

AM GOLD INC.
(formerly Acero-Martin Exploration Inc.)
Consolidated Financial Statements
September 30, 2010
(Unaudited – prepared by management)

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(formerly Acero-Martin Exploration Inc.)
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**MANAGEMENT'S COMMENTS ON
UNAUDITED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim consolidated financial statements of AM Gold Inc. (formerly Acero-Martin Exploration Inc.), as at September 30, 2010 and for the three and nine months then ended have been prepared by and is the responsibility of the Company's management. In accordance with National Instrument 51 – 102, the company discloses that its auditors have not reviewed the accompanying unaudited interim financial statements as at September 30, 2010 and for the three and nine months then ended.

AM GOLD INC.
(formerly Acero-Martin Exploration Inc.)
Consolidated Balance Sheets
(Unaudited – prepared by management)

	<i>September 30, 2010</i>	<i>December 31, 2009</i>
ASSETS		
Current:		
Cash and cash equivalents	\$ 2,544,755	\$ 431,879
Accounts receivable	119,598	12,687
Share subscription receivable	-	129,063
Prepaid expenses and deposit	<u>12,154</u>	<u>3,256</u>
	2,676,507	576,885
Equipment	448,831	409,118
Resource properties	<u>6,070,301</u>	<u>5,874,301</u>
	\$ 9,195,639	\$ 6,860,304
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	\$ 538,553	\$ 680,034
Note payable	<u>-</u>	<u>420,000</u>
	538,553	1,100,034
SHAREHOLDERS' EQUITY		
Capital stock	54,917,153	49,160,760
Contributed surplus	5,804,717	4,953,497
Deficit	<u>(52,064,784)</u>	<u>(48,353,987)</u>
	8,657,086	5,760,270
	\$ 9,195,639	\$ 6,860,304

APPROVED ON BEHALF OF THE BOARD:

 "Michael Scholz" *Director*

 "John Fiorino" *Director*

AM GOLD INC.
(formerly Acero-Martin Exploration Inc.)

Consolidated Statements of Comprehensive Loss and Deficit

(Unaudited – prepared by management)

	<i>Three Months Ended September 30, 2010</i>	<i>Three Months Ended September 30, 2009</i>	<i>Nine Months Ended September 30, 2010</i>	<i>Nine Months Ended September 30, 2009</i>
Revenues				
Interest and sundry	\$ 2,347	\$ 53,276	\$ 8,587	\$ 73,522
Expenses				
Accounting and audit	5,383	39,917	33,192	52,917
Administration	-	-	3,750	-
Amortization	6,582	9,088	20,993	29,828
Bank charges and interest	3,626	2,944	8,342	5,312
Consulting fees	49,683	-	89,433	-
Director fees	55,792	-	55,792	-
Insurance	3,478	-	5,180	-
Interest expense	-	10,000	4,416	10,000
Legal	17,354	35,131	36,257	43,776
Management fees	-	-	-	31,500
Mineral property exploration	1,684,813	710	1,912,447	95,895
Office and miscellaneous	46,730	4,293	89,123	97,319
Printing and shareholders' information	13,988	10,214	76,818	11,900
Rent	3,500	-	15,750	-
Stock-based compensation	851,220	-	851,220	39,504
Stock exchange fees and filing fees	25,503	6,743	43,658	11,793
Telephone and utilities	4,828	3,579	14,028	16,049
Transfer agent fees	18,630	18,953	31,874	29,742
Travel and business development	143,089	2,740	171,152	14,655
Wages	38,956	31,208	88,916	226,967
	<u>2,973,155</u>	<u>175,520</u>	<u>3,552,341</u>	<u>717,157</u>
Loss before the under-noted	(2,970,808)	(122,244)	(3,543,754)	(643,635)
Gain on settlement of debt	-	-	25,381	-
Foreign exchange loss	(7,777)	34,111	(192,424)	(70,896)
Net loss and comprehensive loss for the period	(2,978,585)	(88,133)	(3,710,797)	(714,531)
Deficit, beginning of period	(49,086,199)	(47,703,959)	(48,353,987)	(47,077,561)
Deficit, end of period	<u>\$ (52,064,784)</u>	<u>\$ (47,792,092)</u>	<u>\$ (52,064,784)</u>	<u>\$ (47,792,092)</u>
Basic and diluted loss per share	<u>\$ (0.07)</u>	<u>\$ (0.01)</u>	<u>\$ (0.10)</u>	<u>\$ (0.01)</u>
Weighted average number of shares	<u>41,073,669</u>	<u>98,703,578</u>	<u>36,028,914</u>	<u>98,703,578</u>

AM GOLD INC.
(formerly Acero-Martin Exploration Inc.)
Consolidated Statements of Changes in Equity
September 30, 2010
(Unaudited – prepared by management)

