
SINCHAO METALS CORP.
(An Exploration Stage Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2009 AND 2008

(Unaudited)
(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management and approved by the Board of Directors of the Company.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

SINCHAO METALS CORP.
(An Exploration Stage Company)

INTERIM CONSOLIDATED BALANCE SHEETS

See Note 1 – Nature of Operations and Going Concern Uncertainty

	September 30, 2009 <i>(Unaudited)</i>	September 30, 2008 (Restated - Note 4) <i>(Unaudited)</i>	March 31, 2009 <i>(Audited)</i>
ASSETS			
Current			
Cash and cash equivalents	\$ 23,454	\$ 466,380	\$ 2,547
Accounts receivable	24,976	134,379	52,749
Due from related parties (Note 9)	278,281	-	408,216
Prepaid expenses	8,464	39,042	6,486
	<u>335,175</u>	<u>639,801</u>	<u>469,998</u>
Mineral properties (Note 5)	30,872,156	29,900,176	30,464,292
Equipment (Note 6)	82,529	115,208	103,466
	<u>\$ 31,289,860</u>	<u>\$ 30,655,185</u>	<u>\$ 31,037,756</u>
LIABILITIES			
Current			
Accounts payable and accrued liabilities	\$ 419,884	\$ 506,463	\$ 471,890
Due to related parties (Note 9)	614,721	31,315	448,839
	<u>1,034,605</u>	<u>537,778</u>	<u>920,729</u>
Future income tax liabilities	488,253	356,693	488,253
	<u>1,522,858</u>	<u>894,471</u>	<u>1,408,982</u>
SHAREHOLDERS' EQUITY			
Share capital (Note 7)	7,173,588	7,168,944	7,173,588
Warrants (Note 7(d))	2,420,000	2,604,930	2,604,930
Contributed surplus (Note 8)	2,891,916	2,297,132	2,639,784
Retained earnings	17,281,498	17,689,708	17,210,472
	<u>29,767,002</u>	<u>29,760,714</u>	<u>29,628,774</u>
	<u>\$ 31,289,860</u>	<u>\$ 30,655,185</u>	<u>\$ 31,037,756</u>

SUBSEQUENT EVENTS (Note 13)

APPROVED BY THE DIRECTORS:

“ANDREW GOURLAY”

DIRECTOR

“BRYAN MORRIS”

DIRECTOR

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

SINCHAO METALS CORP.
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**INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS), COMPREHENSIVE INCOME
(LOSS) AND RETAINED EARNINGS**

FOR THE THREE AND SIX MONTH PERIODS ENDED
(Unaudited)

See Note 1 – Nature of Operations and Going Concern Uncertainty

	Three Months Ended September 30		Six Months Ended September 30	
	2009	2008	2009	2008
		(Restated Note 4)		(Restated Note 4)
OPERATING EXPENSES				
Administrative and management services	\$ 93,399	\$ 113,488	\$ 186,797	\$ 209,200
Depreciation	4,364	3,969	21,797	7,614
Investor relations	–	12,249	–	66,410
Office salaries and sundry	944	14,319	1,119	35,624
Professional fees	–	13,311	–	42,426
Regulatory and transfer agent	1,706	–	4,912	–
Stock based compensation (Note 5(f))	28,613	244,663	61,180	485,016
	<u>129,026</u>	<u>401,999</u>	<u>275,805</u>	<u>846,290</u>
LOSS BEFORE OTHER ITEMS	(129,026)	(401,999)	(275,805)	(846,290)
OTHER INCOME (EXPENSE)				
Interest and other income	–	6,765	–	19,403
Bank charges and interest	(61)	(10,749)	(470)	(10,749)
Foreign exchange gain (loss)	(2,643)	22,750	347,298	(24,813)
	<u>(2,704)</u>	<u>18,766</u>	<u>346,828</u>	<u>(16,159)</u>
INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	(131,730)	(383,233)	71,023	(862,449)
RETAINED EARNINGS - BEGINNING OF PERIOD	17,413,228	\$ 18,072,941	17,210,475	18,552,157
RETAINED EARNINGS - END OF PERIOD	\$ 17,281,498	\$ 17,689,708	\$ 17,281,498	\$ 17,689,708
PER SHARE INFORMATION				
Weighted average number of common shares outstanding (basic and diluted)	<u>70,103,514</u>	<u>70,103,514</u>	<u>70,103,514</u>	<u>70,103,514</u>
Net income (loss) per common share (basic and diluted)	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ 0.00</u>	<u>\$ (0.01)</u>

