
SINCHAO METALS CORP.
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

MARCH 31, 2010 AND 2009

(Expressed in Canadian dollars)

Auditors' Report

To the Shareholders of Sinchao Metals Corp.

We have audited the consolidated balance sheet of Sinchao Metals Corp. as at March 31, 2010 and the consolidated statement of loss, comprehensive loss and retained earnings and cash flows for the year 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, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements of the Company as at March 31, 2009 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated July 29, 2009.

Signed *PricewaterhouseCoopers LLP*

Chartered Accountants

Vancouver, BC

July 27, 2010

SINCHAO METALS CORP.
(An Exploration Stage Company)

CONSOLIDATED BALANCE SHEETS

As at March 31

	2010	2009
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	1,019,481	2,547
Accounts receivable	17,747	52,749
Due from related parties (Note 7)	110,891	408,216
Prepaid expenses	11,952	6,486
	1,160,071	469,998
Mineral properties (Note 3)	31,231,617	30,464,292
Equipment (Note 4)	71,609	103,466
	32,463,297	31,037,756
LIABILITIES		
Current		
Accounts payable and accrued liabilities	416,028	471,890
Asset retirement obligation (Note 3d)	507,900	-
Due to related parties (Note 7)	1,017,725	448,839
	1,941,653	920,729
Future income tax liabilities (Note 11)	460,413	488,253
	2,402,066	1,408,982
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	8,289,678	7,173,588
Warrants (Note 5(d))	-	2,604,930
Contributed surplus (Note 6)	5,368,907	2,639,784
Retained earnings	16,402,646	17,210,472
	30,061,231	29,628,774
	32,463,297	31,037,756
Subsequent Event (Note 12)		

See Note 1 – Nature of Operations and Going Concern Uncertainty

APPROVED BY THE DIRECTORS:

“JOHN HUGUET”

“BRYAN MORRIS”

DIRECTOR

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 EARNINGS
FOR THE YEARS ENDED MARCH 31

	2010	2009
	<u>\$</u>	<u>\$</u>
OPERATING EXPENSES		
Administrative and management services	419,994	413,639
Depreciation	31,072	25,880
Investor relations	6,771	85,303
Office rent, salaries and sundry	58,470	55,969
Professional fees	42,757	82,509
Regulatory and transfer agent	17,483	19,978
Stock based compensation (Note 6 (g))	115,694	785,347
Travel and accomodation	29,843	20,061
	<u>722,084</u>	<u>1,488,686</u>
LOSS BEFORE OTHER ITEMS	(722,084)	(1,488,686)
OTHER INCOME (EXPENSE)		
Interest and other income	2,239	18,055
Bank charges	(1,620)	(12,997)
Other expense	(102,284)	(9,034)
Write-down of related party debt	(50,925)	-
Foreign exchange gain	66,848	150,977
	<u>(85,742)</u>	<u>147,001</u>
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(807,826)	(1,341,685)
RETAINED EARNINGS - BEGINNING OF YEAR	17,210,472	18,552,157
RETAINED EARNINGS - END OF YEAR	16,402,646	17,210,472
PER SHARE INFORMATION		
Weighted average number of common shares outstanding (basic and diluted)	<u>70,819,815</u>	<u>70,103,514</u>
Net Loss per common share (basic and diluted)	<u>(0.01)</u>	<u>(0.02)</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

	2010	2009
	\$	\$
CASH PROVIDED FROM (USED FOR):		
OPERATING ACTIVITIES		
Net loss for the year	(807,826)	(1,341,685)
Adjustments for items not affecting cash:		
Stock based compensation	115,694	785,347
Other expenses	102,284	-
Unrealized foreign exchange loss	(1,500)	49
Depreciation	31,072	25,880
	(560,276)	(530,409)
Net changes in non-cash working capital items:		
Accounts receivable	35,002	13,453
Due to related parties	866,211	118,518
Prepaid expenses	(5,466)	70,187
Accounts payable	(55,862)	(22,951)
	279,609	(351,202)
INVESTING ACTIVITIES		
Expenditures on mineral properties	(278,765)	(3,150,662)
Equipment	-	(50,409)
	(278,765)	(3,201,071)
FINANCING ACTIVITIES		
Common shares issued for cash	1,032,000	-
Share issue costs	(15,910)	10,981
	1,016,090	10,981
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	1,016,934	(3,541,292)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,547	3,543,839
CASH AND CASH EQUIVALENTS - END OF YEAR	1,019,481	2,547

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, 2010 AND 2009

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 has incurred a net loss of \$807,826 for the year ended March 31, 2010 (March 31, 2009 - \$1,341,685). The Company has a working capital deficiency as at March 31, 2010 of \$781,582 (March 31, 2009 - working capital of \$450,731).

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 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 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.

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 that are subject to an insignificant risk of changes in value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported 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 reported.

