

ACERO-MARTIN EXPLORATION INC.

Consolidated Financial Statements

June 30, 2008

(unaudited – prepared by management)

ACERO-MARTIN EXPLORATION INC.

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June 30, 2008

(Unaudited – prepared by management)

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**MANAGEMENT'S COMMENTS ON
UNAUDITED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim consolidated financial statements of Acero-Martin Exploration Inc., as at June 30, 2008 and for the three and six months then ended have been prepared by and is the responsibility of the Company's management. In accordance with National Instrument 51 – 102, the company discloses that its auditors have not reviewed the accompanying unaudited interim financial statements as at June 30, 2008 and for the three and six months then ended.

ACERO-MARTIN EXPLORATION INC.

Consolidated Balance Sheets

(Unaudited – prepared by management)

	<i>June 30, 2008</i>	<i>December 31, 2007</i>
ASSETS		
Current		
Cash and cash equivalents	\$ 161,619	\$ 779,147
Accounts receivable	43,908	46,660
Prepaid expenses and deposit	44,959	52,915
	<u>250,486</u>	878,722
Equipment	542,427	527,037
Resource properties	<u>5,830,551</u>	<u>5,830,551</u>
	<u>\$ 6,623,464</u>	<u>\$ 7,236,310</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 727,356	\$ 177,346
Note payable	400,000	-
	<u>\$ 1,127,356</u>	<u>\$ -</u>
SHAREHOLDERS' EQUITY		
Capital stock	46,271,749	45,581,699
Shares allotted	-	175,000
Share subscriptions receivable	(35,000)	(285,000)
Contributed surplus	4,611,482	4,026,570
Deficit	<u>(45,352,123)</u>	<u>(42,439,305)</u>
	<u>5,496,108</u>	7,058,964
	<u>\$ 6,623,464</u>	<u>\$ 7,236,310</u>

APPROVED ON BEHALF OF THE BOARD

"Donald Gee" Director

"Stewart Jackson" Director

ACERO-MARTIN EXPLORATION INC.

Consolidated Statements of Operations and Deficit

(Unaudited – prepared by management)

	<i>Three Months Ended June 30, 2008</i>	<i>Three Months Ended June 30, 2007</i>	<i>Six Months Ended June 30, 2008</i>	<i>Six Months Ended June 30, 2007</i>
Revenue				
Interest and Sundry	\$ 2,237	\$ 25,359	\$ 4,867	\$ 38,709
Expenses				
Amortization	33,640	8,941	50,939	18,255
Bank charges and interest	1,255	(2,566)	11,066	781
Consulting fees	37,970	28,115	63,200	222,817
Interest	16,000	-	16,000	-
Management fees	47,000	46,400	99,000	89,400
Mineral property exploration	941,164	-	1,569,587	-
Office, rent and miscellaneous	67,482	107,438	98,225	194,193
Printing and shareholder information	26,715	-	50,618	-
Professional fees	45,613	38,387	95,531	144,323
Stock-based compensation	77,208	65,205	584,912	80,906
Stock exchange and filing fees	920	5,206	12,626	43,252
Transfer agent fees	10,215	14,797	17,655	18,484
Travel and business development	30,495	41,963	96,043	81,337
Wages	107,154	3,638	156,150	41,744
	<u>1,442,831</u>	357,524	<u>2,921,552</u>	935,492
Loss before other items	(1,440,594)	(332,165)	(2,916,685)	(896,783)
Foreign exchange gain (loss)	23,296	(1,697)	3,867	38,529
Net loss for the period	(1,417,298)	(333,862)	(2,912,818)	(858,254)
Deficit, beginning of period	(43,934,825)	(28,068,284)	(42,439,305)	(27,543,892)
Deficit, end of period	\$(45,352,123)	\$(28,402,146)	\$(45,352,123)	\$(28,402,146)
Basic and diluted loss per share	\$ (0.02)	\$ (0.01)	\$ (0.04)	\$ (0.02)
Weighted average number of shares	65,463,614	45,546,554	65,463,614	45,546,554

ACERO-MARTIN EXPLORATION INC.