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

SINCHAO METALS CORP.
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INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND SIX MONTH PERIODS ENDED

(Unaudited)

See Note 1 – Nature of Operations and Going Concern Uncertainty

	Three Months Ended		Six Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
CASH PROVIDED FROM (USED FOR):				
OPERATING ACTIVITIES				
Net income (loss) for the period	\$ (131,730)	\$ (383,233)	\$ 71,023	\$ (862,449)
Adjustments for items not affecting cash:				
Stock based compensation	28,613	244,663	61,180	485,016
Unrealized foreign exchange loss (gain)	(61,340)	(7,548)	(256,188)	(12,258)
Depreciation	4,364	3,969	21,797	7,614
	<u>(160,093)</u>	<u>(142,149)</u>	<u>(102,188)</u>	<u>(382,077)</u>
Net changes in non-cash working capital items:				
Accounts receivable	(158)	(7,061)	27,773	(68,177)
Due from related parties	253,252	92,489	295,817	109,210
Prepaid expenses	(2,361)	(16,579)	(1,978)	37,631
Accounts payable	(33,615)	(95,837)	(52,006)	11,622
	<u>57,025</u>	<u>(169,137)</u>	<u>167,418</u>	<u>(291,791)</u>
INVESTING ACTIVITIES				
Expenditures on mineral properties	(35,818)	(1,500,195)	(146,511)	(2,760,425)
Equipment	–	(29,713)	–	(36,224)
	<u>(35,818)</u>	<u>(1,529,908)</u>	<u>(146,511)</u>	<u>(2,796,649)</u>
FINANCING ACTIVITIES				
Share issue costs	–	–	–	10,981
	<u>–</u>	<u>–</u>	<u>–</u>	<u>10,981</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	21,207	(1,699,045)	20,907	(3,077,459)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	2,247	2,165,425	2,547	3,543,839
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 23,454	\$ 466,380	\$ 23,454	\$ 466,380

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

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2009 AND 2008

(Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Sinchao Metals Corp. (“Sinchao”, or the “Company”) was incorporated on March 15, 2006 under the Business Corporations Act of Alberta. With the acquisition of Corporacion Minera Sinchao S.A.C. (“Minera Sinchao”), the Company’s principal business is the exploration of mineral properties located in Peru.

On December 15, 2006, the Company and Dolce Enterprises Inc. (“Dolce”), a capital pool company listed on the TSX Venture Exchange, were amalgamated into a new company. The new company retained the name Sinchao Metals Corp.

The Company is in the process of exploring and evaluating its mineral properties in Peru. On the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. The underlying value of the mineral properties and related deferred costs are entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development and upon future profitable production. The amount shown as mineral properties and deferred exploration costs represents net costs to date and does not necessarily represent present or future values.

The Company has incurred a net income (loss) of \$71,023 for the six months ended September 30, 2009 (September 30, 2008, - (\$862,440)). The Company has a working capital deficiency as at September 30, 2009 of \$699,430 (September 30, 2008 - working capital of \$102,023).

These interim consolidated financial statements have been prepared under the assumptions of a going-concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company’s ability to continue as a going concern is in substantial doubt and is dependent upon the continuing support of its major shareholder Andean American Mining Corp. and/or obtaining additional financing to meet its obligations, repaying its liabilities through settlement with its creditors and generating sufficient cash to meet its operating expenses in the future.

Failure to arrange adequate financing on acceptable terms and to achieve profitability would have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. Accordingly, these consolidated financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going-concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the consolidated financial statements.

The current financial equity market conditions, the challenging funding environment and the low price of the Company’s common shares make it difficult to raise funds by private placements of shares. The junior resource industry has been severely impacted by the world economic situation, as it is considered to be a high-risk investment.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2009 AND 2008

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2. Basis of Presentation

These interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These interim consolidated financial statements do not include all of the disclosure required by Canadian generally accepted accounting principles (“Canadian GAAP”) for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2009. They have been prepared using the same accounting policies and methods as those used in the annual consolidated financial statements for the year ended March 31, 2009.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Recent Canadian Accounting Pronouncements

Goodwill and Intangible Assets

In February 2008, the AcSB issued Handbook Section 3064, Goodwill and Intangible Assets, and amended Section 1000, Financial Statement Concepts, clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized as assets. The standard is effective for fiscal years beginning on or after October 1, 2008 and the Company will adopt this standard on April 1, 2009.