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. Actual results could differ from those reported.

These estimates are limited by the availability of reliable comparable data, and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates as described above are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, these estimated amounts could change by a material amount.

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 has been any impairment in value. In the event that it is determined there is impairment in the carrying value of the property, the carrying value will be written down or written off, as appropriate. There was no impairment write-down required at March 31, 2010 or 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.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Impairment of Long-Lived Assets

The Company monitors the recoverability of long-lived assets, based on factors such as current metals prices, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. 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. If the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is recognized and assets are written down to fair value which is normally the discounted value of future cash flows. Where estimates of future net cash flows are not readily available and where other conditions suggest impairment, management assesses whether carrying value can be recovered by considering alternative methods of determining fair value. When it is determined that a mineral property is impaired it is written down to its estimated fair value.

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.

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. The Company has not made any voluntary changes in accounting policies since the adoption of the revised standard.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized in the period for temporary differences between the tax and accounting bases of assets and liabilities as well as for the potential benefit of income tax losses carried forward to future years.

Future income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date. A valuation allowance is recognized to the extent that it is considered not likely that future tax assets will be realized.

Translation of Foreign Currencies

The Company's functional and reporting currency is the Canadian Dollar. The Company's subsidiary is an integrated foreign operation, 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 are included in earnings in the period in which they occur.

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 "Stock-based Compensation and Other Stock-Based Payments", 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.

Comprehensive Income (Loss)

Comprehensive income includes net income or loss and other comprehensive income ("OCI"). OCI is the changes in shareholder's equity from non-owner sources which is not included in the calculation of net loss until realized. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income ("AOCI"), which is presented as a new category of shareholders' equity on the balance sheet. The Company had no OCI transactions during the years ended March 31, 2010 and 2009, and neither opening nor closing balances for AOCI.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial Instruments – Recognition, Measurement, Disclosure and Presentation

Under Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognized in net earnings (Loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in the net loss.

The Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Receivables are designated as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are designated as other liabilities, which are measured at amortized cost. At March 31, 2010 and 2009, the Company had neither available-for-sale nor held-to-maturity financial instruments.

Recent Canadian Accounting Pronouncements

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, replacing Section 3062, “Goodwill and Other Intangible Assets”. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the new standard for its fiscal year beginning April 1, 2009. This standard did impact the Company’s consolidated financial statements.

Credit Risk and Fair Value of Financial Assets and Liabilities

In January 2009, the CICA issued Emerging Issues Committee (“EIC”) Abstract 173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”. The EIC provides guidance on evaluating credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for the current fiscal year. The adoption of EIC-173 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, 2010 AND 2009

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:

	2010	2009
Sinchao properties	\$	\$
Acquisition costs	2,440,297	2,062,996
Deferred exploration costs	26,596,472	26,764,417
Asset retirement obligation	507,900	-
Future income tax	460,413	488,253
Refundable IGV Tax (Peru)	795,015	725,606
Stock based compensation	431,520	423,020
	31,231,617	30,464,292

(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, that overlie sixteen mining concessions and one claim as well as two additional claims, which lie outside the four exploration rights.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

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 March 31, 2010, the accrued asset retirement obligation amounted to \$507,900 (March 2009 - \$Nil). All of the asset retirement costs are expected to be incurred within the next 12 months.

4. EQUIPMENT

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

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$	\$	\$	\$
Field equipment	77,881	29,874	48,007	80,485	17,546	62,939
Office furniture and equipment	31,526	7,924	23,602	32,086	4,421	27,665
Software	25,725	25,725	-	25,725	12,863	12,862
	135,132	63,523	71,609	138,296	34,830	103,466

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, 2008	70,103,514	7,162,607
Share issue cost - cash	-	10,981
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	75,977,800	8,289,678

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

5. SHARE CAPITAL - continued

During fiscal year 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.

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

(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. As at March 31, 2010 5,448,750 common shares were held in escrow and were released subsequent to the year end.

(d) Warrants

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at March 31, 2010 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>(11,750,000)</u>	<u>(2,604,930)</u>
Balance, March 31, 2010	<u>—</u>	<u>—</u>

(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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

5. SHARE CAPITAL - continued

(e) Stock Options - continued

A summary of stock option activity at March 31, 2010 and the changes for the year then ended is 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
Granted	920,000	0.17
Forfeited	(430,000)	0.32
At March 31, 2010	2,855,000	0.17

The following table summarizes information about the stock options outstanding at March 31, 2010:

