ACERO-MARTIN EXPLORATION INC.

Consolidated Financial Statements

December 31, 2009 and 2008

ACERO-MARTIN EXPLORATION INC.

Index to Consolidated Financial Statements

December 31, 2009 and 2008

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AUDITORS' REPORT

To the Shareholders,
Acero-Martin Exploration Inc.

We have audited the consolidated balance sheets of Acero-Martin Exploration Inc., as at December 31, 2009 and 2008 and the consolidated statements of loss, comprehensive loss, and deficit, changes in equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 December 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.

Ken Lee + Company

Vancouver, Canada
April 27, 2009

Chartered Accountants

ACERO-MARTIN EXPLORATION INC.

Consolidated Balance Sheets

December 31, 2009 and 2008

	2009	2008
ASSETS		
Current:		
Cash and cash equivalents	**$ 431,879**	$ 199,628
Accounts receivable	**12,687**	131,950
Share subscriptions receivable *(note 6)*	**129,063**	-
Prepaid expenses and deposit	**3,256**	40,098
	576,885	371,676
Equipment *(note 7)*	**409,118**	509,267
Resource properties *(note 9)*	**5,874,301**	5,830,551
	$ 6,860,304	$ 6,711,494
LIABILITIES		
Current:		
Accounts payable and accrued liabilities *(notes 9 and 13)*	**$ 680,034**	$ 1,192,159
Note payable *(note 12)*	**420,000**	-
	1,100,034	1,192,159
SHAREHOLDERS' EQUITY		
Capital stock *(note 10)*	**49,160,760**	48,022,134
Contributed surplus	**4,953,497**	4,574,762
Deficit	**(48,353,987)**	(47,077,561)
	5,760,270	5,519,335
	$ 6,860,304	$ 6,711,494

Nature and basis of operations (*note 1*)

APPROVED ON BEHALF OF THE BOARD:

"Michael Scholz" *Director*

"Jack Bal" *Director*

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

ACERO-MARTIN EXPLORATION INC.

Consolidated Statements of Loss, Comprehensive Loss, and Deficit

Years ended December 31, 2009 and 2008

	2009	*2008*
Revenues		
Interest and sundry	**$ 1,089**	$ 49,629
Expenses		
Accounting and audit	**99,930**	64,775
Amortization	**39,825**	80,636
Bank charges and interest	**6,538**	8,571
Consulting fees *(note 13)*	**17,150**	89,177
Interest expense	**30,000**	32,000
Legal *(note 13)*	**76,180**	132,830
Management fees *(note 13)*	**28,000**	195,000
Mineral property exploration (recovery)	**(81,006)**	2,938,547
Office and miscellaneous	**273,822**	189,141
Printing and shareholders' information	**40,504**	87,566
Rent	**28,819**	18,477
Stock-based compensation *(note 10)*	**23,942**	548,192
Stock exchange fees and filing fees	**18,109**	31,368
Telephone and utilities	**21,854**	30,602
Transfer agent fees	**55,899**	26,513
Travel and business development	**27,394**	137,695
Wages	**189,662**	404,212
	896,622	5,015,302
Gain (loss) before other items	**(895,533)**	(4,965,673)
Gain (loss) on disposal of equipment	**9,836**	-
Share purchase warrants modified *(note 10)*	**(354,793)**	**-**
Gain on settlement of debts	**134,436**	**-**
Foreign exchange gain (loss)	**(170,372)**	327,417
Net loss and comprehensive loss for the year	**(1,276,426)**	(4,638,256)
Deficit, beginning of year	**(47,077,561)**	(42,439,305)
Deficit, end of year	**$ (48,353,987)**	$ (47,077,561)
Basic and diluted loss per share	**$ (0.05)**	$ (0.24)
Weighted average number of shares	**25,467,714**	18,724,748

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

ACERO-MARTIN EXPLORATION INC.