Future Canadian Accounting Pronouncements

International Financial Reporting Standards (“IFRS”)

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Business Combinations (Section 1582)

In January 2009, the CICA issued Handbook Section 1582, “Business Combinations”, which requires that all assets and liabilities of an acquired business be recorded at fair value at acquisition. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the period after the acquisition date. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Future Canadian Accounting Pronouncements - continued

Consolidations (Section 1601) and Non-Controlling Interest (Section 1602)

In January 2009, the CICA issued Handbook Section 1601, "Consolidations" ("CICA 1601"), and Section 1602, "Non-Controlling Interests" (CICA 1602"). CICA 1601 establishes standards for preparing consolidated financial statements and CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC Abstract 173)

In January 2009, the CICA issued EIC Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC requires the Company to take into account the Company's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The abstract applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2010. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

3. REVERSE TAKEOVER OF SINCHAO METALS CORP.

On March 15, 2006, the Company and Andean American Mining Corp. ("Andean") entered into an agreement (the "Share Exchange Agreement"), as amended and restated on June 15, 2006, whereby the Company agreed to acquire a 100% ownership interest in Minera Sinchao through the issuance of 36 million common shares in the capital of the Company and 3 million transferable share purchase warrants. The Share Exchange Agreement also required the Company to reimburse Andean for all costs incurred on the Sinchao mineral properties during the period from January 1, 2006 to the closing date ("Closing") plus 100% mark-up in recognition of Andean's administrative costs incurred relating to the mineral property of (\$534,064). These amounts have been expensed.

Since this transaction resulted in the former shareholders of Minera Sinchao acquiring control of Sinchao the acquisition has been treated, for accounting purposes, as a reverse takeover in accordance with EIC-10. As Sinchao does not meet the criteria for an acquired business per EIC-124, the reverse takeover transaction is not considered to be a business combination, but a capital transaction.

As a result, the transaction is equivalent to the issuance of shares by CMS to Sinchao. Per EIC-10, the \$2,267,139 in share capital present on the date of the transaction has been offset against the retained earnings of Minera Sinchao.

Minera Sinchao, the Company's wholly-owned subsidiary, is considered the acquiring company and the continuing entity for accounting purposes.

The expenses associated with the reverse takeover are \$179,075 including the fair value of warrants issued of \$184,079. These costs are reflected in the reverse takeover accounting as a charge to deficit.

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3. REVERSE TAKEOVER OF SINCHAO METALS CORP. - continued

Since this transaction resulted in the former shareholders of Minera Sinchao acquiring control of Sinchao the acquisition has been treated, for accounting purposes, as a reverse takeover. In accounting for this transaction:

- (i) Minera Sinchao is deemed to be the purchaser for accounting purposes. Accordingly, its net assets are included in the consolidated balance sheet at their historical book value.
- (ii) Control of the net assets and business of Sinchao was acquired effective June 30, 2006. The Company has accounted for the transaction as a purchase of the assets and liabilities of Sinchao. The assets and liabilities of Sinchao have been recorded at their fair values, as follows:

Cost of net assets acquired consists of:

	\$
Share capital	2,267,139
Deficit	(2,690)
Net assets received	<u>2,264,449</u>

4. RESTATEMENT

Management has determined that as at June 30, 2006, the Company should have accounted for the acquisition of Minera Sinchao as a reverse takeover whereby Sinchao Metals Corp was for accounting purposes being acquired. The effect of the restatements on the six month periods ended September 30, 2007 and 2008 consolidated financial statements is as follows:

Details for the period ended September 30, 2007 as follows:

	As previously reported	As restated
	\$	\$
Mineral properties	23,431,159	24,747,917
Future income tax liabilities	4,970,205	356,693
Share capital	18,130,179	3,267,208
Net loss for the period	(157,318)	(1,164,150)
Retained earnings (Deficit)	(1,525,566)	19,267,675
Net loss per share for the period	(0.00)	(0.02)

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4. RESTATEMENT - continued

Details for the period ended September 30, 2008 as follows:

	As previously reported	As restated
	\$	\$
Mineral properties	28,583,418	29,900,176
Future income tax liabilities	5,747,512	356,693
Share capital	21,928,580	7,168,944
Net loss for the period	(529,589)	(862,449)
Retained earnings (Deficit)	(3,777,505)	17,689,708
Net loss per share for the period	(0.01)	(0.01)