Consolidated Statements of Cash Flows

(Unaudited – prepared by management)

	<i>Three Months Ended June 30, 2008</i>	<i>Three Months Ended June 30, 2007</i>	<i>Six Months Ended June 30, 2008</i>	<i>Six Months Ended June 30, 2007</i>
Operating activities				
Net loss for the period	\$ (1,417,298)	\$ (524,392)	\$ (2,912,818)	\$ (858,254)
Item not involving cash				
Amortization	33,640	9,314	50,939	18,255
Stock-based compensation	77,208	15,701	584,912	80,906
	<u>(1,306,450)</u>	<u>(499,377)</u>	<u>(2,276,967)</u>	<u>(759,093)</u>
Net change in non-cash working capital balances*	302,303	(175,972)	560,718	329,516
Cash flows used in operating activities	<u>(1,004,147)</u>	<u>(675,349)</u>	<u>(1,716,249)</u>	<u>(429,577)</u>
Investing activities				
Acquisition of equipment	(36,792)	(19,966)	(66,329)	(73,651)
Acquisition of resource properties	-	(1,805,030)	-	(3,694,555)
Deferred tax recoverable	-	(40,260)	-	(111,768)
Cash flows used in investing activities	<u>(36,792)</u>	<u>(1,865,256)</u>	<u>(66,329)</u>	<u>(3,879,974)</u>
Financing activities				
Note payable	400,000	-	400,000	-
Issuance of capital stock	672,254	6,466,773	833,000	6,789,973
Share issue costs	(70,400)	-	(67,950)	-
Shares allotted	-	(175,000)	-	(175,000)
Contributed surplus	-	104,797	-	104,797
Cash flows from financing activities	<u>1,001,854</u>	<u>6,396,570</u>	<u>1,165,050</u>	<u>6,719,770</u>
Increase in cash during the period	(39,085)	3,855,965	(617,528)	2,410,219
Cash beginning of period	<u>200,704</u>	<u>1,003,344</u>	<u>779,147</u>	<u>1,003,344</u>
*Cash and cash equivalents, end of the period	<u>\$ 161,619</u>	<u>\$ 4,859,309</u>	<u>\$ 161,619</u>	<u>\$ 3,413,563</u>

Supplemental disclosure of cash flows information

***Cash and cash equivalents consist of cash and term deposits**

ACERO-MARTIN EXPLORATION INC.
Notes to the Consolidated Financial Statements
June 30, 2008
(Unaudited – prepared by management)

1. NATURE OF OPERATIONS

The Company owns working interests in mineral properties. The Company is in the process of exploring these mineral properties and has not yet determined whether they contain reserves that are economically recoverable. Work has commenced on various mineral properties.

The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying claims, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

2. BASIS OF PRESENTATION

These financial statements have been prepared using Canadian generally accepted accounting principals 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's ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent on the continued financial support of the creditors and the shareholders, its ability to obtain additional financing for the continuing acquisition and exploration of its resource properties and ultimately, the attainment of profitable operations. These 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements:

On September 15, 2006, the Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosure, and Handbook Section 3863, Financial Instruments – Presentation. These three standards are applicable for the Company commencing January 1, 2008.

Handbook Section 1535, Capital Disclosures requires that a company disclose information that enables users of its financial statements to evaluate its objectives, policies and procedures for managing capital including disclosures of any externally imposed capital requirements and the consequences for non-compliance.

New Handbook Section 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

ACERO-MARTIN EXPLORATION INC.
Notes to the Consolidated Financial Statements

June 30, 2008

(Unaudited – prepared by management)

3. SIGNIFICANT ACCOUNTING POLICIES, *continued*

Recent Accounting Pronouncements, *continued*:

On January 8, 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets. Handbook Section 3064, is applicable for the periods commencing on or after October 1, 2008 and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Company is currently evaluating the effects of adopting these standards.

4. EQUIPMENT

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Office equipment	\$ 96,005	\$ 83,583
Computers	116,139	87,082
Camp and equipment	<u>462,546</u>	<u>453,749</u>
	674,690	624,414
Accumulated amortization	<u>(132,263)</u>	<u>(97,377)</u>
	<u>\$ 542,427</u>	<u>\$ 527,037</u>

5. ACQUISITION

On May 26, 2004, the Company acquired 100% of the shares of Canper Exploraciones, S.A.C. by issuing 3,870,000 common shares of which 1,000,000 common shares are contingent on future reserves. The common shares are to be issued as follows:

- a) 1,000,000 common shares at approval date, November 2, 2004 (issued)
- b) 500,000 common shares in six months (issued)
- c) 500,000 common shares in twelve months (issued)
- d) 500,000 common shares in twenty four months (issued)
- e) 370,000 common shares in thirty six months (issued)
- f) 500,000 common shares upon indication of not less than 750,000 oz. of gold reserves
- g) 500,000 common shares upon indication of not less than 2,500,000 oz. of gold reserves.