Consolidated Statements of Changes in Equity

Years ended December 31, 2009 and 2008

	Share Capital					
	Number of Shares	*Amount*	*Shares Allotted*	*Contributed Surplus*	*Deficit*	*Shareholders' Equity*
Balance, December 31, 2007	15,892,035	$ 45,581,699	$ 43,750	$ 4,026,570	$ (42,439,305)	$ 7,343,964
Repurchased and cancelled	(276,071)	(281,000)	-	-	-	(281,000)
Issued for cash	8,639,058	2,748,635	-	-	-	2,748,635
Issued for acquisition of resource properties	92,500	129,500	-	-	-	129,500
Shares allotted	-		(43,750)	-	-	(175,000)
Share issuance costs	-	(156,700)	-	-	-	(156,700)
Stock based compensation	-	-	-	548,192	-	548,192
Net loss for the year	-	-	-	-	(4,638,256)	(4,638,256)
Balance, December 31, 2008	24,347,522	48,022,134	-	4,574,762	(47,077,561)	5,519,335
Issued for cash	5,160,889	978,312	-	-	-	978,312
Issued and unpaid (note 6)	584,111	129,063				129,063
Issued for debt (note 13)	150,000	24,000				24,000
Issued for acquisition of resource properties	175,000	43,750	-	-	-	43,750
Share issuance costs	-	(36,499)	-	-	-	(36,499)
Stock based compensation	-	-	-	23,942	-	23,942
Warrant purchase term modification	-	-	-	354,793	-	354,793
Net loss for the year	-	-	-	-	(1,276,426)	(1,276,426)
Balance, December 31, 2009	**30,417,522**	**$ 49,160,760**	**$ -**	**$ 4,953,497**	**$ (48,353,987)**	**$ 5,760,270**

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

ACERO-MARTIN EXPLORATION INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

	2009	*2008*
Cash flows from (used in) operating activities		
Net loss for the year	**$ (1,276,426)**	$ (4,638,256)
Item not involving cash		
Amortization	**39,825**	80,636
Stock-based compensation	**23,942**	548,192
Gain on disposal of assets	**(9,836)**	-
Share purchase warrants modified	**354,793**	-
Gain from settlement of debts	**(134,436)**	-
Realized foreign exchange loss (gain)	**170,372**	(327,417)
Unrealized foreign exchange loss	**(35,936)**	491,865
	(867,702)	(3,844,980)
Changes in non-cash working capital		
Accounts receivable	**119,263**	(85,290)
Prepaid expenses and deposit	**36,842**	12,817
Accounts payable and accrued liabilities	**(488,125)**	1,164,220
	(1,199,722)	(2,753,233)
Cash used in investing activities		
Disposal (acquisition) of equipment	**70,160**	(272,813)
Cash provided by financing activities		
Note payable	**420,000**	-
Subscriptions receivable	**-**	15,000
Issuance of capital stock	**941,813**	2,431,527
	1,361,813	2,446,527
Increase in cash during the year	**232,251**	(579,519)
Cash, beginning of year	**199,628**	779,147
Cash and cash equivalents, end of year	**$ 431,879**	$ 199,628
Supplementary information:		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -

Non-cash transactions *(note 16)*

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

1. NATURE AND BASIS OF OPERATIONS

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

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

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

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

		2009		2008
Working capital (deficit)	$	(523,149)	$	(820,483)
Deficit		(48,353,987)		(47,077,561)

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as established by the Canadian Institute of Chartered Accountants ("CICA").

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Canper Exploraciones, S.A.C. All significant inter-company balances and transactions have been eliminated on consolidation.

Cash and cash equivalents

Cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having a term to maturity of three months or less at acquisition, that are readily convertible to specified amounts of cash. At the end of December 31, 2009, cash equivalents consisted of all cash. At the end of December 31, 2008, cash equivalents consisted of a redeemable GIC with remaining $190,000 at an annual interest rate of 0.85% which matured in September 2009.

Variable Interest Entities

The CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", to provide accounting guidance related to variable interest entities ("VIE"). A VIE is an entity in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. When a VIE is determined to exist, the guidance requires the VIE to be consolidated by the primary beneficiary. The Company has determined that it does not have a primary beneficiary interest in a VIE.

Measurement Uncertainty

Management's capitalization of mineral property acquisition costs and assumptions regarding the future recoverability of such costs are subject to significant measurement uncertainty. Management's assessment of recoverability is based on, among other things, the Company's estimate of current mineral reserves which are supported by geological estimates, estimated mineral prices, and the procurement of all necessary regulatory permits and approvals. These assumptions and estimates could change in the future and this could materially affect the carrying value and the ultimate recoverability of the amounts recorded for mineral properties

Financial Instruments and Risk Management

Under CICA Handbook Section 3862, *Financial Instruments - Disclosures*, financial instruments are designated into one of the six categories: held-for-trading investments, held-to-maturity investments, loans and receivables, available-for-sale assets, held-for-trading liabilities, or other financial liabilities. Financial instruments, included on the balance sheet are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial investments and liabilities are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Financial Instruments and Risk Management, continued

Gains and losses upon inception, de-recognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financing are expensed in the period incurred.