	<i>Share Capital</i>		<i>Contributed Surplus</i>	<i>Deficit</i>	<i>Shareholders' Equity</i>
	<i>Number of Shares</i>	<i>Amount</i>			
Balance, December 31, 2008	24,347,524	\$48,022,134	\$ 4,574,762	\$(47,077,561)	\$5,519,335
Issued for cash	5,160,889	978,312	-	-	978,312
Issued and unpaid	584,111	129,063	-	-	129,063
Issued for debt	150,000	24,000	-	-	24,000
Issued for acquisition of resource properties	175,000	43,750	-	-	43,750
Share issuance costs	-	(36,499)	-	-	(36,499)
Stock based compensation	-	-	23,942	-	23,942
Warrant purchase term modification	-	-	354,793	-	354,793
Net loss for the year	-	-	-	(1,276,426)	(1,276,426)
Balance, December 31, 2009	30,417,524	49,160,760	4,953,497	(48,353,987)	5,760,270
Issued for cash	11,708,666	3,008,702	-	-	3,008,702
Issued for settlement of debt	571,428	200,000	-	-	200,000
Issued for director fees	128,125	29,125	-	-	29,125
Issued for acquisition of resource property	200,000	96,000	-	-	96,000
Flow through shares issued	5,500,214	1,730,075	-	-	1,730,075
Exercise of share purchase warrants	4,062,705	996,012	-	-	996,012
Exercise of stock options	100,000	35,000	-	-	35,000
Share issuance costs	-	(338,521)	-	-	(338,521)
Stock based compensation	-	-	851,220	-	851,220
Net loss for the period	-	-	-	(3,710,797)	(3,710,797)
Balance, September 30, 2010	52,688,662	\$54,917,153	\$ 5,804,717	\$(52,064,784)	\$8,657,086

AM GOLD INC.
(formerly Acero-Martin Exploration Inc.)
Consolidated Statements of Cash Flows
(Unaudited – prepared by management)

	<i>Three Months Ended September 30, 2010</i>	<i>Three Months Ended September 30, 2009</i>	<i>Nine Months Ended September 30, 2010</i>	<i>Nine Months Ended September 30, 2009</i>
Cash flows used in operating activities				
Net loss for the period	\$ (2,978,585)	\$ (88,133)	\$ (3,710,797)	\$ (714,531)
Items not involving cash				
Amortization	6,582	9,088	20,993	29,828
Stock-based compensation	851,220	-	851,220	39,504
Unrealized foreign exchange loss (gain)	7,131	2,751	(59,528)	45,697
	<u>(2,113,652)</u>	<u>(76,294)</u>	<u>(2,898,112)</u>	<u>(599,502)</u>
Net change in non-cash working capital				
Accounts receivable	(90,491)	5,449	(106,911)	21,077
Prepaid expense and deposit	261,736	7,743	(8,898)	4,377
Accounts payable and accrued liabilities	321,275	(521,143)	87,644	(345,479)
	<u>(1,621,132)</u>	<u>(584,245)</u>	<u>(2,926,277)</u>	<u>(919,527)</u>
Cash flows used in investing activities				
Acquisition of equipment	(1,178)	-	(1,178)	-
Acquisition of mineral property	(100,000)	-	(100,000)	-
	<u>(101,178)</u>	<u>-</u>	<u>(101,178)</u>	<u>-</u>
Cash provided by financing activities				
Note payable	-	150,000	(420,000)	300,000
Share subscription receivable	-	-	129,063	-
Share issue costs	(254,043)	(8,540)	(338,521)	(4,040)
Issuance of capital stock	4,214,935	480,000	5,769,789	480,000
	<u>3,960,892</u>	<u>621,460</u>	<u>5,140,331</u>	<u>775,960</u>
Increase (decrease) in cash during the period	2,238,582	37,215	2,112,876	(143,567)
Cash and cash equivalents, beginning of period	306,173	18,846	431,879	199,628
Cash and cash equivalents, end of period	<u>\$ 2,544,755</u>	<u>\$ 56,061</u>	<u>\$ 2,544,755</u>	<u>\$ 56,061</u>
Supplementary information:				
Interest paid	\$ -	\$ 10,000	\$ 4,416	\$ 10,000
Income taxes paid	\$ -	\$ -	\$ -	\$ -

AM GOLD INC.
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September 30, 2010
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1. NATURE AND BASIS OF OPERATIONS

AM Gold Inc. (formerly Acero-Martin Exploration Inc.) (the “Company”), is a junior resource public company incorporated under the laws of the province of British Columbia, Canada. The Company’s shares are listed on the Frankfurt Stock Exchange under the trading symbol of “AMX” and TSX Venture Exchange (“TSX.V”) under the trading symbol “AMG”.

