	\$ -	\$ 525,583

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**OUTSTANDING SHARE DATA**

The Company had the following common shares, stock options and warrants outstanding as at the date of this report:

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Issued and Outstanding Common shares	52,789,254
Stock options	2,878,333
Warrants	12,226,602
	<hr/>
	67,894,189

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## **RISK FACTORS**

Companies operating in the mining industry face many and varied kinds of risk. While risk management cannot eliminate the impact of potential risks, the Company strives to manage such risks to the extent possible and practical. The following are the risk factors most applicable to the company:

### ***Industry***

Exploring and developing mineral resource projects bears a high potential for all manner of risks. The Company properties are in the exploration stage and are without a known body of commercial ore. Development of any of the Company's properties will only follow upon obtaining satisfactory exploration results, mineral exploration and development involve a high degree of risk and few properties which are explored are ultimately developed into producing mines. There is no assurance that Company's mineral exploration activities will result in the discovery of a body of commercial ore on any of its properties. Several years may pass between the discovery of a deposit and its exploitation. Most exploration projects do not result in the discovery of commercially mineable mineralized deposits

### ***Financing***

The Company is in the exploration stage and as such has no significant source of revenue. Its continued operations are dependent upon the ability of the company to obtain additional equity or partner financing. Obtaining further financing may be dependent upon market conditions and results of exploration. There is no assurance that the Company's exploration efforts will be successful or that market conditions will be favourable. The Company will require additional funding to maintain its mineral properties in good standing. The lack of additional financing could result in delay or indefinite postponement of further exploration and possible, partial or total loss of Paragon's interest in its mineral properties.

### ***Title***

There is no guarantee that title to properties in which the Company has a material interest will not be challenged or impugned. The Company's mineral property interests may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. In addition, certain of the mining claims in which the Company has an interest are not recorded in the name of the Company and cannot be recorded until certain steps are taken by other parties. Before a number of claims under option can be recorded in Company's name, the underlying title holder has to assign title to the Company once the Company satisfies its option agreement obligations. There are no assurances that the underlying title holder will assign title.

### ***Operating Hazards and Risks***

Mineral exploration involves many risks. The operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, any of which could result in work stoppages and damage to persons or property or the environment and possible legal liability for any and all damage. Fires, power outages, labour disruptions, flooding, land slides and the inability to obtain suitable or adequate machinery, equipment or labour are some of the risks involved in the conduct of exploration programs.

### ***Environmental Factors***

The Company currently conducts exploration activities in the Canadian Province of Newfoundland and Labrador. Such activities are subject to various laws, rules and regulations governing the protection of the environment. In Canada, extensive environmental legislation has been enacted by federal and provincial governments. Such legislation imposes rigorous standards on the mining industry to reduce or eliminate the effects of wastes generated by extraction and processing operations and subsequently deposited on the ground or emitted into the air or water. All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed properties and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in

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environmental regulation, if any, will not adversely affect the Company's operations. The cost of compliance with changes in governmental regulations has the potential to preclude entirely the economic development of a property.

The Company is able to conduct its exploration within the provisions of the applicable environmental legislation without undue constraint on its ability to carry on efficient operations. The estimated annual cost of environmental compliance for all properties held by the Company in the exploration stage is minimal and pertains primarily to carrying out diamond drilling, trenching or stripping. Environmental hazards may exist on the Companies properties, which hazards are unknown to the Company at present, which have been caused by previous or existing owners or operators of the properties.

***Governmental Regulation***

Exploration activities on the Company's properties are affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labour; (ii) mining law reform; (iii) restrictions on production, price controls, and tax increases; (iv) maintenance of claims; (v) tenure; and (vi) expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations. Changes in such regulation could result in additional expenses and capital expenditures, availability of capital, competition, reserve uncertainty, potential conflicts of interest, title risks, dilution, and restrictions and delays in operations, the extent of which cannot be predicted.

The Company is at the exploration stage on all of its properties. Exploration on the Company's properties requires responsible best exploration practices to comply with company policy, government regulations, maintenance of claims and tenure. The Company is required to be registered to do business and have a valid prospecting license (required to prospect or explore for minerals on Crown Mineral Land or to stake a claim) in any Canadian province in which it is carrying out work.

Mineral exploration primarily falls under provincial jurisdiction. However, the Company is also required to follow the regulations pertaining to the mineral exploration industry that fall under federal jurisdiction, such as the Fish and Wildlife Act.

If any of the Company's projects are advanced to the development stage, those operations will also be subject to various laws and regulations concerning development, production, taxes, labour standards, environmental protection, mine safety and other matters.

**FORWARD LOOKING STATEMENTS**

This MD&A contain certain statements that may be deemed "forward-looking statements". All statements in this document, other than statements of historical fact, that address events or developments that the Company expects to occur, are forward looking statements.

Forward looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential", "interprets" and similar expressions, or that events or conditions "will", "would", "may", "could" or "should" occur. Forward-looking statements in this document include statements regarding future exploration programs, joint venture partner participation, and liquidity. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results may differ materially from those in forward-looking statements. Factors that could cause the actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration success, continued availability of capital and financing, inability to obtain required regulatory or governmental approvals and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Forward looking statements are based on the beliefs, estimates and opinions of the Company's management on the date the statements are made. The Company undertakes no obligation to update these forward-looking statements in the event that management's beliefs, estimates or opinions, or other factors, should change. These statements are based on a number of assumptions, including, among others, assumptions regarding general business and economic conditions, the timing of

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the receipt of regulatory and governmental approvals for the transactions described herein, the ability of Paragon and other relevant parties to satisfy stock exchange and other regulatory requirements in a timely manner, the availability of financing for Paragon's proposed transactions and exploration and development programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. The foregoing list of assumptions is not exhaustive. Events or circumstances could cause results to differ materially.