The Company has designated its financial instruments as follows: cash and cash equivalents and acquisition deposit as held-for-trading investments, share subscriptions receivable as loans and receivable, accounts payable and accrued liabilities and notes payable as other financial liabilities. The Company does not engage in any form of derivative or hedging instruments.

The carrying amounts of the Company’s financial instruments are a reasonable approximation of fair value and did not require fair value measurement.

Financial instruments are exposed to credit, liquidity and market risks. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Liquidity risks is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Market risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Credit risk and liquidity risk on cash and amounts due to creditors were not significant to the Company’s balance sheet at year-end. The Company manages these risks by actively pursuing additional share capital issuances to settle its obligations in the normal course of its operating, investing and financing activities. The Company’s ability to raise share capital is indirectly related to changing commodity prices. It is management’s opinion that the Company is not exposed to significant market price risk.

Foreign Currency Translation

The Company’s reporting currency is the Canadian dollar. The accounts recorded in U.S. dollar and Peruvian Nueva Soles have been translated into Canadian dollars on the following basis:

- monetary assets and liabilities at the rate of exchange in effect at the balance sheet date;
- non-monetary assets and liabilities at the rates of exchange in effect on the respective dates of transactions;
- revenues and expenses at average rates of exchange for the year; and
- recognize foreign currency translation gains and losses and translation adjustments by a charge to operations in the period incurred.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Mineral Property Acquisition and Exploration Expenditures

Mineral property costs include acquisition costs relating to acquired mineral use rights are capitalized.

Expenditures are expensed as incurred on mineral properties not sufficiently advanced as to identify their development potential. At the point in time that a mineral property is considered to be sufficiently advanced and development potential is identified, all further expenditures for the current year and subsequent years are capitalized as incurred. These costs will include further exploration, costs of maintaining the site until commercial production, costs to initially delineate the ore body, costs for shaft sinking and access, lateral development, drift development and infrastructure development. Such costs represent the net expenditures incurred and capitalized as at the balance sheet date and do not necessarily reflect present or future values.

Once a development mineral property goes into commercial production, the property is classified as "Producing" and the accumulated costs will be amortized based on a method relating recoverable reserves to production. Commercial production occurs when a property is substantially complete and ready for its intended use. Mineral properties no longer classified as "Producing" such that the Company abandons its interest in are written-off in the years of abandonment.

The recoverability of amounts recorded for mineral properties is reviewed on a regular basis and written down to the net recoverable amount if the long term expectation is that the net carrying amount will not be recovered.

Equipment

Equipment is stated at cost and the Company provides for amortization computed under the straight-line method for office equipment, camp equipment and computer at 25% per annum.

Impairment of Long-Lived Assets

Long-lived assets include mineral properties. The Company periodically evaluates the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when estimated future cash flows resulting from the use of an asset and its eventual disposition is less than its carrying amount.

An exploration enterprise in the exploration stage is not obliged to conclude that capitalized costs have been impaired due to the absence of a projected estimated future net cash flow from the exploration enterprise. Resource properties in the exploration stage do not have established mineral reserves and a basis for the preparation of a projection of the estimated future net cash flow from the properties does not exist. However, an exploration enterprise is required to consider the conditions for impairment write-down. The conditions include unfavourable exploration results and significant unfavourable economic, legal, regulatory, environmental, political and other factors. In addition, management's development activities towards its planned principal operations are a key factor considered as part of the ongoing assessment of the recoverability of the carrying amount of resource properties. Whenever events or changes in circumstances indicate that the carrying amount of a resource property in the exploration stage may be impaired, the capitalized costs are written down to the estimated recoverable amount

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Asset Retirement Obligations

The Company applies CICA accounting standard 3110 – "Asset Retirement Obligations" to account for the obligations to reclaim and remediate the resource properties. Under the standard, the estimated fair value of the legal obligations are recognized in the period incurred, at the net present value of the cash flows required to settle the future obligations. A corresponding amount is capitalized to the related asset. Asset retirement obligations are subject to accretion over time for increases in the fair value of the liabilities.