On June 8, 2010, the Company changed its name from Acero-Martin Exploration Inc. to AM Gold Inc.

The Company is a mineral exploration and development company with mineral properties in Yukon Territory, Canada and in Peru, South America.

The Company is in the process of exploring its resource properties and has not yet determined whether the resource properties contain reserves that are economically recoverable. The recoverability of amounts shown for the resource properties are dependent upon the discovery of economically recoverable reserves, confirmation of the company’s interest in the underlying mineral claims, the ability of the company to obtain necessary financing to complete the development and upon future profitable production or proceeds from the disposition thereof. The business of mining and exploring for resources involves a high degree of risk and there can be no assurance that planned exploration and development programs will result in profitable mining operations. Changes in future conditions could require material write-downs of the carrying values of resource properties.

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the company’s most recently completed year ended December 31, 2009. These statements do not include all disclosures required in annual financial statements but rather are prepared in accordance with recommendations for interim financial statements in conformity with Canadian generally accepted accounting principles. These statements follow the same accounting policies and methods of their application as those followed in the December 31, 2009 consolidated financial statements.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the foreseeable future. The Company has incurred losses from inception and does not currently have any revenue generating operations. The Company’s ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities when they become due. External financing, predominately by the issuance of equity to the public, will be sought to finance the operations of the Company. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

	September 30, 2010	December 31, 2009
Working capital (deficit)	\$ 2,137,954	\$ (523,149)
Deficit	\$ (52,064,784)	\$ (48,353,987)

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2. FUTURE ACCOUNTING POLICIES

International financial reporting standards (“IFRS”)

In 2006, the Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to apply IFRS. The changeover is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011, will require the restatement of comparative amounts reported by the Company for the year ending December 31, 2010. The Company has begun assessing the implications of adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS, and it expects that the impact of the adoption of IFRS will not have a significant impact on the financial reporting of the Company.

Business combinations

In January 2009, the Accounting Standards Board (“AcSB”) issued CICA Handbook Section 1582, “Business Combinations”, which replaces Section 1581, “Business Combinations”. The AcSB also issued Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”, which replace Section 1600, “Consolidated Financial Statements”. These new sections are based on the International Accounting Standards Board’s (“IASB”) International Financial Reporting Standard 3, “Business Combinations”. These new standards replace the existing guidance on business combinations and consolidated financial statements. These new standards require that most assets acquired and liabilities assumed, including contingent liabilities, to be measured at fair value and all acquisition costs to be expensed. These new standards also require non-controlling interests to be recognized as a separate component of equity and net earnings to be calculated without a deduction for non-controlling interests. The objective of these new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. The Non-Controlling Interests standard should be applied retrospectively except for certain items. The Company does not expect that the adoption of this standard will have a material impact on its financial statements.

3. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company’s management to sustain future development of the business.

The Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate available or committed financial resources to complete such acquisitions.

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3. CAPITAL MANAGEMENT, continued

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended September 30, 2010. The Company is subject to externally imposed capital requirements.

4. FINANCIAL RISK FACTORS

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

Credit Risk

The Company's credit risk is primarily attributable to cash and cash equivalents. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents are held with reputable financial institutions, from which management believes the risk of loss to be remote.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2010, the Company had cash balances of \$2,544,755 (December 31, 2009 - \$431,879) to settle current liabilities of \$538,553 (December 31, 2009 – \$1,100,034). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market Risk

Market risk is the risk of loss that may arise from changes in market factor such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term certificates of deposits issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency risk

The Company's main exploration programs are located in Peru. The local currency is in Soles and therefore, the Company is subject to currency risk with respect to its exploration expenditures and mineral properties.

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4. FINANCIAL RISK FACTORS, continued

Market Risk, continued

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of natural resources, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Sensitivity analysis

The Company has, for accounting purpose, designated its cash as held-for-trading, which are measured at fair value. Accounts payable and accrued liabilities are classified for accounting purpose as other financial liabilities which are measured at amortized cost.

As at September 30, 2010, the carrying and fair value amounts of the Company's financial instruments are the same.

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 interest rate risk, and price risk. The Company does hold significant balances in foreign currencies which give rise to exposure to foreign exchange risk. Commodity price risk could affect the Company. In particular, the Company's future profitability and viability of development depends upon world market of natural resources. As of September 30, 2010, the Company was not a producing entity. As a result, commodity price risk could affect the completion of future equity transaction such as equity offerings and the exercise of stock options and warrants. The Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action be taken by the Company.