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5. ACQUISITION, *continued*

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	<u>(446,994)</u>
Net assets acquired	<u>1,074,500</u>
Purchase consideration:	
Capital stock	\$ 1,004,500
Finder's fees	<u>70,000</u>
	<u>\$ 1,074,500</u>

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.

6. RESOURCE PROPERTIES

A) Yukon, Canada

a) *Red Mountain Property*

The Company has 75% 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 Generally Accepted Accounting Principles, 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 has decided to write off the Red Mountain property in current year to a nominal value of \$1.

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6. RESOURCE PROPERTIES, *continued*

A) Yukon, Canada, *continued*

b) *Hobo Creek*

The Company has also entered into an option agreement in July 2004 with Regent Ventures Ltd. to acquire 50% interest in Hobo Creek, Red Mountain area owned by Regent Ventures Ltd. The Company has issued to Regent 350,000 share purchase warrants at \$0.55 per share exercisable before July 15, 2005. The Company is required to incur the following expenditures:

- i) Expenditures of at least \$300,000 on or before November 30, 2004.
- ii) Expenditures of at least \$800,000 on or before November 30, 2005.
- iii) Expenditures of at least \$1,500,000 on or before November 30, 2006.

Regent Ventures Ltd. will retain a 1% Net Smelter Royalty with respect to its claims. The Company has decided not to continue with this project and wrote off the deferred cost in October 2005.

	Red Mountain	
	<i>June 30, 2008</i>	<i>December 31, 2007</i>
Acquisition costs	\$ 1	\$ 50,996
Write-off	-	(50,995)
Total	<u>\$ 1</u>	<u>\$ 1</u>

B) 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:

- a) U.S. \$200,000 when the public deed is executed on the transfer of the option agreement (May 26, 2004) (paid).
- b) U.S. \$100,000 payable six month from May 26, 2004 (paid)
- c) U.S. \$240,000 payable 12 month from May 26, 2004 (paid)
- d) U.S. \$860,000 payable 24 month from May 26, 2004 (paid)
- e) U.S. \$1,100,000 payable 36 month from May 26, 2004 (paid)

In addition the Company acquired some surface rights during 2007 for part of the Pinaya Property. The amount expended for surface rights total U.S. \$15,000.

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6. RESOURCE PROPERTIES, *continued*

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.

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

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Acquisition costs	<u>\$ 5,830,550</u>	<u>\$ 5,830,550</u>

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.

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7. NOTE PAYABLE

During the period, the Company was advanced the principal sum of \$400,000 by way of promissory note. The annual interest rate is 24% per annum on the unpaid portion of the principal sum to be calculated monthly at 2%. In addition to the interest there will be a one time charge of 2% or \$8,000 for administration fees. The note was to be repaid on or before June 30, 2008. Subsequent to June 30, 2008 the note remained outstanding.

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized: Unlimited common shares without par value.

	Number of Shares	Amount (\$)	Contributed Surplus (\$)
Balance December 31, 2006	41,944,879	36,567,878	3,301,191
Issued for cash:			
Private placements	20,861,685	8,795,408	-
Issued for properties	500,000	175,000	-
Issued for settlement of claim	260,000	148,200	-
Agent options share issuance costs	-	(104,787)	104,797
Stock based compensation	-	-	620,582
Balance, December 31, 2007	63,566,564	45,581,699	4,026,570
Issued for private placement	3,514,000	878,500	-
Issued for properties	370,000	129,500	-
Cancelled during the period	(714,285)	(250,000)	
Share issuance costs	-	(67,950)	
Stock based compensation	-	-	584,912
Balance, June 30, 2008	66,736,279	46,271,749	4,611,482

On January 8, 2008, the Company issued 370,000 shares out of the allotted shares at a price of \$0.35 per share in pursuant to the purchase agreement for the acquisition of Canper Exploraciones, S.A.C.

On April 2, 2008, the Company issued 3,554,000 shares at a price of \$0.25 per share by way of a private placement. On April 9, 2008, 40,000 of the shares were returned to the Treasury. Finder's fees of 70,400 were paid in relation to the private placement.