As of December 31, 2009, the Company had determined that there were no significant legal obligations for reclamation and remediation costs. The Company's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period estimates are revised

Share Capital and Contributed Surplus

i) Share consideration - Agent's warrants, stock options and other equity instruments issued as purchase consideration in non-cash transactions, other than as consideration for mineral properties, are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued as purchase consideration for mineral properties is based upon the trading price of those shares on the TSX.V on the date of the agreement to issue shares as determined by the Board of Directors. Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value using the residual method.

ii) Stock based compensation - The Company measures the cost of the service received for all stock options made to consultants, employees and directors based on an estimate of fair value at the date of grant. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant. Stock options which vest immediately are recorded at the date of grant. Stock options that vest over time are recorded over the vesting period using the straight line method. Stock options issued to outside consultants that vest over time are valued at the grant date and subsequently revalued on each vesting date as services are rendered. Stock based compensation is recognized as expense or, if applicable, capitalized to mineral property costs with a corresponding increase in contributed surplus. On exercise of the stock option, consideration received and the estimated fair value previously recorded in contributed surplus is recorded as share capital.

iii) Share issuance costs - Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issuance costs related to uncompleted share subscriptions are charged to operations.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Income Taxes

Company accounts for and measures future tax assets and liabilities in accordance with the liability method.

Under the asset and liability method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Loss Per Share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares issued and outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. Basic and diluted loss per share is equal for the years ended December 31, 2009, and 2008 as outstanding stock options and warrants were all anti-dilutive.

Comprehensive Income (Loss)

Handbook Section 1530 establishes standards for the reporting and display of comprehensive income and its components in the financial statements. Comprehensive income (loss) includes net income (loss) and other comprehensive income. Other comprehensive income (loss) includes holding gains on available for sale investments, gains and losses on certain derivative instruments and currency gains and losses relating to the translating financial statements of self-sustaining foreign operations. The Company has no other comprehensive income (loss) during the year and no accumulated other comprehensive income (loss) at the beginning of the year; as a result, no consolidated statement of accumulated other comprehensive income (loss) is included.

3. NEWLY ADOPTED ACCOUNTING STANDARDS

Effective January 1, 2009, the Company has adopted CICA Section 3064, Goodwill and Intangible Assets. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and other intangible assets. The adoption of this standard is not expected to have a significant impact on the Company's financial statements.

Financial Instruments – Disclosures

Amendments to Section 3862 'Financial Instruments – Disclosures' include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making fair value measurements.

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - inputs, other than quoted prices included in Level 1; for which all significant outputs are observable, either directly or indirectly; and
Level 3 - inputs that are unobservable and significant to the overall fair value measurement

Disclosures required by this standard are included in Note 11

Credit Risk and Fair Value of Financial Assets and Liabilities

EIC -173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" was issued by the CICA in January 2009. The EIC provides guidance on how to take into account the credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities. The adoption of this new standard did not have a significant effect on the Company's financial statements

Mining Exploration Costs

EIC-174 "Mining Exploration Costs" was issued by the CICA in March 2009 which provides additional guidance for an enterprise that has initially capitalized exploration costs and has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The guidance is applicable to fiscal periods ending after the issuance date. The adoption of this new standard did not have a significant effect on the Company's financial statements.

4. FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards ("IFRS")

In 2006, the Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the transition for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The transition date applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will also be required to provide comparative IFRS information for the previous fiscal year.

4. FUTURE ACCOUNTING CHANGES – cont'd

International Financial Reporting Standards ("IFRS") – cont'd

The Company understands there to be material differences between Canada GAAP and IFRS, and is therefore monitoring this project with a view to understanding the possible effects of the transition to IFRS.

Business Combinations

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

5. FINANCIAL RISK FACTORS

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

Credit Risk

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

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2009, the Company had cash balances of $431,879 (December 31, 2008 - $199,628) to settle current liabilities of $1,100,034 (December 31, 2008 – $1,192,159). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

5. FINANCIAL RISK FACTORS, continued

Market Risk

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

(a) Interest rate risk

The Company has cash balances and only fixed-rate interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term certificates of deposits issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency risk

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

(c) Price risk

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

Sensitivity analysis

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

As at December 31, 2009, the carrying and fair value amounts of the Company's financial instruments are the same.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by interest rate risk, and price risk. The Company does hold significant balances in foreign currencies which give rise to exposure to foreign exchange risk. Commodity price risk could affect the Company. In particular, the Company's future profitability and viability of development depends upon world market of natural resources. As of December 31, 2009, the Company was not a producing entity. As a result, commodity price risk could affect the completion of future equity transaction such as equity offerings and the exercise of stock options and warrants. The Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action be taken by the Company.

6. SUBSCRIPTION RECEIVABLE

Included in subscriptions receivable are $129,063 (2008 - $Nil). Shares had been issued but funds were not received until subsequent to December 31, 2009.

7. EQUIPMENT

		2009		*2008*
Office equipment	$	75,071	$	94,560
Computers		99,522		122,218
Camp and equipment		428,781		463,672
		603,374		680,450
Accumulated amortization		(194,256)		(171,183)
	$	409,118	$	509,267

8. ACQUISITION

On May 26, 2004, the Company acquired 100% of the shares of Canper Exploraciones, S.A.C. by issuing 1,000,000 common shares of which 250,000 common shares are contingent on future reserves. The shares are to be issued as follows:

a) 250,000 common shares at approval date, November 2, 2004 (issued)
b) 125,000 common shares in six months (issued)
c) 125,000 common shares in twelve months (issued)
d) 125,000 common shares in twenty four months (issued)
e) 125,000 common shares in thirty six months (issued)
f) 125,000 common shares upon indication of not less than 750,000 oz. of gold reserves
g) 125,000 common shares upon indication of not less than 2,500,000 oz. of gold reserves.

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

Cash	$	3,055
Other current assets		10,625
Equipment		2,324
Mineral properties		1,505,490
Current liabilities		(446,994)
Net assets acquired	$	1,074,500
Purchase consideration:		
Capital Stock	$	1,004.500
Finder’s fees		70,000
	$	1,074,500

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

9. RESOURCE PROPERTIES

	Red Mountain	Pinaya	Total
Balance as of December 31, 2007	$ 50,996	$ 5,830,550	$ 5,881,546
Cost incurred	-	-	-
Write-off	(50,995)	-	(50,995)
Balance as of December 31, 2008	1	5,830,550	5,830,551
Cost incurred	43,750	-	43,750
Write-off	-	-	-
Balance as of December 31, 2009	$ 43,751	$ 5,830,550	$ 5,874,301

a) Yukon Territory, Canada

Red Mountain Property

The Company has an 80% interest in 52 mineral property claims located in the Yukon Territory Canada, known as the Red Mountain Property. The agreement requires the Company to expend $1,500,000 on the property over a 30 month period. As of December 31, 2006 the total commitment has been expended. The vendor was reimbursed for 75% of total out of pocket exploration expenditure incurred previously and has retained 2% overriding net smelter royalty.

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

During the year, the Company entered into an amended agreement to earn an 80% interest in the property subject to a 2% Net Smelter Royalty to be paid to the vendor following commencement of commercial production. In consideration, the Company has issued 175,000 post consolidated common shares of the Company to the vendor. The fair value per share on the date the shares were issued was $0.25 per share. Management is currently planning to perform active exploration on the property and as such have not written off the capitalized costs of the 2009 share issuance.

	2009	2008
Acquisition costs	$ 43,751	$ 1

9. RESOURCE PROPERTIES, continued

b) Peru, South America

Peru Pinaya Property

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

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

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

During the year, the company signed a letter of intent with Solitaire Minerals Inc. to grant an option to acquire up to 75% interest in the Pinaya property. The option agreement requires Solitaire Minerals Inc. to incur exploration expenses and make payments of the following amounts on the following times:

i) CAD $150,000 advanced as a refundable deposit (amended to $300,000) (paid)
ii) U.S. $1,600,000 to Canper Exploraciones S.A.C. by December 31, 2009 (not paid)
iii) U.S. $1,600,000 in exploration expenditures incurred by December 31, 2011
iv) U.S. $1,600,000 in exploration expenditures incurred by December 31, 2012
v) U.S. 2,400,000 payable by December 31, 2012

Subsequent to December 31, 2009 the agreement was terminated. The amount repayable has been included in accrued liabilities.

