
SINCHAO METALS CORP.

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

MARCH 31, 2009 AND 2008

(Expressed in Canadian dollars)

AUDITORS' REPORT

To the Shareholders of
Sinchao Metals Corp.

We have audited the consolidated balance sheets of Sinchao Metals Corp. (the "Company") as at March 31, 2009 and 2008, and consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Vancouver, Canada
July 29, 2009

Chartered Accountants

SINCHAO METALS CORP.
(An Exploration Stage Company)

CONSOLIDATED BALANCE SHEETS

As at March 31

See Note 1 – Nature of Operations and Going Concern Uncertainty

	2009	2008
	<u> </u>	<u>(Restated - Note 4)</u>
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	2,547	3,543,839
Accounts receivable	52,749	66,202
Due from related parties (Note 9)	408,216	77,895
Prepaid expenses	6,486	76,673
	<u>469,998</u>	<u>3,764,609</u>
Mineral properties (Note 5)	30,464,292	27,052,498
Equipment (Note 6)	103,466	78,984
	<u>31,037,756</u>	<u>30,896,091</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	471,890	494,841
Due to related parties (Note 9)	448,839	-
	<u>920,729</u>	<u>494,841</u>
Future income tax liabilities (Note 13)	488,253	356,693
	<u>1,408,982</u>	<u>851,534</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	7,173,588	7,162,607
Warrants (Note 7(d))	2,604,930	2,615,286
Contributed surplus (Note 8)	2,639,784	1,714,507
Retained earnings	17,210,472	18,552,157
	<u>29,628,774</u>	<u>30,044,557</u>
	<u>31,037,756</u>	<u>30,896,091</u>

APPROVED BY THE DIRECTORS:

“ANDREW GOURLAY”

DIRECTOR

“BRYAN MORRIS”

DIRECTOR

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

SINCHAO METALS CORP.
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CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

FOR THE YEARS ENDED MARCH 31

See Note 1 – Nature of Operations and Going Concern Uncertainty

	2009	2008 (Restated - Note 4)
	<u>\$</u>	<u>\$</u>
OPERATING EXPENSES		
Administrative and management services	413,639	394,680
Depreciation	25,880	1,948
Investor relations	85,303	189,554
Office rent, salaries and sundry	55,969	33,768
Professional fees	82,509	107,709
Regulatory and transfer agent	19,978	57,305
Stock based compensation (Note 7 (g))	785,347	1,084,834
Travel and accomodation	20,061	2,634
	<u>1,488,686</u>	<u>1,872,432</u>
LOSS BEFORE OTHER ITEMS	(1,488,686)	(1,872,432)
OTHER INCOME (EXPENSE)		
Interest and other income	18,055	33,922
Bank charges	(12,997)	(12,598)
Other expense	(9,034)	-
Foreign exchange gain (loss)	150,977	(28,560)
	<u>147,001</u>	<u>(7,236)</u>
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(1,341,685)	(1,879,668)
RETAINED EARNINGS - BEGINNING OF YEAR	18,552,157	20,431,825
RETAINED EARNINGS - END OF YEAR	17,210,472	18,552,157
PER SHARE INFORMATION		
Weighted average number of common shares outstanding (basic and diluted)	<u>70,103,514</u>	<u>59,202,219</u>
Net Loss per common share (basic and diluted)	<u>(0.02)</u>	<u>(0.03)</u>