5. MINERAL PROPERTIES

	September 30, 2009	September 30, 2008 (Restated - Note 4)	March 31, 2009
Sinchao properties			
Acquisition costs	\$ 2,062,996	\$ 1,897,931	\$ 2,062,996
Deferred exploration costs	27,091,143	26,581,312	26,764,417
Future income tax	488,253	356,693	488,253
Refundable IGV Tax (Peru)	800,722	683,539	725,606
Stock based compensation	429,042	380,701	423,020
	\$ 30,872,156	\$ 29,900,176	\$ 30,464,292

The Sinchao mineral properties (the "Sinchao Project") are located within the Yanacocha-Hualgayoc mining district in the department of Cajamarca, northern Peru. The Sinchao Project is comprised of four exploration rights, covering 1,300 hectares, that overlie sixteen mining concessions and one claim as well as two additional claims, which lie outside the four exploration rights.

The Company has paid IGV tax on the exploration and development of the Sinchao property. This tax is refundable. The Company has applied and has had approval to obtain the IGV tax paid on the property refunded.

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6. EQUIPMENT

Equipment is recorded at cost. Amortization is computed using the straight-line method over the estimated useful lives of the assets as follows:

	September 30, 2009			March 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Field equipment	\$ 80,485	\$ 23,962	\$ 56,523	\$ 80,485	\$ 17,546	\$ 62,939
Office furniture and equipment	32,086	6,080	26,006	32,086	4,421	27,665
Software	25,725	25,725	-	25,725	12,863	12,862
	\$ 138,296	\$ 55,767	\$ 82,529	\$138,296	\$ 34,830	\$103,466

7. SHARE CAPITAL

(a) Authorized

The Company has authorized an unlimited number of common shares, with no par value.

(b) Issued and Outstanding

	Number of Shares	Amount
Balance, March 31, 2008	70,103,514	\$ 7,162,607
Share issue costs - cash	-	10,981
Balance, March 31, 2009 and September 30, 2009	70,103,514	\$ 7,173,588

During the six months ended September 30, 2009 and 2008 the Company did not issue any shares.

(c) Escrowed shares

Pursuant to a CPC Escrow Agreement dated May 10, 2006, 366,667 common shares, held by the former shareholders of Dolce, were held in escrow. In accordance with the agreement an initial release of 10% thereof occurred on the initial trading date, December 21, 2006, and 15% thereof will be released on each six-month anniversary of that date.

Pursuant to an Escrow Agreement dated September 15, 2006, 36,325,000 common shares, held by the former shareholders of the Company, were deposited in escrow. In accordance with the Escrow Agreement, an initial release of 10% thereof occurred on the initial trading date, December 21, 2006.

On each six-month anniversary of that date, 5,448,750 common shares will be released. All the common shares will have been released by June 21, 2011.

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7. SHARE CAPITAL - continued

(d) Warrants

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at September 30, 2009 and the changes for the year ending on that date is as follows:

	<u>Number of Warrants</u>	<u>Amount</u>
Balance, March 31, 2008	11,786,818	\$ 2,615,286
Expired	<u>(36,818)</u>	<u>(10,356)</u>
Balance, March 31, 2009	<u>11,750,000</u>	<u>\$ 2,604,930</u>
Expired	<u>(3,000,000)</u>	<u>(184,930)</u>
Balance, September 30, 2009	<u>8,750,000</u>	<u>\$ 2,420,000</u>

The following table summarizes information about the warrants outstanding and exercisable at September 30, 2009:

<u>Expiry Date</u>	<u>Exercise price</u>	<u>Number</u>
November 21, 2009 (i)	\$ 0.60	6,250,000
December 12, 2009	\$ 0.60	<u>2,500,000</u>
		<u>8,750,000</u>

(i) expired subsequent to the six months ended September 30, 2009

During the six months ended September 30, 2009, 3,000,000 warrants expired unexercised.

(e) Stock Options

The Company has established a Stock Option Plan for directors, officers, employees and consultants. The maximum number of common shares that may be reserved under the Plan may not exceed 10% of the outstanding shares at the time of grant. Options granted under the Plan generally have a term of five years and vest over varying periods ranging from 0-24 months. The exercise price of each option equals or exceeds the market price of the Company's common shares on the date of the grant.