Panchito Property

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

La Mamita Property

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

9. RESOURCE PROPERTIES, continued

Don Pedro 2000

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

$U.S.	Due Date
20,000	January 9, 2007 (paid)
20,000	May 9, 2007 (paid)
30,000	September 9, 2007 (paid)
30,000	January 9, 2008 (paid)
40,000	May 9, 2008 (paid)

Peruvian Properties	2009	2008
Acquisition costs	$ 5,830,550	$ 5,830,550

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

10. CAPITAL STOCK

Authorized:

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

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

Issued:

Year ended December 31, 2009:

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

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

On August 21, 2009, the Company issued 3,000,000 (12,000,000 pre-consolidated) Units at $0.16 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Every two share purchase warrants are exercisable into one common share at a price of $0.20 per share until August 21, 2010. Finder's fees of $1,540 were paid in relation to the private placement.

Year ended December 31, 2008:

On January 8, 2008, the Company issued 92,500 (370,000 pre-consolidated) shares out of the allotted shares at a price of $1.40 per share in pursuant to the purchase agreement for the acquisition of Canper Exploraciones, S.A.C.

On April 2, 2008, the Company issued 888,500 (3,554,000 pre-consolidated) Units at a price of $1.00 per Unit by way of a private placement. Each Unit consists of one common share of the Company and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share of the Company at a price of $1.40 per share until April 2, 2009 and $2.00 until April 2, 2010. On April 9, 2008, 10,000 (40,000 pre-consolidated) of the shares were returned to the Treasury. Finder's fees of $70,400 were paid in relation to the private placement.

On September 15, 2008, the Company issued 6,828,020 (27,312,080 pre-consolidated) Units at a price of $0.24 per Unit by way of a private placement. Each Unit consists of one common share of the Company and one half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Company at a price of $0.40 per share until September 15, 2009. Finder's fees of $54,809 were paid in relation to the private placement.

On October 9, 2008, the Company issued 922,538 (3,690,151 pre-consolidated) Units at a price of $0.24 per Unit by way of a private placement. Each Unit consists of one common share of the Company and one half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Company at a price of $0.40 per share until October 9, 2009.

10. CAPITAL STOCK, continued

Stock Options:

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

Options to purchase 25,000 common shares at $3.60 per share expire May 27, 2010
Options to purchase 18,750 common shares at $2.48 per share expires August 18, 2011
Options to purchase 7,500 common shares at $2.00 per share expires June 18, 2012

A summary of the status of the Company's stock options as at December 31, 2009 and December 31, 2008, and changes during those years is presented below:

	Options Outstanding	**Weighted Average Exercise Price**	**Weighted Average Remaining Life**
Balance, December 31, 2007	1,155,712	$2.28	2.90 years
Options issued	725,000	$1.20	
Cancelled/Expired	(286,962)	$2.00	
Balance, December 31, 2008	1,593,750	$1.84	3.43 years
Options issued	-	-	
Cancelled/Expired	(1,542,500)	$1.80	
Balance, December 31, 2009	51,250	$2.96	1.15 years

During the year ended December 31, 2009, the compensation expense recorded for options fully vested was $23,942 (2008 – $548,192).

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

	December 31 2009	**December 31, 2008**
Risk-free interest rate	-	3.28%
Experienced life of options	-	5 years
Annualized volatility	-	70.38%
Dividend rate	-	0%

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

10. CAPITAL STOCK, continued

Share purchase warrants

As at December 31, 2009, the Company had share purchase warrants outstanding enabling holders to acquire the following:

878,500 share purchase warrants at an exercise price of $2.00 per share until April 2, 2010. Each share purchase warrant entitles the holder thereof to acquire one common share of the Company

2,973,122 share purchase warrants at an exercise price of $0.24 per share until September 15, 2010. Each share purchase warrant entitles the holder thereof to acquire one common share of the Company

409,638 share purchase warrants at an exercise price of $0.40 per share until September 15, 2010. Each share purchase warrant entitles the holder thereof to acquire one common share of the Company

345,211 share purchase warrants at an exercise price of $0.24 per share until October 8, 2010. Each share purchase warrant entitles the holder thereof to acquire one common share of the Company

44,377 share purchase warrants at an exercise price of $0.40 per share until October 8, 2010. Each share purchase warrant entitles the holder thereof to acquire one common share of the Company

3,000,000 share purchase warrants at an exercise price of $0.20 per share until August 21, 2010. Two share purchase warrant entitles the holder thereof to acquire one common share of the Company

2,895,000 share purchase warrants at an exercise price of $0.275 per share until June 30, 2011. Two share purchase warrant entitles the holder thereof to acquire one common share of the Company

A summary of the Company's issued and outstanding share purchase warrants as at December 31, 2009 and December 31, 2008 and changes during those years is presented below:

	December 31 2009	**December 31 2008**
Balance, beginning of year	4,650,847	4,378,148
Issued	9,667,348	4,694,597
Expired/cancelled	(3,772,347)	(4,421,898)
Exercised	-	-
Balance, end of year	10,545,848	4,650,847

10. CAPITAL STOCK, continued

Share purchase warrants

* In November 2009 3,772,348 warrants which had previously expired were re-priced and the expiry date extended by one year. The fair value of these warrants of $354,793 (2008 – nil) have been estimated using the Black-Scholes option-pricing model using the following assumptions:

	December 31 2009	**December 31, 2008**
Risk-free interest rate	0.56%	-
Experienced life of options	1 year	-
Weighted average annualized volatility	153.93%	-
Dividend rate	0%	-

11. FINANCIAL INSTRUMENTS

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

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

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

At December 31, 2009, the levels in the fair value into which the Company's financial assets and liabilities are measured and recognized in the balance sheet at fair value are categorized as follows:

	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 431,879	$ -	$ -
Share subscriptions receivable	$ -	$ 129,063	$ -
Account payable and accrued liabilities	$ -	$ 680,034	$ -
Note payable	$ -	$ 420,000	$ -

12. NOTE PAYABLE

Notes payable consists of a note in the amount of $400,000 bearing interest at an annual rate of 24% with no specific terms for repayment. Included in notes payable is $20,000 accrued interest. See note 13.

13. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2009, the Company incurred management fees of $28,000 (2008: $195,000) with directors and companies owned by directors.

During the year ended December 31, 2009, the Company incurred exploration expenditures and geological consulting fees of $120,994 (2008: $198,168) with directors and companies owned by directors.

During the year ended December 31, 2009, the Company incurred consulting fees of $Nil (2008: $1,250) with officers of the Company.

During the year ended December 31, 2009, the Company incurred office and rental fees of $7,000 (2008: $nil) with a company related by a director.

During the year ended December 31, 2009, the Company incurred legal fees of $42,790 (2008: $88,089) with a officer who is a principal of a law firm.

During the year ended December 31, 2009, the Company was advanced funds of $400,000 by promissory note bearing interest of 24% annually on October 15 from a company related by a director. Interest of $20,000 was incurred for the advance.

During the year ended December 31, 2009, the Company was advanced funds of $264,526 from a company related by a director. A total of $10,000 interest and administration fees were incurred for the advances. The advances and interest and administration fees were repaid through cash of $38,526 and issuance of 1,475,000 shares at a price of $0.16 per Unit included in the August 21 private placement.

As at December 31, 2009, accounts payable includes $125,121 (2008: $13,648) owing to officers, directors and companies controlled by common directors and officers of the Company.

As at December 31, 2009, notes payable includes $420,000 (2008: $nil) owing to a company related by a director.

Included in 3,000,000 Units of the private placement at a price of $0.16 per Unit issued August 21, 2009 were 150,000 shares issued to officers of the Company through reduction of amounts owed to them.

At December 31, 2009, subscriptions receivable includes $97,675 (2008 – nil) owed by a company related by a director.

14. SEGMENTED FINANCIAL INFORMATION

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

Assets	**2009**	**2008**
Canada	553,874	217,135
Peru	6,306,430	6,494,359
	6,860,304	6,711,494

15. INCOME TAXES

Details of the components of income taxes are as follows:

	2009		
	Canada	Peru	Consolidation
Loss before income taxes	(886,974)	(389,450)	(1,276,424)
Expected income tax recovery at statutory rates of 30% (Canada) and ½ of 30% (Peru)	(266,092)	(58,418)	(324,510)
Items not deductible and (deductible) for tax purposes	84,534	30,300	114,834
Change in statutory tax rate	85,183	-	85,183
Change in valuation allowance	96,375	28,118	124,493
Total income taxes (recovery)	-	-	-

	2008		
	Canada	Peru	Consolidation
Loss before income taxes	$ (1,660,416)	$ (2,977,840)	$ (4,638,256)
Expected income tax recovery at statutory rates of 31% (Canada) and ½ of 30% (Peru)	(514,729)	(461,565)	(976,294)
Items not deductible and (deductible) for tax purposes	180,206	(148,780)	31,426
Change in statutory tax rate	210,006	-	210,006
Change in valuation allowance	124,517	610,345	734,862
Total income taxes (recovery)	-	-	-

15. INCOME TAXES, continued

Peru's statutory tax rate for a corporation is basically at 30% of its taxable income. For a company with Peruvian-source losses, these losses can either be carried forward against its taxable income in future four years or to be carried forward indefinitely against 50% of its future taxable income. Since the Company's subsidiary in Peru is still in its exploration stages, it will apply the second method and offset its Peruvian-source losses against its 50% of future taxable income and will carry forward the losses indefinitely. As at December 31, 2009, Peruvian's operation has an approximately $7,737,326 (Soles 21,355,793) non-capital losses carry forward indefinitely.