ACERO-MARTIN EXPLORATION INC.
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9. STOCK OPTIONS AND SHARE PURCHASE WARRANTS

a) Option Plan and Stock Options Outstanding at June 30, 2008

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 225,000 common shares at \$0.95 per share expires October 2, 2009
Options to purchase 425,000 common shares at \$0.90 per share expires May 27, 2010
Options to purchase 45,000 common shares at \$0.65 per share expires November 7, 2010
Options to purchase 1,070,000 common shares at \$0.62 per share expires August 18, 2011
Options to purchase 330,000 common shares at \$0.50 per share expires May 1, 2012
Options to purchase 880,000 common shares at \$0.50 per share expires June 18, 2012
Options to purchase 500,000 common shares at \$0.30 per share expires October 19, 2012
Options to purchase 2,000,000 common shares at \$0.30 per share expires February 6, 2013

A summary of the status of the Company’s stock options as at June 30, 2008 and changes during the period is presented below:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life
Balance, December 31, 2007	4,622,850	\$0.57	
Options issued	2,000,000	\$0.30	
Cancelled/Expired	(1,147,850)	\$0.50	
Balance, June 30, 2008	5,475,000	\$0.50	3.78 years

ACERO-MARTIN EXPLORATION INC.
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(Unaudited – prepared by management)

9. STOCK OPTIONS AND SHARE PURCHASE WARRANTS, *continued*

a) Option Plan and Stock Options Outstanding at June 30, 2008- cont'd

During the period ended June 30, 2008, the Company has recognized \$584,912 (December 31, 2007: \$620,582) in compensation upon issuance of 2,000,000 (2007: 1,740,000) stock options and 350,000 options vested from 2007 and 2006 options. There are \$99,438 stock compensation benefits from 2007 options granted remained to be vested until 2010. The fair values of these options were determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions.

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Risk-free interest rate	3.83%	4.27%
Experienced life of options	4.06 years	3.41 years
Annualized volatility	133.84%	116.96%
Dividend rate	0%	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.

b) Share Purchase Warrants Outstanding at June 30, 2008

As at June 30, 2008, the Company had share purchase warrants outstanding enabling holders to acquire the following:

2,991,948 share purchase warrants at an exercise price of \$0.35 per share until November 30, 2008.

3,514,000 share purchase warrants at an exercise price of \$0.35 per share until April 2, 2009.

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9. STOCK OPTIONS AND SHARE PURCHASE WARRANTS, *continued*

A summary of the Company's issued and outstanding share purchase warrants as at June 30, 2008 and changes during the period is presented below:

	<i>June 30</i> <i>2008</i>	<i>December 31</i> <i>2007</i>
Balance, December 31, 2007	\$ 17,512,591	\$ 332,333
Issued	3,514,000	17,512,591
Expired	(14,163,500)	(332,333)
Cancelled	(357,143)	
Exercised	-	-
Balance, June 30, 2008	\$ 6,505,948	\$ 17,512,591

10. RELATED PARTY TRANSACTIONS

During the period ended June 30, 2008, the Company incurred management fees of \$99,000 (2007: \$89,400) with directors and companies owned by directors.

During the period ended June 30, 2008, the Company incurred exploration expenditures and geological consulting fees of \$122,479 (2007 \$201,054) with companies owned by directors.

During the period ended June 30, 2008, the Company incurred consulting fees of \$225 (2007 \$Nil) with officers of the Company.

During the period ended June 30, 2008, the Company incurred legal fees of \$61,343 (2007 \$107,020) with an officer who is principal of a law firm.

As at June 30, 2008, accounts payables includes \$64,946 owing to officers, directors and companies controlled by common directors and officers of the Company.

11. 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:

	<i>June 30,</i> <i>2008</i>	<i>December 31,</i> <i>2007</i>
Assets		
Canada	\$ 192,533	\$ 700,880
Peru	6,430,931	6,585,430
	\$ 6,623,464	\$ 7,236,310

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12. SUPPLEMENTAL DISCLOSURE OF CASH FLOWS IN INFORMATION

	<i>Six Months Ended June 30, 2008</i>	<i>Six Months Ended June 31, 2007</i>
370,000 shares issued for resource properties	\$ 175,000	\$ -
760,000 shares issued for resource properties	\$ -	\$ 323,200
714,285 shares cancelled	\$ 250,000	\$ -
Stock based compensation expense	\$ 584,912	\$ 80,906
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -