
SINCHAO METALS CORP.
(An Exploration Stage Company)

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED

SEPTEMBER 30, 2010 AND 2009

(Expressed in Canadian dollars)

SINCHAO METALS CORP.
(An Exploration Stage Company)

INTERIM CONSOLIDATED BALANCE SHEETS AS AT

(unaudited)

	September 30, 2010	March 31, 2010
ASSETS		
Current		
Cash and cash equivalents	\$ 28,439	\$ 1,019,481
Accounts receivable	23,568	17,747
Due from related parties (Note 7)	-	110,891
Prepaid expenses	7,607	11,952
	59,614	1,160,071
Mineral properties (Note 3)	31,435,061	31,231,617
Equipment (Note 4)	64,547	71,609
	\$ 31,559,222	\$ 32,463,297
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 318,562	\$ 416,028
Asset retirement obligation (Note 3d)	514,500	507,900
Due to related parties (Note 7)	504,202	1,017,725
	1,337,264	1,941,653
Future income tax liabilities	460,413	460,413
	1,797,677	2,402,066
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	8,300,868	8,289,678
Contributed surplus (Note 6)	5,430,366	5,368,907
Retained earnings	16,030,311	16,402,646
	29,761,545	30,061,231
	\$ 31,559,222	\$ 32,463,297

Nature of Operations and Going Concern Uncertainty (Note 1)

APPROVED BY THE DIRECTORS:

“JOHN HUGUET”

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 EARNINGS**

FOR THE SIX MONTHS ENDED SEPTEMBER 30

(unaudited)

	Three Months Ended September		Six Months Ended September	
	2010	2009	2010	2009
OPERATING EXPENSES				
Administrative and management services	\$ 93,399	\$ 93,399	\$ 186,797	\$ 186,797
Depreciation	4,091	4,364	8,192	21,797
Investor relations	1,019	-	1,019	-
Office rent, salaries and sundry	2,371	944	2,537	1,119
Professional fees	54,091	-	64,091	-
Regulatory and transfer agent	2,877	1,706	3,694	4,912
Stock based compensation (Note 6 (g))	31,459	28,613	62,174	61,180
Travel and accomodation	-	-	1,998	-
	189,307	129,026	330,502	275,805
LOSS BEFORE OTHER ITEMS	(189,307)	(129,026)	(330,502)	(275,805)
OTHER INCOME (EXPENSE)				
Bank charges	(51)	(61)	(107)	(470)
Foreign exchange gain (loss)	26,827	(2,643)	(41,726)	347,298
	26,776	(2,704)	(41,833)	346,828
INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD				
	(162,531)	(131,730)	(372,335)	71,023
RETAINED EARNINGS - BEGINNING OF PERIOD				
	16,192,842	17,413,228	16,402,646	17,210,475
PERIOD	\$ 16,030,311	\$ 17,281,498	\$ 16,030,311	\$ 17,281,498
PER SHARE INFORMATION				
Weighted average number of common shares outstanding (basic and diluted)	75,989,757	75,977,800	75,983,778	70,103,514
Net Loss per common share (basic and diluted)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ 0.00

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 SIX MONTHS ENDED SEPTEMBER 30

(unaudited)

	Three Months Ended		Six Months Ended	
	September		September	
	2010	2009	2010	2009
CASH PROVIDED FROM (USED FOR):				
OPERATING ACTIVITIES				
Net loss for the year	\$ (162,531)	\$ (131,730)	\$ (372,335)	\$ 71,023
Adjustments for items not affecting cash:				
Stock based compensation	31,459	28,613	62,174	61,180
Unrealized foreign exchange gain (loss)	(21,721)	(61,340)	11,427	(256,188)
Depreciation	4,091	4,364	8,192	21,797
	<u>(148,702)</u>	<u>(160,093)</u>	<u>(290,542)</u>	<u>(102,188)</u>
Net changes in non-cash working capital items:				
Accounts receivable	(3,506)	(158)	(5,821)	27,773
Due to related parties	174,907	253,252	397,368	295,817
Prepaid expenses	4,896	(2,361)	4,345	(1,978)
Accounts payable	26,829	(33,615)	(97,466)	(52,006)
	<u>54,424</u>	<u>57,025</u>	<u>7,884</u>	<u>167,418</u>
INVESTING ACTIVITIES				
Expenditures on mineral properties	<u>(74,103)</u>	<u>(35,818)</u>	<u>(206,426)</u>	<u>(146,511)</u>
FINANCING ACTIVITIES				
Common shares issued for cash	7,500	-	7,500	-
Due to related party	-	-	(800,000)	-
	<u>\$ 7,500</u>	<u>\$ -</u>	<u>\$ (792,500)</u>	<u>\$ -</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(12,179)	21,207	(991,042)	20,907
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	40,618	2,247	1,019,481	2,547
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 28,439	\$ 23,454	\$ 28,439	\$ 23,454

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SINCHAO METALS CORP.
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NOTES TO INTERM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

(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. Through its 100% owned subsidiary, Corporacion Minera Sinchao S.A.C. (“Minera Sinchao”), the Company’s principal business is the exploration of mineral properties located in Peru.