5. EQUIPMENT

	<i>September 30,</i> <i>2010</i>	<i>December 31,</i> <i>2009</i>
Office equipment	\$ 75,314	\$ 75,071
Computers	102,604	99,522
Camp and equipment	464,850	428,781
	<u>642,768</u>	<u>603,374</u>
Accumulated amortization	(193,937)	(194,256)
	<u>\$ 448,831</u>	<u>\$ 409,118</u>

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6. ACQUISITION

On May 26, 2004, the Company acquired 100% of the shares of Canper Exploraciones, S.A.C. by issuing 4,000,000 common shares of which 1,000,000 common shares are contingent on future reserves. The shares are to be issued as follows:

- a) 1,000,000 common shares at approval date, November 2, 2004 (issued)
- b) 500,000 common shares in six months (issued)
- c) 500,000 common shares in twelve months (issued)
- d) 500,000 common shares in twenty four months (issued)
- e) 500,000 common shares in thirty six months (issued)
- f) 125,000 common shares upon indication of not less than 750,000 oz. of gold reserves
- g) 125,000 common shares upon indication of not less than 2,500,000 oz. of gold reserves.

The acquisition has been accounted for by the purchase method with the fair value of the consideration paid being allocated to the fair value of the identifiable assets and liabilities acquired. The following is a summary of the net assets acquired at fair values:

Cash	\$	3,055
Other current assets		10,625
Equipment		2,324
Mineral properties		1,505,490
Current liabilities		(446,994)
		<hr/>
Net assets acquired	\$	1,074,500
Purchase consideration:		
Capital Stock	\$	1,004,500
Finder's fees		70,000
		<hr/>
	\$	1,074,500
		<hr/> <hr/>

Based on the purchase method used, consideration received including certain mineral properties exploration rights in Peru while purchase consideration rendered including share capital allotted to be issued in future years in accordance to dates mentioned above.

7. RESOURCE PROPERTIES

	Red Mountain	Pinaya	Total
Balance as of December 31, 2008	\$ 1	\$ 5,830,550	\$ 5,830,551
Cost incurred	43,750	-	43,750
			<hr/>
Balance as of December 31, 2009	43,751	5,830,550	5,874,301
Cost incurred	196,000	-	196,000
			<hr/>
Balance as of September 30, 2010	\$ 239,751	\$ 5,830,550	\$ 6,070,301
			<hr/> <hr/>

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7. RESOURCE PROPERTIES, continued

a) Yukon Territory, Canada

Red Mountain Property

The Company has 75% interest in 52 mineral property claims located in the Yukon Territory Canada, known as the Red Mountain Property. The agreement requires the Company to expend \$1,500,000 on the property over a 30 month period. As of December 31, 2006 the total commitment has been expended. The vendor was reimbursed for 75% of total out of pocket exploration expenditure incurred previously and has retained 2% overriding net smelter royalty.

The Red Mountain property has been basically inactive for three years with only insignificant amount of exploration activities done. In accordance with the Canadian GAAP, cost capitalized at mineral properties that have been inactive for three years should be written off. The Company is still planning to perform some exploration activities on the Yukon properties but the timing is unsure due to limits in financing resources. As a result, the Company decided to write off the Red Mountain property in the prior year to a nominal value of \$1.

During the year, the Company entered into an amended agreement to earn an 80% interest in the property subject to a 2% Net Smelter Royalty to be paid to the vendor following commencement of commercial production. In consideration, the Company has issued 175,000 post consolidated common shares of the Company to the vendor. The deemed value per share on the date the shares were issued was \$0.25 per share.

On August 17, 2010, the Company entered into a Purchase Agreement for the remaining 20% interest of the Red Mountain Property. The Company has agreed to pay the following:

- a) \$50,000 upon execution of the agreement (paid).
- b) \$50,000 (paid) and 200,000 common shares (issued) within 7 days upon approval by regulatory authorities.
- c) \$25,000 and 175,000 common shares on or before August 17, 2011.
- d) \$25,000 and 175,000 common shares or \$175,000, at the Company's discretion, will be paid on or before August 17, 2012.
- e) \$50,000 and 450,000 common shares or \$450,000, at the Company's discretion, will be paid on or before August 17, 2013.
- f) A bonus will be paid of \$250,000 in cash or common shares, at the Company's discretion, if a resource of 2 million ounces of gold is the defined through a NI 43-101 compliant report.

The NSR payable is reduced from 2% to 0.5% by the Company agreeing to pay \$1,000,000 for the first 1% of the NSR and \$750,000 for the second 0.5% of the NSR at any time, at the Company's discretion.

At any point in time the Company has the right to cancel the agreement with no further obligations or payments to be made, in which case the previous

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7. RESOURCE PROPERTIES, continued

a) Yukon Territory, Canada, continued

Red Mountain Property, continued

The Company successfully negotiated to reduce the NSR payable from 2% to 0.5% by agreeing to pay \$1,000,000 for the first 1% of the NSR and \$750,000 for the second 0.5% of the NSR at any time, at the Company's discretion.

	September 30, 2010	December 31, 2009
Acquisition costs	\$ 239,751	\$ 43,751

b) Peru, South America

Peru Pinaya Property

During 2004 the Company acquired a 100% interest in Canper Exploraciones S.A.C. Canper Exploraciones, S.A.C. owns an option to acquire the mineral rights for the Pinaya Property in Southern Peru. The option agreement requires the Company to pay to the owners of the mineral rights the following amounts on the following times:

- i) U.S. \$200,000 when the public deed is executed on the transfer of the option agreement (May 26, 2004) (paid).
- ii) U.S. \$100,000 payable six month from May 26, 2004 (paid)
- iii) U.S. \$240,000 payable 12 month from May 26, 2004 (paid)
- iv) U.S. \$860,000 payable 24 month from May 26, 2004 (paid)
- v) U.S. \$1,100,000 payable 36 month from May 26, 2004 (paid)

In addition the Company acquired some surface rights during the year for part of the Pinaya Property. The amount expended for surface rights total U.S. \$15,000.

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7. RESOURCE PROPERTIES, continued

b) Peru, South America, continued

Panchito Property

The Company purchased an undivided 100% interest to certain Peruvian mining rights. The Company has paid U.S. \$11,000 cash and issued 100,000 shares.

La Mamita Property

The Company purchased mining rights in the La Mamita Concession in Peru. The Company paid \$25,000 and issued 25,000 common shares.

Don Pedro 2000

The Company purchased by way of option the rights to the property called the Don Pedro 2000 concession in Peru. The Company paid U.S. \$40,000 (2005 U.S. \$70,000) with additional payments of the option of U.S. \$140,000 as follows:

<u>\$U.S.</u>	<u>Due Date</u>
20,000	January 9, 2007 (paid)
20,000	May 9, 2007 (paid)
30,000	September 9, 2007 (paid)
30,000	January 9, 2008 (paid)
40,000	May 9, 2008 (padi)

Peruvian Properties

	<u>September 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Acquisition costs	<u>\$ 5,830,550</u>	<u>\$ 5,830,550</u>

In addition to the four main concessions above, the Peruvian properties consist of other numerous concessions in one contiguous area in Peru of which detail breakdown is not shown.

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8. CAPITAL STOCK

Authorized:

Share capital consists of an unlimited number of common shares without par value.

On October 7, 2009, the Company, effected a consolidation of its common shares on a consolidated basis of one (1) post-consolidated common shares for every four (4) pre-consolidated common shares held. All shares and per share amounts in the financial statements have been adjusted to reflect the one for four share consolidation.

Issued:

Period ended September 30, 2010:

Issued for cash

On January 14, 2010, the Company issued 1,000,000 Units at \$0.225 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Every two share purchase warrants are exercisable into one common share at a price of \$0.275 per share until August 11, 2011.

On February 11, 2010, the Company issued 385,000 Units at \$0.225 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Every two share purchase warrants are exercisable into one common share at a price of \$0.275 per share until August 11, 2011. Finder's fees of \$473 were paid in relation to the private placement.

On April 28, 2010, the Company issued 4,000,000 Units at \$0.20 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Each share purchase warrant is exercisable into one common share at a price of \$0.20 per share until April 28, 2012. Finder's fees of \$67,506 were paid in relation to the private placement.

On September 13, 2010, the Company issued 6,323,666 Units at \$0.30 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Each share purchase warrant is exercisable into one common share at \$0.35 per share until September 13, 2012. Finder's fees of \$189,709.80 were paid and 632,366 Brokers share purchase warrants were issued in relation to the private placement. Each Brokers share purchase warrants is exercisable into one common share at \$0.35 per share until September 13, 2012.

Issued for debt settlement

On September 16, 2010, the Company issued 571,428 common shares at \$0.35 per share for total of \$200,000 to settlement debt with Solitaire Minerals Corp.

Issued for director fees

On September 1, 2010, the Company issued 25,000 common shares at \$0.34 per share for total of \$8,500 as a payment of director's fees.

On September 1, 2010, the Company issued 103,125 common shares at \$0.20 per share for total of \$20,625 as payments of director's fees.

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8. CAPITAL STOCK, continued

Issued, continued

Period ended September 30, 2010, continued

Issued for acquisition of resource property

On September 22, 2010, the Company issued 200,000 common shares at \$0.48 per share for total of \$96,000 in relation to acquisition of the remaining 20% interest of Red Mountain Property.

Issued flow through shares

On May 14, 2010, the Company issued 1,500,000 Flow Through Units at \$0.22 per Unit by way of private placement. Each unit consists of one flow through common share of the Company and one flow through warrant. Each flow through warrant is exercisable into one flow through common share at \$0.30 per share until May 14, 2012. Finder's fees of \$16,500 were paid in relation to the private placement.

On August 12, 2010 and September 13, 2010, the Company issued 4,000,214 Flow Through Units at \$0.35 per Unit by way of private placement. Each unit consists of one flow through common share of the Company and one flow through share purchase warrant. Every two flow through share purchase warrants are exercisable into one flow through common share at \$0.40 per share. 1,885,714 flow through warrants will expire August 12, 2011 and 2,114,500 flow through warrants will expire September 13, 2011. Finder's fees of \$64,333 were paid and 183,523 Brokers share purchase warrants were issued in relation to the private placement. Every two Brokers share purchase warrants are exercisable into one flow through common share at \$0.40 per share until September 13, 2011.

Issued for exercise of share purchase warrants

On April 1, 2010, the Company issued 15,625 common shares at \$0.20 per share for total gross proceeds of \$3,125 for the exercise of share purchase warrants.

On April 21, 2010, the Company issued 92,750 common shares at \$0.24 per share for total gross proceeds of \$22,260 for the exercise of share purchase warrants.

On April 27, 2010, the Company issued 18,500 common shares at \$0.24 per share for total gross proceeds of \$4,440 for the exercise of share purchase warrants.

On May 13, 2010, the Company issued 50,000 common shares at \$0.275 per share for total gross proceeds of \$13,750 for the exercise of share purchase warrants.

On May 20, 2010, the Company issued 46,500 common shares at \$0.24 per share for total gross proceeds of \$11,160 for the exercise of share purchase warrants.

On May 20, 2010, the Company issued 20,833 common shares at \$0.24 per share for total gross proceeds of \$5,000 for the exercise of share purchase warrants.

On May 25, 2010, the Company issued 15,000 common shares at \$0.24 per share for total gross proceeds of \$3,600 for the exercise of share purchase warrants.

On June 15, 2010, the Company issued 97,500 common shares at \$0.275 per share for total gross proceeds of \$26,813 for the exercise of share purchase warrants.

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8. CAPITAL STOCK, continued

Issued, continued

Period ended September 30, 2010, continued

Issued for exercise of share purchase warrants

On June 15, 2010, the Company issued 25,000 common shares at \$0.20 per share for total gross proceeds of \$5,000 for the exercise of share purchase warrants.

On June 25, 2010, the Company issued 37,500 common shares at \$0.20 per share for total gross proceeds of \$7,500 for the exercise of share purchase warrants.

On June 25, 2010, the Company issued 44,093 common shares at \$0.24 per share for total gross proceeds of \$10,582 for the exercise of share purchase warrants.

On July 8, 2010, the Company issued 25,000 common shares at \$0.20 per share for total gross proceeds of \$5,000 for the exercise of share purchase warrants.

On September 1, 2010, the Company issued 42,187 common shares at \$0.24 per share for total gross proceeds of \$10,124.88 for the exercise of share purchase warrants.

On September 1, 2010, the Company issued 350,000 common shares at \$0.24 per share for total gross proceeds of \$84,000 for the exercise of share purchase warrants.

On September 1, 2010, the Company issued 981,249 common shares at \$0.20 per share for total gross proceeds of \$196,249.80 for the exercise of share purchase warrants.

On September 17, 2010, the Company issued 86,593 common shares at \$0.24 per share for total gross proceeds of \$20,782.32 for the exercise of share purchase warrants.

On September 17, 2010, the Company issued 815,625 common shares at \$0.24 per share for total gross proceeds of \$195,750 for the exercise of share purchase warrants.

On September 29, 2010, the Company issued 373,125 common shares at \$0.24 per share for total gross proceeds of \$89,550 for the exercise of share purchase warrants.

On September 29, 2010, the Company issued 395,625 common shares at \$0.40 per share for total gross proceeds of \$158,250 for the exercise of share purchase warrants.

On September 29, 2010, the Company issued 12,500 common shares at \$0.336 per share for total gross proceeds of \$4,200 for the exercise of share purchase warrants.

On September 29, 2010, the Company issued 312,500 common shares at \$0.20 per share for total gross proceeds of \$62,500 for the exercise of share purchase warrants.

On September 29, 2010, the Company issued 205,000 common shares at \$0.275 per share for total gross proceeds of \$56,375 for the exercise of share purchase warrants.

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8. CAPITAL STOCK, continued

Issued, continued

Period ended September 30, 2010, continued

Issued for stock options exercised

On September 28, 2010, the Company issued 100,000 common shares at \$0.35 per share for total gross proceeds of \$35,000 for the exercise of stock options.