**CHANGEOVER PLAN TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

In February 2008, the AcSB confirmed that publicly accountable enterprises are required to adopt IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Following this timeline, the Company will issue its first set of financial statements prepared under IFRS for the interim periods ending December 31, 2011 and for the fiscal period ending September 30, 2012. The standard also requires that the comparative figures for 2011 be based on IFRS.

The Company's IFRS project consists of three phases – scoping and planning, evaluation and design and implementation and review. The Company has completed the scoping and planning stage which included putting together an initial project plan, education, and identification of a number of differences between Canadian GAAP and IFRS that relate to the Company. The Company is now in the evaluation and design stage.

In phase one the Company had identified some areas where there is the most potential for a significant impact to the Company's financial statements. These areas do not represent a complete list of expected changes and may be subject to change as the Company progresses through the second phase. The areas which could have a material impact are as follows.

- *First-time Adoption of International Financial Reporting Standards ("IFRS 1")*

The adoption of IFRS requires the application of IFRS 1 which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment. The Company has not yet made any final decisions on policies or elections on IFRS 1 and therefore continued this process into the fiscal 2011.

- *Share-Based Payment ("IFRS 2")*

IFRS and Canadian GAAP largely converge on the accounting treatment for share based transaction with only a few differences. For stock options that vest in installments, IFRS 2 requires the Company to determine the fair value of each installment as a separate share option grant while Canadian GAAP treats the entire grant of stock options as a pool and recognize expense on a straight line basis. Starting the first quarter of 2010, the Company moved from a straight line basis to a graded basis vesting for the recognition of stock-based compensation expense. A greater portion of expense is recorded in the initial vesting periods compared to distributing the expense equally over all vesting period. In addition, under IFRS the Company must make an estimate of stock options that are forfeited before they vest whereas under Canadian GAAP the Company records forfeitures as they occur. The change in this accounting policy is not expected to have a material impact on the Company's financial statements.

- *Exploration for and evaluation of mineral resources ("IFRS 6")*

Under the Company's current accounting policy, acquisition and exploration costs of mineral properties are capitalized as incurred. IFRS 6 permits mining companies to retain their existing policies with respect to the capitalization of exploration and evaluation costs until guidance that is more definitively developed in this area. Such guidance is not expected to be issued until after the Company's changeover to IFRS. The Company will retain its existing policies with respect to mining interests and exploration costs.

- *Income Taxes ("IAS 12")*

Fundamentals of accounting for income taxes are the same under IFRS as they are under Canadian GAAP. In certain circumstances, IFRS contains different requirements related to recognition and measurement of future (deferred) income taxes. The International Accounting Standards Board ("IASB") is currently reviewing IAS based on various meetings and comments received and will consider whether to propose limited amendments. The Company does not

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expect any changes to its accounting policies related to income taxes that would have a material impact on its financial statements.

Upon completion of the second phase, the Company will move into the implementation phase, in which it will update its significant accounting policies, adjust its accounting systems, and design tools and processes for the preparation of IFRS information, including comparative and opening balance sheet information. In addition, the Company will evaluate its internal and disclosure control processes as a result of its conversion to IFRS. The Company will also design model IFRS financial statements including all note disclosures and disclosures required for the MD&A.

In the period leading up to the changeover in 2011, IASB will also continue to issue new accounting standards during the conversion period. As a result, the final impact of IFRS on the Company's financial statements can only be measured once all the IFRS accounting standards at the conversion date are known. Management will continue to review new standards, as well as the impact of the new accounting standards, between now and the conversion date to ensure all relevant changes are addressed.

#### **EFFECTIVENESS OF DISCLOSURE CONTROLS**

The Chief Financial Officer and Chief Executive Officer have evaluated the effectiveness of the Company's disclosure controls as of September 30, 2010. They have concluded that the Company's disclosure controls and procedures provide reasonable assurance that material information relating to the Company would be made known to them by others within the Company, particularly during the period during which this report was being made.

#### **SUBSEQUENT EVENTS**

Subsequent to the year-end September 30, 2010, the Company:

On October 12, 2010, the Company made the first cash and share payment on the Sturgeon Supreme Option, which is contiguous with and forms part of the Gold Star Property in northwest Ontario.

On December 1, 2010, the Company made the second cash and share payment on the Gold Star Property.

On December 3, 2010 the Company completed a \$3.05 million non brokered private placement of 11,449,240 flow-through shares at a price of \$0.17 per share for gross proceeds of \$1,946,370 and 7,914,500 non-flow-through units at a price of \$0.14 per unit for gross proceeds of \$1,108,030. Each non-flow-through unit consisted of one common share of the Company and one common share purchase warrant with a term of 24 months from the date of closing. Each warrant will entitle the holder to acquire one common share of the Company at an exercise price of \$0.20 per common share. In connection with the private placement the Company paid Finders Fees of \$162,095 and issued 1,003,553 Broker Warrants to Citadel Securities Inc., MGI Securities Inc., Versant Partners Inc. and Haywood Securities Inc. Each Broker warrant is exercisable for one common share at a price of \$0.20 for a two year period.

On December 7, 2010, the Company signed a one year agreement with an outside investor relations and communication firm. Under the terms of the agreement, the Company will pay the firm \$6,000 per month and issue 200,000 options at \$0.22 per share expiring December 7, 2015. The options will vest in stages over a 12-month period in accordance with TSX Venture Exchange regulations.

#### **ADDITIONAL INFORMATION**

Additional information concerning the Company and its operations is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company web site at [www.paragonminerals.com](http://www.paragonminerals.com).

#### **APPROVAL**

The Board of Directors of Paragon Minerals Corporation has approved the contents of this management discussion and analysis. A copy of this MD&A will be provided to anyone who requests it.