Number Outstanding March 31 2009	Issued	Exercised	Forfeited	Number Outstanding March 31 2010	Exercise Price Per Share	Expiry date
215,000	-	-	(130,000)	85,000	\$ 0.66	October 29, 2012
550,000	-	-	(150,000)	400,000	\$ 0.15	October 2, 2013
1,600,000	-	-	(150,000)	1,450,000	\$ 0.15	October 7, 2013
	920,000	-	-	920,000	\$ 0.17	November 16, 2014 (i)
2,365,000	920,000	-	(430,000)	2,855,000	\$0.15 - \$0.66	October 29, 2012 - November 16, 2014

(i) As of March 31, 2010, 2,318,333 options are fully vested

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

5. SHARE CAPITAL - continued

(f) Stock Options - continued

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

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

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

(g) 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 fiscal year 2010, the Company recorded stock-based compensation of \$124,194 (2009 - \$914,921) of which \$8,500 (2009 - \$129,573) 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 2.32% (2009 - 2.48%), dividend yield of 0% (2009 - 0%), volatility of 95.13% (2009 - 70.88%) and with an expected life of 5 years (2009 - 5 years).

6. CONTRIBUTED SURPLUS

The Company's contributed surplus as at March 31, 2010 and the changes for the year 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	<u>10,356</u>
Balance, March 31, 2009	<u>2,639,784</u>
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>

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7. RELATED PARTY TRANSACTIONS

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

	2010	2009
	\$	\$
Due from related parties	110,891	408,216
Due to related parties	(1,017,725)	(448,839)

The only related party with which the Company transacted in fiscal 2010 was Andean, which is the Company's parent. The net amount due to Andean from the Company is \$906,834.

- (b) During the year the Company entered into a Bridge Loan Agreement with Andean for up to \$500,000 to fund ongoing operating costs, the loan is non-interest bearing and is due on demand. The Company has issued 714,286 bonus shares to Andean after receiving TSX-V approval (Note 6bii). Subsequent to the year ended March 31, 2010 the Company repaid to Andean \$800,000.
- (c) During fiscal year 2010, the Company paid to Andean and its subsidiaries \$419,994 (2009 - \$373,876) for geological and administrative services including a 100% mark-up in accordance with the Share Exchange Agreement.
- (d) During fiscal year 2010, the Company was charged \$Nil (2009 - \$51,140) 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.

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.

	March 31, 2010		March 31, 2009	
	Canada	Peru	Canada	Peru
	\$	\$	\$	\$
Cash	1,004,909	14,572	945	1,602
Accounts receivable	5,035	12,712	25,220	27,529
Prepays	-	11,952	-	6,486
Due from related parties	110,891	-	408,216	-
Property, plant and equipment	-	71,609	13,126	90,340
Mineral property	-	31,231,617	-	30,464,292
	1,120,835	31,342,462	447,507	30,590,249

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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. 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.

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.

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, 2010 the Company had \$18,886 of cash denominated in US dollars (March 31, 2009 - \$58); and \$10,769 in Peruvian Soles (March 31, 2009 - \$3,827). As at March 31, 2010, there were \$171,310 of accounts receivable denominated in US dollars (March 31, 2009 - \$338,669); and \$2,101,152 in Peruvian Soles (March 31, 2009 - \$2,072,101). As at March 31, 2010 there were \$231,965 of liabilities denominated in US dollars (March 31, 2009 - \$243,132); and \$202,363 in Peruvian Soles (March 31, 2009 - \$197,514). These liabilities were included in accounts payable and accrued liabilities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

10. FINANCIAL INSTRUMENTS - continued

(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. 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.

Subsequent to the year ended March 31, 2010 the Company repaid the \$500,000 bridge loan due to Andean.

At March 31, 2010 the Company did not have any commitments.

Additional information relating to liquidity risk is disclosed in note 1

(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.

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11. FUTURE INCOME TAXES

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

	2010	2009
	\$	\$
Income tax benefit from net losses at statutory rates	(239,382)	(451,702)
Non-deductible expenses and other	1,367	825
Change in statutory tax rates and other	67,120	60,563
Stock-based compensation	17,395	170,945
Share issuance costs	(55,731)	(59,066)
Change in valuation allowance - net of share issuance costs	209,231	278,435
Provision for income taxes	-	-

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

	2010	2009
Future income tax assets:		
Non-capital loss carry forwards	910,388	706,389
Equipment	9,937	4,702
Share issuance costs	40,627	103,067
	960,952	814,158
Valuation allowance	(960,952)	(814,158)
	-	-
Future income tax liabilities:		
Mineral properties	460,413	488,253
	-	-

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, 2010, the Company has non-capital loss carryforwards in Canada aggregating \$3,641,552 that are available to offset future taxable income and expire as follows:

2027	\$ 854,189
2028	\$ 1,028,087
2029	\$ 834,605
2030	\$ 924,671
Total	\$ 3,641,552

12. SUBSEQUENT EVENT

Subsequent to the year ended March 31, 2010, the Company granted 100,000 stock options to an independent consultant at an exercise price \$0.19 per share. All of the options vest over 12 months.