Year ended December 31, 2009:

On December 31, 2009, the Company issued 2,895,000 Units at \$0.225 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Every two share purchase warrants are exercisable into one common share at a price of \$0.275 per share until June 30, 2011. Finder's fees of \$32,459 were paid in relation to the private placement.

On November 4, 2009, the Company issued 175,000 common shares of the Company at a deemed value of \$0.25 per share pursuant to the amended agreement dated August 31, 2009 with respect to the Red Mountain Property.

On August 21, 2009, the Company issued 3,000,000 Units at \$0.16 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Every two share purchase warrants are exercisable into one common share at a price of \$0.20 per share until August 21, 2010. Finder's fees of \$1,540 were paid in relation to the private placement.

Stock Options:

The Company has a stock option plan (the "Plan") for directors, senior officers, employees, consultants, and management. The Plan provides for the issuance of stock options to acquire up to a maximum of 10% of the issued and outstanding common shares of the Company. The Plan provides that the vested terms of the options and the option price may be fixed by the directors subject to the price restrictions and other requirements of the TSX Venture Exchange. Options are granted for a term not exceeding five years and the exercise price must be paid in full upon exercise price of the option.

Options to purchase 400,000 common shares at \$0.35 per share, expiring November 30, 2010

Options to purchase 300,000 common shares at \$0.35 per share, expiring March 30, 2011

Options to purchase 1,950,000 common shares at \$0.35 per share, expiring April 29, 2015

Options to purchase 500,000 common shares at \$0.35 per share, expiring August 31, 2015

Options to purchase 500,000 common shares at \$0.47 per share, expiring September 21, 2015

Options to purchase 350,000 common shares at \$0.35 per share, expiring June 29 2015

Options to purchase 50,000 common shares at \$0.35 per share expires February 29, 2011

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8. CAPITAL STOCK, continued

Stock Options, continued

A summary of the status of the Company's stock options as at September 30, 2010 and December 31, 2009, and changes during those years is presented below:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life
Balance, December 31, 2009	51,250	\$2.96	1.15 years
Options issued	4,150,000	\$0.36	3.81 years
Exercised	(100,000)	\$0.35	
Cancelled/Expired	(51,250)	\$2.96	
Balance, September 30, 2010	4,050,000	\$0.36	3.90 years

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life
Balance, December 31, 2008	1,593,750	\$1.84	3.43 years
Options issued	-	-	
Cancelled/Expired	(1,542,500)	\$1.80	
Balance, December 31, 2009	51,250	\$2.96	1.15 years

During the period ended September 30, 2010, the compensation expense recorded for options fully vested was \$851,220 (December 31, 2009 – \$23,942).

The fair value of the options granted was estimated on the date of grant using the Black-Scholes options-pricing model with the following assumptions:

	September 30, 2010	December 31, 2009
Risk-free interest rate	1.08%	-
Experienced life of options	5 year	-
Annualized volatility	70%	-
Dividend rate	0%	-

Options pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

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8. CAPITAL STOCK, continued

Share purchase warrants

As at September 30, 2010, the Company had share purchase warrants outstanding enabling holders to acquire the following:

270,838 share purchase warrants at an exercise price of \$0.24 per share until October 8, 2010. Each share purchase warrant entitles the holder thereof to acquire one common share of the Company. Subsequent to September 30, 2010, these share purchase warrants were exercised

2,385,000 share purchase warrants at an exercise price of \$0.275 per share until June 30, 2011. Two share purchase warrants entitle the holder thereof to acquire one common share of the Company

1,000,000 share purchase warrants at an exercise price of \$0.275 per share until July 14, 2011. Two share purchase warrants entitle the holder thereof to acquire one common share of the Company

190,000 share purchase warrants at an exercise price of \$0.275 per share until August 11, 2011. Two share purchase warrants entitle the holder thereof to acquire one common share of the Company

1,885,714 flow through share purchase warrants at an exercise price of \$0.40 per share until August 12, 2011. Two flow through share purchase warrants entitle the holder thereof to acquire one flow through common share of the Company

2,114,500 flow through share purchase warrants at an exercise price of \$0.40 per share until September 13, 2011. Two flow through share purchase warrants entitle the holder thereof to acquire one flow through common share of the Company.

188,523 broker share purchase warrants at an exercise price of \$0.40 per share until September 13, 2011. Two share purchase warrants entitle the holder thereof to acquire one common share of the Company.

4,000,000 share purchase warrants at an exercise price of \$0.20 per share until April 28, 2012. Each share purchase warrant entitles the holder thereof to acquire one common share of the Company.