The Company's Canadian operation has non-capital losses of $7,087,397 available to offset future taxable income, expiring from 2010 to 2029. These losses expire as follows:

2010		80,875
2014		1,537,798
2015		830,773
2026		1,320,315
2027		1,466,888
2028		1,245,599
2029		605,149
	$	7,087,397

Future income taxes:

Future income taxes result primarily from differences in the recognition of certain revenue and expense items for financial and income tax reporting purposes. The temporary differences that give rise to future tax assets and liabilities at December 31, 2009 for its Canadian and Peruvian operations are as follows:

Future income tax assets	2009		
	Canada	Peru	Consolidation
Net operating tax loss carryforwards	$ 1,771,849	$ 1,160,599	$ 2,932,448
Cumulative exploration and development expenditures	348,234	-	348,234
Capital assets temporary differences	9,715	-	9,715
Share issuance cost	114,403		114,403
VAT tax credit recovery against 50% of future income	-	248,457	248,457
Valuation allowance for future tax assets	(2,244,201)	(1,409,056)	(3,653,257)
	$ -	$ -	$ -

15. INCOME TAXES, continued

Future income tax assets	2008		
	Canada	Peru	Consolidation
Net operating tax loss carryforwards	$ 2,013,404	$ 1,127,375	$ 3,140,779
Cumulative exploration and development expenditures	419,414	-	419,414
Capital assets temporary differences	6,502	-	6,502
Share issuance costs	201,347	-	201,347
VAT tax credit recovery against 50% of future income	-	290,916	290,916
Valuation allowance for future tax assets	(2,640,667)	(1,418,291)	4,058,958
	$ -	$ -	$ -

16. SUPPLEMENTARY CASH FLOW INFORMATION

Non-cash transactions are as follows:

	2009	*2008*
Acquisition of resource properties	$ 43,750	$ 129,500
Issuance of common shares through share subscription receivable	$ 129,063	$ 510,000
Issuance of common shares through reduction loans and interest	$ -	$ 510,000
Issuance of common shares through reduction of amounts owed	$ 24,000	$ 67,407
Receipt of subscription receivable through reduction of amounts owed	$ -	$ 20,000
Reduction of subscription receivable by cancellation of shares issued	$ -	$ 20,000

17. SUBSEQUENT EVENTS

a) Subsequent to December 31, 2009, the Company issued 1,385,000 Units at $0.225 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Every two share purchase warrants are exercisable into one common share at a price of $0.275 per share until August 11, 2011. Finder's fees of $473 were paid in relation to the private placement.

b) Subsequent to December 31, 2009, the Company announced intention to issue 4,000,000 Units at $0.20 per Unit by way of private placement. Each unit will consist of one common share of the Company and one share purchase warrant. Each warrant will be exercisable into one common share at a price of $0.20 for a period of two years.

c) Subsequent to December 31, 2009, the Company announced intention to issue 1,500,000 Units at $0.22 per Unit by way of private placement. Each unit will consist of one flow through share of the Company and one share purchase warrant. Every two warrants will be exercisable into one flow through share at a price of $0.30 for a period of two years.

d) Subsequent to December 31, 2009, the Company re-paid a loan of $400,000 plus $22,049 interest to a company related by a director.

17. SUBSEQUENT EVENTS, continued

e) Subsequent to December 31, 2009, the option agreement with Solitaire Minerals to grant up to an 80% interest in the Pinaya property was terminated. *(note 9)*

f) Subsequent to December 31, 2009, the Company issued 108,375 common shares through exercise of warrants.

g) Subsequent to December 31, 2009, the Company received $214,000 as part of private placement proceeds.

18. CAPITAL MANAGEMENT

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

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

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

There were no changes in the Company's approach to capital management during the year ended December 31, 2009. The Company is subject to externally imposed capital requirements.