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7. SHARE CAPITAL - continued

(f) Stock Options – continued

A summary of stock option activity at September 30, 2009 and the changes for the period then ended are as follows:

	Number	Weighted Average Exercise Price
At March 31, 2008	4,510,000	0.94
Granted	2,150,000	0.15
Forfeited	(4,295,000)	0.96
At March 31, 2009	2,365,000	0.20
Forfeited/Canceled (1)	(170,000)	0.21
At September 30, 2009	2,195,000	0.20

(1) During the six months ended September 30, 2009 20,000 options were canceled; 150,000 options were forfeited.

(2) Subsequent to the six months ended September 30, 2009 260,000 options were canceled.

The following table summarizes information about the stock options outstanding at September 30, 2009:

Number Outstanding March 31 2009		Issued	Exercised	Forfeited/ Canceled	Number Outstanding September 30 2009	Exercise Price Per Share	Expiry date
215,000	-	-	-	(20,000)	195,000	\$ 0.66	October 29, 2012 (i)
550,000	-	-	-	-	550,000	\$ 0.15	October 2, 2013 (i)
1,600,000	-	-	-	(150,000)	1,450,000	\$ 0.15	October 7, 2013 (i)
2,365,000	-	-	-	(170,000)	2,195,000	\$0.15 - \$0.66	October 29, 2012 - October 7, 2013

(i) As of September 30, 2009, 2,195,000 options are fully vested

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7. SHARE CAPITAL - continued

(g) Stock Options – continued

The following table summarizes information about the stock options outstanding at September 30, 2008:

Number Outstanding March 31, 2008	Issued	Exercised	Forfeited	Number Outstanding September 30, 2008	Exercise Price Per Share	Expiry date
3,220,000	-	-	(50,000)	3,170,000	\$ 1.00	December 27, 2009 (i)
500,000	-	-	-	500,000	\$ 1.00	January 3, 2010 (i)
290,000	-	-	-	290,000	\$ 0.66	October 29, 2012 (i)
500,000	-	-	-	500,000	\$ 0.70	January 10, 2011 (i)
						December 29, 2009 -
4,510,000	-	-	(50,000)	4,460,000	\$0.66 - \$1.00	October 29, 2012

(i) As of September 30, 2008, 4,051,667 options are fully vested

(h) Stock-Based Compensation

The Company accounts for stock-based compensation, including stock options and warrants, using the fair value based method as prescribed by CICA Handbook Section 3870. Under this method, the fair value of stock options and warrants at the date of grant is amortized over the vesting period and the offsetting credit is recorded as an increase in contributed surplus. The Company accounts for forfeitures as they happen. During the six months ended September 30, 2009, the Company recorded stock-based compensation of \$67,202 (2008 - \$572,269) of which \$6,022 (2008 - \$87,253) was capitalized to mineral properties.

The fair value of each option and warrant granted has been estimated as of the grant date using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 2.48% (2008 – 3.63% to 4.22%), dividend yield of 0% (2008 - 0%), volatility of 70.88% (2008: 61.16 to 63.49%) and with an expected life of 5 years (2008 – 2 to 5 years).

8. CONTRIBUTED SURPLUS

The Company's contributed surplus as at September 30, 2009 and the changes for the period ending on that date are as follows:

Balance, March 31, 2008	\$ 1,714,507
Stock based compensation on stock options	914,921
Reallocation on expiry of warrants	10,356
Balance, March 31, 2009	<u>\$ 2,639,784</u>
Stock based compensation on stock options	67,202
Reallocation on expiry of warrants	184,930
Balance, September 30, 2009	<u>\$ 2,891,916</u>

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9. RELATED PARTY TRANSACTIONS

(a) Amounts due from (due to) related parties are as follows:

	<u>September 30, 2009</u>	<u>September 30, 2008</u>	<u>March 31, 2009</u>
Due from related parties	\$ 278,281	\$ -	\$ 408,216
Due to related parties	\$ (614,721)	\$ (31,315)	\$ (448,839)

The net amount due to the Andean American Mining Corp. at September 30, 2009 from the Company is \$336,440.

(b) During the six months ended September 30, 2009, the Company paid or accrued amounts to a related company, Andean American Mining Corp., and its subsidiaries \$186,797 (2008 - \$209,200) for geological and administrative services including a 100% mark-up in accordance with the Share Exchange Agreement.

(c) During the six months ended September 30, 2009, the Company was charged \$Nil (2008 - \$42,000) for geological consulting services provided by an officer of the Company.

The foregoing related party transactions are recorded at their exchange amount, which is the amount of consideration paid or received as established and agreed to between the related parties.

10. SEGMENTED INFORMATION

The Company's only activities are the exploration of the Sinchao Project in Peru. The principal assets in Canada consist of cash and cash equivalents and accounts receivable.

	<u>September 30, 2009</u>		<u>March 31, 2009</u>	
	<u>Canada</u>	<u>Peru</u>	<u>Canada</u>	<u>Peru</u>
Cash	\$ 1,083	\$ 22,371	\$ 945	\$ 1,602
Accounts receivable	825	24,151	25,220	27,529
Prepays	-	8,464	-	6,486
Due from related parties	278,281	-	408,216	-
Property, plant and equipment	238	82,291	13,126	90,340
Mineral property	-	30,872,156	-	30,856,167
	\$ 280,427	\$ 31,009,433	\$ 447,507	\$ 30,982,124

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11. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, and to bring its mineral interest projects in Peru to commercial production.

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of common shares, stock options and share purchase warrants. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or sell assets to fund operations. Management reviews its capital management approach on regular basis. The Company is not subject to externally imposed capital requirements.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly-rated financial instruments, such as cash, all held with major Canadian financial institutions.

12. FINANCIAL INSTRUMENTS

Categories of financial assets and liabilities

As at September 30, 2009, the carrying and fair value amounts of the Company's financial instruments are the same. The carrying value of the Company's financial instruments is classified into the following categories:

	September 30, 2009	September 30, 2008	March 31, 2009
Held for trading	\$ (707,894)	\$ 62,981	\$ (457,217)

The fair values of the Company's cash and cash equivalents, accounts receivable, GST receivable, and accounts payables and accrued liabilities approximate their carrying values.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk and commodity price risk.

(a) Currency risk

The Company's property interests in Peru make it subject to foreign currency fluctuations (Peruvian Soles and US Dollar) and inflationary pressures which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian Dollar and foreign functional currencies. The Company does not invest in foreign currency contracts to mitigate the risks.

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12. FINANCIAL INSTRUMENTS - continued

(a) Currency risk - continued

The Company is exposed to foreign currency fluctuations to the extent cash, accounts receivable and accounts payable and accrued liabilities of the Company are not denominated in Canadian dollars. As at September 30, 2009 the Company had \$17,935 of cash denominated in US dollars (March 31, 2009 - \$58); and \$8,545 in Peruvian Soles (March 31, 2009 - \$3,827). As at September 30, 2009, there were \$275,027 of accounts receivable denominated in US dollars (March 31, 2009 - \$338,669); and \$2,084,706 in Peruvian Soles (March 31, 2009 - \$2,072,101). As at September 30, 2009 there were \$242,217 of liabilities denominated in US dollars (March 31, 2009 - \$243,132); and \$200,223 in Peruvian Soles (March 31, 2009 - \$197,514). These liabilities were included in accounts payable and accrued liabilities.

(b) Credit risk

The Company's cash and cash equivalents are held in Canadian and Peruvian financial institutions (Peruvian Soles and US Dollar). The Company does not have any asset-backed commercial paper in its cash and cash equivalents. The Company's amount receivable consists primarily of goods and services tax due from the federal government of Canada and prepaid tax from the Peruvian Government.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

Accounts payable and accrued liabilities are due within the current operating period.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity.

(e) Commodity price risk

The ability of the Company to develop its mineral properties and the future profitability of the Company are directly related to the market price of gold. The Company has not hedged any of its future gold sales. The Company's input costs are also affected by the price of fuel. The Company closely monitors gold and fuel prices to determine the appropriate course of action to be taken by the Company. At this time the Company does not generate sales and as a result is not impacted by commodity prices.

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13. SUBSEQUENT EVENTS

- a) Subsequent to the six months ended September 30, 2009 the Company entered into a Bridge Loan Agreement for up to \$500,000 to fund ongoing operations with Andean American Mining Corp. The Company has agreed to issue 714,286 bonus shares (issued subsequent to the six months ended September 30, 2009 after receiving TSX-V approval). The bridge loans are secured by a general security interest in all of the Company's assets and are repayable upon the Company obtaining the next IGV refund or upon completion of an equity financing.

The bridge loans payable are non-interest bearing and have no fixed terms of repayment.

- b) Subsequent to the six months ended September 30, 2009 the Company granted stock options to directors, officers and employees exercisable for up to 920,000 shares of the Company, vesting over the next twelve months and exercisable for up to five years.