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

SINCHAO METALS CORP.
(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31

See Note 1 – Nature of Operations and Going Concern Uncertainty

	2009	2008
	<u>\$</u>	<u>(Restated - Note 4)</u>
	<u>\$</u>	<u>\$</u>
CASH PROVIDED FROM (USED FOR):		
OPERATING ACTIVITIES		
Net loss for the year	(1,341,685)	(1,879,668)
Adjustments for items not affecting cash:		
Stock based compensation	785,347	1,084,834
Unrealized foreign exchange loss	49	3,407
Depreciation	25,880	1,948
	<u>(530,409)</u>	<u>(789,479)</u>
Net changes in non-cash working capital items:		
Accounts receivable	13,453	(49,780)
Due from related parties	118,518	(9,576)
Prepaid expenses	70,187	(31,084)
Accounts payable	(22,951)	313,381
	<u>(351,202)</u>	<u>(566,538)</u>
INVESTING ACTIVITIES		
Expenditures on mineral properties	(3,150,662)	(2,882,694)
Equipment	(50,409)	(67,155)
	<u>(3,201,071)</u>	<u>(2,949,849)</u>
FINANCING ACTIVITIES		
Common shares issued for cash	-	6,967,936
Share issue costs	10,981	(45,151)
	<u>10,981</u>	<u>6,922,785</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(3,541,292)	3,406,398
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,543,839	137,441
CASH AND CASH EQUIVALENTS - END OF YEAR	2,547	3,543,839

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

SINCHAO METALS CORP.
(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

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 loss of \$1,341,685 for the year ended March 31, 2009 (March 31, 2008 - \$1,879,668). The Company has a working capital deficiency as at March 31, 2009 of \$450,731 (March 31, 2008 - working capital of \$3,269,768).

These 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

SINCHAO METALS CORP.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Estimates and Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amount of revenues and expenses during the period.

Significant areas requiring the use of management estimates include assumptions and estimates relating to but not limited to, the recoverability of amounts receivable and investments, the determining of defined ore bodies, mineral resources, fair values for purposes of impairment analysis, reclamation obligations, stock-based compensation and warrants, valuation allowances for future income tax assets, and future income tax liabilities.

Cash and cash equivalents

Cash and cash equivalents comprise cash on deposit with banks and highly liquid short-term interest-bearing investments with a term to maturity at the date of purchase of 90 days or less.

Mineral Properties

Acquisition, exploration and development costs associated with a non-producing mineral property are capitalized until the property is producing, abandoned, impaired in value or placed for sale. The costs are transferred to producing mineral properties in the case of a property placed into production. The costs of abandoned properties are charged to earnings when the property is abandoned. Net revenue derived from ore processed up to the point of attaining commercial production is credited to the related deferred expenditures. The costs of properties in excess of their estimated fair value are charged to earnings if the decision is made to dispose of the property or if it is determined that the property is impaired in value.

The recoverability of the amounts capitalized in respect of non-producing mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the properties, and upon future profitable production or proceeds from the disposition of the properties.

On a periodic basis, senior management reviews the carrying values of mineral property and deferred exploration expenditures with a view to assessing whether there have been any circumstances indicating that the carrying amount may not be recoverable. In the event that it is determined there is an impairment in the carrying value of the property, the carrying value will be compared to the fair value, and written down or written off, as appropriate. Management considers the guidance in Emerging Issues Committee EIC-174 "Mining Exploration Costs" to determine whether there are conditions that indicate a potential impairment and if a write-down may be required. There was no impairment write-down required at March 31, 2009.

Although the Company has taken steps to verify title to mineral properties in which it has an interest according to the usual industry standards for the stage of exploration of such properties, these procedures including confirmation by the Peruvian Government's Mine Registry Offices and National Cadastral Plans, do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Mineral Property Option Agreements

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral property costs or recoveries when the payments are made or received.

Equipment

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

Field equipment	4 – 5 years
Office furniture and equipment	3 – 10 years
Software	2 years

Amortization begins when the asset is substantively put into service.

Asset Retirement Obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company currently does not have any material asset retirement obligations.

Impairment of Long-Lived Assets

The Company monitors and tests for the recoverability of long-lived assets, whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Indicators considered include current metals prices, future asset utilization, and business climate. The Company's policy is to record an impairment loss in the year when it is determined that the carrying amount of the assets may not be recoverable. An impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying amount of the related asset. For purposes of recognition and measurement of an impairment loss, long-lived assets are grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. There was no impairment write-down required at March 31, 2009.