1,500,000 flow through share purchase warrants at an exercise price of \$0.30 per share until May 14, 2012. Each flow through share purchase warrant entitles the holder thereof to acquire one flow through common share of the Company.

6,323,666 share purchase warrants at an exercise price of \$0.35 per share until September 13, 2012. Each warrant entitles the holder thereof to acquire one common share of the Company.

632,366 broker share purchase warrants at an exercise price of \$0.35 per share until September 13, 2012. One share purchase warrants entitle the holder thereof to acquire one common share of the Company.

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8. CAPITAL STOCK, continued

Share purchase warrants, continued

A summary of the Company's issued and outstanding share purchase warrants as at September 30, 2010 and December 31, 2009 and changes during those years is presented below:

	September 30 2010	December 31 2009
Balance, beginning of period	10,545,848	4,650,847
Issued	18,024,769	9,667,348
Expired/cancelled	(2,041,679)	(3,772,347)
Exercised	(6,043,331)	-
Balance, end of period	20,485,607	10,545,848

In November 2009 3,772,348 warrants which had previously expired were re-priced and the expiry date extended by one year. The fair values of these warrants of \$354,793 have been estimated using the Black-Scholes option-pricing model using the following assumptions:

	September 30, 2010	December 31, 2009
Risk-free interest rate	-	0.56%
Experienced life of options	-	1 year
Annualized volatility	-	153.93%
Dividend rate	-	0%

9. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, subscriptions receivable, accounts payable and accrued liabilities, due to related parties and notes payable. The carrying values of the Company's financial instruments, excluding amounts due to related party, approximate their fair value due to the short term to maturity. The fair value of the amount due to related party is not determinable as there are no set terms of repayment.

The Company has made the following designations of its financial instruments:

Cash and cash equivalents	Held for trading
Subscriptions receivable	Loans and other receivables
Accounts payable and accrued liabilities	Other financial liabilities
Notes payable	Other financial liabilities

At September 30, 2010, the levels in the fair value into which the Company's financial assets and liabilities are measured and recognized in the balance sheet at fair value are categorized as follows:

	Level 1	Level 2	Level 3
Cash and cash equivalents	\$2,544,755	\$ -	\$ -
Account payable and accrued liabilities	\$ -	\$ 538,553	\$ -

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10. RELATED PARTY TRANSACTIONS

During the period ended September 30, 2010, the Company incurred management fees of \$Nil (2009: \$31,500) with directors and companies owned by directors.

During the period ended September 30, 2010, the Company incurred director fees of \$55,792 (2009: \$Nil) with directors.

During the period ended September 30, 2010, the Company incurred exploration expenditures, geological consulting fees and travel expenses of \$35,063 (2009: \$95,895) with companies owned by directors.

As at September 30, 2010, accounts payables includes \$20,044 (2009: \$84,232) owing to officers, directors and companies controlled by common directors and officers of the Company.

11. SEGMENTED FINANCIAL INFORMATION

The Company's business is considered as operating in one segment, mineral exploration and development. The geographical division of the Company's total assets are as follows:

Assets	September 30, 2010	December 31, 2009
Canada	6,300,992	553,874
Peru	2,894,647	6,306,430
	9,195,639	6,860,304

12. COMMITMENT

On May 18, 2010, the Company entered into a Consulting Services Agreement. The Company agreed to pay monthly fees of \$4,000 plus HST for consulting services. The term of this agreement is for 6 months commencing May 21, 2010. The Company will grant the consultant stock options to acquire 150,000 common shares of the Company at an exercise price of \$0.35 per share expiring 60 months from the date of grant. The grant is subject to the approval by regulatory authorities. On August 23, 2010, the Company terminated services.

On June 7, 2010, the Company entered into a Investor Relations Service Agreement. The Company agreed to pay monthly fees of \$7,500 plus HST for services provided. The term of this agreement is for 12 months commencing July 10, 2010. On August 31, 2010, the Company granted the consultant stock options to acquire 150,000 common shares of the Company at an exercise price of \$0.35 per share expiring August 31, 2015. The agreement will be terminated on January 9, 2011.

On July 9, 2010, the Company entered into an Advertising Campaign Agreement. The Company agreed to pay monthly fees of \$14,000 plus HST for advertising services. The term of this agreement is for 6 month period commencing July 8, 2010. The Company also agreed to granted the contractor, stock options to acquire 50,000 common shares of the Company at an exercise price of \$0.35 per share expiring February 29, 2011.

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13. SUPPLEMENT DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions for the nine month period ended September 30, 2010 were the debt settlement with Solitaire Minerals Corp of \$200,000, acquisition of Red Mountain of \$96,000, director's fees of \$29,125, and stock-based compensation of \$851,220.