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.

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

The Company for the six months ended September 30, 2010 has incurred a net loss of \$372,335 (March 31, 2010 - \$807,826). The Company has a working capital deficiency as at September 30, 2010 of \$1,277,650 (March 31, 2010 - \$781,582).

These conditions cast significant doubt about the Company’s ability to continue as a going concern. The Company is dependent upon the continuing support of its major shareholder, Andean American Gold Corp. (formerly Andean American Mining Corp.), (“Andean”) 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. 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.

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. 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. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) for interim financial statements. These interim consolidated financial statements do not include all of the disclosure required by Canadian GAAP for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2010. 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, 2010. The consolidated financial statements include the accounts of the Company and its wholly-owned Peruvian subsidiary, Minera Sinchao. Intercompany balances and transactions have been eliminated on consolidation.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Future Canadian Accounting Pronouncements

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.

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.

3. MINERAL PROPERTIES

(a) Details are as follows:

	<u>September 30, 2010</u>	<u>March 31, 2010</u>
Sinchao properties		
Acquisition costs	\$ 2,440,297	\$ 2,440,297
Deferred exploration costs	26,802,898	26,596,472
Asset retirement obligation	514,500	507,900
Future income tax	460,413	460,413
Refundable IGV Tax (Peru)	782,459	795,015
Stock based compensation	434,494	431,520
	<u>\$ 31,435,061</u>	<u>\$ 31,231,617</u>

(b) 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, of which four claims out of the twenty three claims are not 100% owned by the Company.

(c) The Company has paid IGV tax on the exploration and development of the Sinchao property. Upon commencing production the Company can apply to have the IGV paid on the property refunded. Once received, the payments will be offset against the deferred costs.

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3. MINERAL PROPERTIES - continued

(d) All of the Company's operations are subject to reclamation and closure requirements. Although the ultimate amount of restoration costs is uncertain, on a regular basis the Company monitors these costs and together with third party engineers prepares internal estimates to evaluate their bonding requirements. The estimates prepared by management are then reconciled with the requirements of the Peruvian mining regulations.

At September 30, 2010, the accrued asset retirement obligation amounted to \$514,500 (March 2010 – \$507,900). All of the asset retirement costs are expected to be incurred within the next 12 months.

4. EQUIPMENT

Details are as follows:

	September 30, 2010			March 31, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Field equipment	\$ 78,319	\$ 36,301	\$ 42,018	\$ 77,881	\$ 29,874	\$ 48,007
Office furniture and equipment	32,086	9,557	22,529	31,526	7,924	23,602
Software	25,725	25,725	-	25,725	25,725	-
	\$ 136,130	\$ 71,583	\$ 64,547	\$135,132	\$ 63,523	\$ 71,609

5. 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, 2009	70,103,514	\$ 7,173,588
Private placement - cash	5,160,000	1,032,000
Common shares issued relating to Bridge Loan	714,286	100,000
Share issue cost - cash	-	(15,910)
Balance, March 31, 2010 and June 30, 2010	75,977,800	8,289,678
Stock options exercised	50,000	7,500
Fair value of stock options exercised	-	3,690
Balance, September 30, 2010	76,027,800	\$ 8,300,868

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5. SHARE CAPITAL – continued

During the six months ended September 30, 2010, the Company issued 50,000 common shares for options exercised at \$0.15 per share.

For the year ended March 31, 2010 the Company issued;

- i. 5,160,000 common shares at \$0.20 per common share for gross proceeds of \$1,032,000 under a non-brokered private placement. The Company paid in cash a finder's fee of \$15,910.
- ii. 714,286 common shares were issued as bonus shares relating to the bridge loan (Note 7b) with Andean. The value of these common shares issued is \$100,000.

(c) Escrowed shares

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. All common shares held in escrow at March 31, 2010, were released June 21, 2010.

(d) Warrants

The Company had no outstanding warrants at September 30, 2010 and March 31, 2010.

(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.

A summary of stock option activity for the three months ended September 30, 2010 is as follows:

	Number	Weighted Average Exercise Price
At March 31, 2009	2,365,000	0.20
Granted	920,000	0.17
Forfeited	(430,000)	0.32
At March 31, 2010	2,855,000	0.17
Granted	1,070,000	0.20
Exercised	(50,000)	0.15
At September 30, 2010	3,875,000	0.18

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5. SHARE CAPITAL – continued

(e) Stock Options - continued

The following table summarizes information about the stock options outstanding at September 30, 2010:

Number Outstanding March 31 2010				Number Outstanding September 30 2010		Exercise Price Per Share	Expiry date
Granted	Exercised	Forfeited					
-	-	-	-	85,000	\$ 0.66	October 29, 2012	
-	-	-	-	400,000	\$ 0.15	October 2, 2013	
-	(50,000)	-	-	1,400,000	\$ 0.15	October 7, 2013	
-	-	-	-	920,000	\$ 0.17	November 16, 2014	(i)
100,000	-	-	-	100,000	\$ 0.19	May 13, 2015	(i)
970,000	-	-	-	970,000	\$ 0.20	September 13, 2015	(i)
							October 29, 2012 -
2,855,000	1,070,000	(50,000)	-	3,875,000	\$0.15 - \$0.66	September 13, 2015	

(i) As of September 30, 2010, 2,693,333 options are fully vested

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

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

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

(f) 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. During the six months ended September 30, 2010, the Company recorded stock-based compensation of \$62,174 (2009 - \$67,202) of which \$2,974 (2009 - \$6,022) 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 2.00% -2.42% (2009 - 2.32%), dividend yield of 0% (2009 - 0%), volatility of 94.84% - 95.10% (2009 - 95.13%) and with an expected life of 5 years (2009 - 5 years).

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6. CONTRIBUTED SURPLUS

The Company's contributed surplus as at September 30, 2010 and the changes for the period ending on that date are as follows:

Balance, March 31, 2009	\$ 2,639,784
Stock based compensation on stock options	124,194
Reallocation on expiry of warrants	<u>2,604,929</u>
Balance, March 31, 2010	<u>5,368,907</u>
Stock based compensation on stock options	65,149
Reallocation on exercise of stock options	<u>(3,690)</u>
Balance, September 30, 2010	<u>\$ 5,430,366</u>

7. RELATED PARTY TRANSACTIONS

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

	<u>September 30, 2010</u>	<u>March 31, 2010</u>
Due from related parties	<u>\$ -</u>	<u>\$ 110,891</u>
Due to related parties	<u>\$ (504,202)</u>	<u>\$ (1,017,725)</u>

The only related party with which the Company transacted for the six months ended September 30, 2010 was Andean, which is the Company's parent. The net amount due to Andean from the Company is \$504,202. The amounts due are non-interest bearing and are due on demand

(b) During the six months ended September 30, 2010, the Company repaid Andean \$800,000. At March 31, 2010, the Company owed Andean \$906,834.

(c) During the six months ended September 30, 2010, the Company paid or accrued to Andean and its subsidiaries \$186,797 (2010 - \$186,797) for administrative services including a 100% mark-up in accordance with the Share Exchange Agreement.

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.

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(unaudited)

8. 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.

	September 30, 2010		March 31, 2010	
	Canada	Peru	Canada	Peru
Cash	\$ 24,280	\$ 4,159	\$ 1,004,909	\$ 14,572
Accounts receivable	12,401	11,167	5,035	12,712
Prepays	-	7,607	-	11,952
Due from related parties	-	-	110,891	-
Property, plant and equipment	-	64,547	-	71,609
Mineral property	-	31,435,061	-	31,231,617
	\$ 36,681	\$ 31,522,541	\$ 1,120,835	\$ 31,342,462

9. 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. Additional information relating to capital management is disclosed in note 1.

10. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and amounts due to related parties. For cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities and loans payable, carrying value is considered to be a reasonable approximation of fair value due to the short-term nature of these instruments.

The Company's financial instruments are exposed to a number of financial and market risks, including credit, liquidity, foreign exchange, interest rate and price risks. The Company may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of its operations would warrant such hedging activities.

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10. FINANCIAL INSTRUMENTS

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 dollars and foreign functional currencies. The Company does not invest in foreign currency contracts to mitigate the risks.

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, 2010 the Company had \$1,484 of cash denominated in US dollars (March 31, 2010 - \$18,886); and 7,129 in Peruvian Soles (March 31, 2010 - 10,769). As at September 30, 2010, there were \$10,000 of accounts receivable denominated in US dollars (March 31, 2010 - \$171,310); and 22,884 in Peruvian Soles (March 31, 2010 - 2,101,152). As at September 30, 2010 there were \$155,424 of liabilities denominated in US dollars (March 31, 2010 - \$231,965); and 201,349 in Peruvian Soles (March 31, 2010 - 202,363). 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 dollars). 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. The Company's maximum credit risk exposure is considered to be represented by the amounts shown in the balance sheet.

(c) 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.

(d) 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, and may be less than the book value in the financial statements due to the credit risk of the company.

At September 30, 2010 the Company did not have any commitments.

Additional information relating to liquidity risk is disclosed in note 1

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10. FINANCIAL INSTRUMENTS - continued

(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 so financial results are not impacted by commodity prices.