Income Taxes

Future income tax assets and liabilities are recognized for the estimated future income tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax basis, using enacted income tax rates. The effect of a change in income tax rates on future income tax assets and liabilities are recognized in earnings in the period that the change occurs. Future income tax liabilities are recognized to the extent that they are considered more likely than not to be realized.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Translation of Foreign Currencies

Integrated foreign operations are translated using the temporal method. Under this method, the Company translates monetary items at the rate of exchange in effect at the consolidated balance sheet date. Non-monetary items are translated at average rates in effect during the period in which they were earned or incurred.

Revenue and expenses are translated at average rates in effect during the year except for depreciation, which is translated at historical rates. Gains and losses resulting from the fluctuation of foreign exchange rates have been included in earnings.

Loss per Share

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of the convertible securities is reflected in diluted loss per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted loss per share by application of the treasury stock method.

Stock-based Compensation

The Company has a stock-based compensation plan as described in Note 7(f). The Company accounts for stock options and warrants at fair value as prescribed by Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments. Compensation expense for options granted is determined based on estimated fair values of the options at the time of grant using the Black-Scholes option pricing model.

Accounting Changes

Accounting Changes requires that: a) a voluntary change in accounting policies can be made if, and only if, the changes result in more reliable and relevant information, b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change, and c) for changes in estimates, the nature and amount of the change should be disclosed.

Comprehensive Income (Loss)

Comprehensive income includes net income or loss and other comprehensive income. Other comprehensive income may include holding gains and losses on available-for-sale securities, gains and losses on certain derivative instruments and foreign exchange gains and losses from self-sustaining foreign operations. During the current year, the Company did not have any other comprehensive income or loss components.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

Financial Instruments – Recognition and Measurement

The Company's financial instruments comprise primarily cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to/from related parties. The Company has designated cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable are designated as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and due to related parties are designated as other liabilities, which are measured at amortized cost.

Recent Canadian Accounting Pronouncements

The CICA issued three new accounting standards that are applicable to the Company: Section 1535, Capital Disclosures ("Section 1535"), Section 3031, Inventories ("Section 3031"), and Sections 3862 and 3863, Financial Instruments ("Sections 3862 and 3863"). The Company adopted these new accounting standards on April 1, 2008.

Financial Instrument – Disclosure and Presentation

The Company has adopted Sections 3862 and 3863 Financial Instruments – Disclosure and Financial Instruments - Presentation of the CICA Handbook. These standards replace CICA Handbook Section 3861, "Financial Instruments – Disclosure and Presentation". They expand current disclosure requirements in order to enable users of financial statements to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures relating to fair value. In addition, disclosure is required of qualitative and quantitative information regarding exposure to risks arising from financial instruments, including specified minimum disclosures of credit risk, liquidity risk and market risk. The quantitative disclosures must provide information on the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. The Company has provided these disclosures in Note 12.

Capital Disclosures

The Company has adopted Section 1535, Capital Disclosures. This standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. The Company has provided these disclosures in Note 11.

Inventories

On April 1, 2008, the Company adopted Section 3031, Inventories, which replaced Section 3030, Inventories. The new standard establishes standards for the measurement and disclosure of inventories and provides more extensive guidance on the determination of cost, including allocation of overhead and requires impairment testing. The adoption of this new accounting policy did not have an impact on the Company's consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Recent Canadian Accounting Pronouncements - continued

Mining exploration costs

On March 27, 2009 the Emerging Issues Committee of the CICA issued EIC-174, "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mining properties in particular, and on impairment of long-lived assets in general. The Company has applied this new abstract for the year ended March 31, 2009. There was no impact on the financial statements.

Future 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.

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. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

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 March 31, 2007, 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. Previously, management had accounted for this transaction as an acquisition of Minera Sinchao and applied purchase accounting. The effect of the restatement on the years ended March 31, 2007 and 2008 consolidated financial statements is as follows:

Details for the year ended March 31, 2007 as follows:

	As previously reported	As restated
	\$	\$
Mineral properties	22,202,906	23,519,664
Future income tax liabilities	5,723,679	-
Share capital	17,214,223	2,454,587
Net loss for the year	1,368,248	1,179,634
Retained earnings (Deficit)	(1,368,248)	20,431,825

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

4. RESTATEMENT - continued

Details for the year ended March 31, 2008 as follows:

	As previously reported	As restated
	\$	\$
Mineral properties	25,735,740	27,052,498
Future income tax liabilities	6,080,372	356,693
Share capital	21,922,243	7,162,607
Retained earnings (Deficit)	(3,247,916)	18,552,157

5. MINERAL PROPERTIES

	2009	2008 (Restated - Note 4)
	\$	\$
Sinchao properties		
Acquisition costs	2,062,996	1,897,931
Deferred exploration costs	26,764,417	24,086,904
Future income tax	488,253	356,693
Refundable IGV Tax (Peru)	725,606	417,522
Stock based compensation	423,020	293,448
	30,464,292	27,052,498

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. The recovery of these taxes will commence on the beginning of foreign commercial operations. Should these amounts be recovered they would be treated as a reduction in carrying costs of mineral properties and deferred costs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

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:

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$	\$	\$	\$
Field equipment	80,485	17,546	62,939	70,543	4,494	66,049
Office furniture and equipment	32,086	4,421	27,665	14,515	1,580	12,935
Software	25,725	12,863	12,862	-	-	-
	138,296	34,830	103,466	85,058	6,074	78,984

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, 2007 - (Restated - Note 4)	49,154,120	2,454,587
Private placement	15,700,000	6,280,000
Stock options exercised	60,000	60,000
Warrants exercised	5,189,394	907,936
Value assigned to options exercised	-	33,975
Value assigned to warrants exercised	-	100,369
Fair value of warrants issued	-	(1,946,388)
Share issue costs - cash	-	(45,151)
Share issue costs - stock	-	(682,721)
Balance, March 31, 2008 - (Restated - Note 4)	70,103,514	7,162,607
Share issue costs - cash	-	10,981
Balance, March 31, 2009	70,103,514	7,173,588

During fiscal year 2009, the Company did not issue any shares.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

7. SHARE CAPITAL - continued

During fiscal year 2008, the Company issued:

- i. 10,000,000 units at \$0.40 per unit for \$4,000,000 under a brokered private placement. Each unit consisted of one common share and one-half of one common share purchase warrant. One whole warrant entitles the holder to purchase an additional common share at \$0.60 on or before November 22, 2009. The Company paid in cash a finder's fee of \$27,800, 700,000 units in agent's warrants and 900,000 compensation options. Agent's warrants have the same terms as the other units under this private placement. The compensation options entitle the agent to purchase one common share of the Company for \$0.45 per common share on or before November 22, 2009. The fair values of the agent's compensation options have been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield of 0%; expected volatility of 62.39%; a risk-free interest rate of 3.84%; and an expected life of 2 years. The value assigned to the agent's compensation options was \$402,721.
- ii. 5,000,000 units at \$0.40 per unit for \$2,000,000 under a non-brokered private placement. Each unit consisted of one common share and one-half of one common share purchase warrant. One whole warrant entitles the holder to purchase an additional common share at \$0.60 on or before December 12, 2009. The fair value of the warrants has been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield of 0%; expected volatility of 61.109%; a risk-free interest rate of 3.82%; and an expected life of 2 years. The value assigned to the warrants was \$590,382.

During fiscal year 2008, the Company issued - continued

- iii. 60,000 common shares on the exercise of 60,000 stock options. The options were exercised at a price of \$1.00 per stock option.
- iv. 5,189,394 common shares on the exercise of 5,189,394 common share purchase warrants for proceeds of \$907,936.

(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, such that all the common shares will have been released by June 21, 2011.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

7. SHARE CAPITAL - continued

(d) Warrants

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at March 31, 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, 2007	8,276,212	367,530
Issued pursuant to private placement	7,500,000	1,776,507
Broker warrants issued pursuant to private placement	1,250,000	572,602
Exercised	(5,189,394)	(100,369)
Expired	<u>(50,000)</u>	<u>(984)</u>
Balance, March 31, 2008	<u>11,786,818</u>	<u>2,615,286</u>
Expired	<u>(36,818)</u>	<u>(10,356)</u>
Balance, March 31, 2009	<u>11,750,000</u>	<u>2,604,930</u>

The following table summarizes information about the warrants outstanding and exercisable at March 31, 2009:

<u>Expiry Date</u>	<u>Exercise price</u>	<u>Number</u>
	\$	
June 15, 2009 ⁽¹⁾	5.00	3,000,000
November 21, 2009	0.60	6,250,000
December 12, 2009	0.60	<u>2,500,000</u>
		<u>11,750,000</u>

⁽¹⁾ Exercisable price of \$2.00 expiring June 15, 2008; from June 15, 2008 to June 14, 2009 the exercise price is \$5.00. These warrants expired subsequent to the year-end.

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7. SHARE CAPITAL - continued

(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 at March 31, 2009 and the changes for the year then ended is as follows:

	Number	Weighted Average Exercise Price
At March 31, 2007	4,280,000	1.00
Granted	790,000	0.68
Exercised	(60,000)	1.00
Forfeited	(500,000)	1.00
At March 31, 2008	4,510,000	0.94
Granted	2,150,000	0.15
Forfeited/Canceled (1)	(4,295,000)	0.96
At March 31, 2009	2,365,000	0.20

(1) 3,795,000 options were canceled during the year. 500,000 options were forfeited

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7. SHARE CAPITAL - continued

(e) Stock Options – continued

The following table summarizes information about the stock options outstanding at March 31, 2009:

Number Outstanding March 31 2008	Issued	Exercised	Forfeited/ Canceled	Number Outstanding March 31 2009	Exercise Price Per Share	Expiry date
3,220,000	-	-	(3,220,000)	-	\$ 1.00	December 27, 2009
500,000	-	-	(500,000)	-	\$ 1.00	January 3, 2010
500,000	-	-	(500,000)	-	\$ 0.70	January 10, 2011
290,000	-	-	(75,000)	215,000	\$ 0.66	October 29, 2012 (i)
-	550,000	-	-	550,000	\$ 0.15	October 2, 2013 (i)
-	1,600,000	-	-	1,600,000	\$ 0.15	October 7, 2013 (i)
4,510,000	2,150,000	-	(4,295,000)	2,365,000	\$0.15 - \$0.66	October 29, 2012 - October 7, 2013

(i) As of March 31, 2009, 1,290,000 options are fully vested

The following table summarizes information about the stock options outstanding at March 31, 2008:

Number Outstanding March 31 2007	Issued	Exercised	Forfeited/ Canceled	Number Outstanding March 31 2008	Exercise Price Per Share	Expiry date
3,780,000	-	(60,000)	(500,000)	3,220,000	\$ 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)
4,280,000	790,000	(60,000)	(500,000)	4,510,000	\$0.66 - \$1.00	December 29, 2009 - October 29, 2012

(i) As of March 31, 2008, 2,722,083 options are fully vested

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

7. SHARE CAPITAL - continued

(f) Stock-Based Compensation

The Company accounts for stock-based compensation, including stock options, 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 fiscal year 2009, the Company recorded stock-based compensation of \$914,921 (2008 - \$1,378,282) of which \$129,573(2008 - \$293,448) was capitalized to mineral properties.

The fair value of each option 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 March 31, 2009 and the changes for the year ending on that date are as follows:

	\$
Balance, March 31, 2007	369,217
Stock based compensation on stock options	1,378,281
Reallocation on exercise of stock options	(33,975)
Reallocation on expiry of warrants	984
Balance, March 31, 2008	<u>1,714,507</u>
Stock based compensation on stock options	914,921
Reallocation on expiry of warrants	10,356
Balance, March 31, 2009	<u>2,639,784</u>

9. RELATED PARTY TRANSACTIONS

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

	<u>2009</u>	<u>2008</u>
	\$	\$
Due from related parties	<u>408,216</u>	<u>77,895</u>
Due to related parties	<u>(448,839)</u>	<u>-</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

9. RELATED PARTY TRANSACTIONS - continued

The amount due to the Andean American Mining Corp. from the Company is \$448,839.

- (a) During fiscal year 2009, the Company paid to a related company, Andean American Mining Corp., and its subsidiaries \$373,876 (2008 - \$280,466) for geological and administrative services including a 100% mark-up in accordance with the Share Exchange Agreement.
- (b) During fiscal year 2009, the Company was charged \$51,140 (2008 - \$60,000) for geological consulting services provided by an officer of the Company.

The amount due from Andean American Mining Corp. to the Company is \$408,216.

- (a) During fiscal year 2009, the Company paid for \$330,321 (2008 - \$77,895) of geological and administrative services on behalf of Andean American Mining Corp., and its subsidiaries.

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 principal activities are the exploration of the Sinchao Project in Peru, and the operation of the head office in Canada.

	March 31, 2009		March 31, 2008	
	Canada	Peru	Canada	Peru
	\$	\$	\$	\$
Cash	945	1,602	3,497,980	45,859
Accounts receivable	25,220	27,529	38,010	28,192
Prepays	-	6,486	28,549	48,124
Due from related parties	408,216	-	77,895	-
Property, plant and equip	13,126	90,340	529	78,455
Mineral property	-	30,464,292	-	27,052,498
	<u>447,507</u>	<u>30,590,249</u>	<u>3,642,963</u>	<u>27,253,128</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

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

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities. For cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities, 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.

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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

12. FINANCIAL INSTRUMENTS - 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 March 31, 2009 the Company had \$58 of cash denominated in US dollars (March 31, 2008 - \$85,148); and 3,827 in Peruvian Soles (March 31, 2008 - 4,054). As at March 31, 2009, there were \$21,826 of accounts receivable denominated in US dollars (March 31, 2008 - \$26,426); and 68,970 in Peruvian Soles. As at March 31, 2009 there were \$243,132 of liabilities denominated in US dollars (March 31, 2008 - \$127,843); and 197,514 in Peruvian Soles (March 31, 2008 - 808,963). 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 account 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 as described in Note 11.

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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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13. FUTURE INCOME TAXES

(a) Reconciliation of income taxes at statutory rate to effective rate:

	2009	2008
	\$	\$
Income tax benefit from net losses at statutory rates	(451,702)	(626,681)
Non-deductible expenses and other	825	98,648
Change in statutory tax rates and other	60,563	152,302
Stock-based compensation	170,945	361,684
Share issuance costs	(59,066)	(60,815)
Change in valuation allowance - net of share issuance costs	278,435	74,862
Provision for income taxes	-	-

(b) Details of future income tax assets and liabilities are as follows:

	2009	2008
Future income tax assets:		
Non-capital loss carry forwards	706,389	489,392
Equipment	4,702	1,012
Share issuance costs	103,067	163,882
	814,158	654,286
Valuation allowance	(814,158)	(654,286)
	-	-
Future income tax liabilities:		
Mineral properties	488,253	356,693

Future tax assets and liabilities, which may arise as a result of these losses and resource expenditures, have been offset by a valuation allowance and have not been recognised in these consolidated financial statements.

At March 31, 2009, the Company has non-capital loss carryforwards in Canada aggregating \$2,716,881 that are available to offset future taxable income and expire as follows:

2027	\$ 854,189
2028	\$ 1,028,087
2029	\$ 834,605
Total	\$ 2,716,881