

2009 ANNUAL REPORT



Mineral exploration in Peru

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

The “Great Recession” of 2008-09 was a test of endurance for many companies in the mineral exploration sector, but it also presented opportunities that come only rarely. We took advantage of the extraordinary circumstances of that tumultuous period to seek out and acquire on very favourable terms the Alicia property which I believe has the potential to develop into a major copper-gold discovery.

Alicia is in southern Peru, in an area hailed as an emerging copper province to rival northern Chile’s. Xstrata plc, for example, has committed \$5.4 billion to three projects in this area of Peru alone and expects to be producing 500,000 tonnes of copper from them by 2014, or roughly 3% of total world production.

Alicia shares many of the characteristics of these giant projects and the results we received from our early work are extremely encouraging. We conducted a preliminary program of surface chip sampling that returned exceptional values – more than 75% of samples taken assayed greater than 1% copper with one 6.0-metre interval returning 5.65% copper, 0.95 grams per tonne gold and 45.25 grams per tonne silver. We also worked diligently to obtain the support of the local community for our exploration plans and we fully expect drilling results in 2010 to confirm our confidence in this project.

At Alicia we have an option to earn a 100% interest by February 2013 by spending \$1.25 million on exploration and issuing a total of 1,000,000 shares to the vendor. By contrast, our Letra Rumi South and Culebrilla properties in north-central Peru are already 100% owned. Since holding costs for Letra Rumi South and Culebrilla are minimal, we have postponed plans for further work on those properties while we focus on Alicia.

The growth in demand for base metals throughout the world, particularly in China and India, will continue despite the day-to-day volatility of markets we witnessed during the past year. Exploration will be increasingly critical to maintain that supply of mineral commodities, and with three projects in one of the fastest growing mining jurisdictions in the world, Strait Gold is well positioned to benefit from that growth.

James S. Borland
President

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Strait Gold Corporation ("Strait Gold" or "the Company" or "the Corporation") for the years ended December 31, 2009 and 2008, and should be read in conjunction with the audited financial statements and related notes included therein for the years ended December 31, 2009 and 2008. The Corporation reports its financial position, results of operations and cash flows in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). This MD&A is made as of April 22, 2010.

FORWARD LOOKING INFORMATION

This MD&A contains forward-looking statements that involve risks and uncertainties, which may cause actual results to differ materially from the statements made. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to such risks and uncertainties. Many factors could cause our actual results to differ materially from the statements made, including those factors discussed in filings made by us with the Canadian securities regulatory authorities. Should one or more of these risks and uncertainties, such as the actual results of current exploration programs, the general risks associated with the mining industry, the price of gold and other metals, reduced funding, currency and interest rate fluctuations, increased competition and general economic and market factors, occur or should assumptions underlying the forward-looking financial statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated or expected. We do not intend and do not assume any obligation to update these forward-looking statements, except as required by law. Shareholders are cautioned not to put undue reliance on such forward-looking statements.

This MD&A has been approved by the Board of Directors of the Company, and contains certain information that is current to April 22, 2010. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. The Company may, but is not obligated to, provide updates to forward looking statements, including in subsequent news releases and its interim MD&As filed with regulatory authorities. Additional information relating to the Corporation is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

EXECUTIVE SUMMARY

Strait Gold is a TSX-Venture-Exchange-listed company devoted exclusively to mineral exploration in Peru where it currently is involved in three projects.

In 2009, the Company's primary focus was on a generative exploration program to identify and evaluate mineral exploration targets in Peru available for acquisition. As a result of this program, which is ongoing, in September of 2009 the Company entered into an agreement giving it the right to earn a 100% interest in the Alicia copper-gold property in the Department of Cusco, approximately 500 km southeast of Lima. In the fourth quarter of 2009, the Company initiated a two-phase exploration program that includes approximately 1,000 metres of drilling. The Company then raised approximately \$300,000, net of costs, through private placements of common shares.

In 2009, the Company completed rehabilitation efforts relating to a 2007 drill program at its Culebrilla property and fulfilled its obligations to the local community such that the Company is now in a position to resume exploration activities at Culebrilla and the adjoining Letra Rumi South properties. The Company owns

100% of each of these two properties and has postponed further work on them while it focuses its efforts on the Alicia property.

The Company reported a net loss of approximately \$778,000 in 2009 compared to \$1.9 million in 2008. Excluding write downs of approximately \$36,000 in 2009 and \$1.4 million in 2008, the greater expenses in 2009 relate largely to exploration costs being almost entirely expensed in 2009 rather than capitalized. Other expenses were reduced to approximately \$395,000 in 2009 compared with approximately \$460,000 in 2008.

In 2010, the Company plans to complete the first phase of its exploration program at Alicia and raise equity financing to strengthen its liquidity position and permit further exploration activity.

OVERVIEW

In 2009, the Company optioned the Alicia copper-gold property in Peru and subsequently initiated a two-phase exploration program on the property. Phase 1 of this program is currently under way, including efforts to secure surface rights in advance of a drilling program. An application for a drilling permit, which includes baseline environmental studies, is being prepared.

The Company also holds a 100% interest (subject to a 3% NSR royalty) in two other mineral properties, Letra Rumi South (copper-silver) and Culebrilla (gold-silver). In 2008, the Company prepared Letra Rumi South for a 1,500-metre diamond drill program by improving access to the property. Further work at Letra Rumi South and Culebrilla, which adjoins Letra Rumi South, was delayed by negotiations regarding surface rights and closure issues arising from a 2007 drilling program at Culebrilla. In 2009, surface rights to these properties were obtained and obligations relating to the earlier drilling activities at Culebrilla were fulfilled such that the Company is now positioned to resume exploration activities on these properties.

The Company is sufficiently funded to conduct the first phase of its planned exploration program at Alicia. Further equity financing will be required to conduct additional exploration.

OVERALL PERFORMANCE

The focus of the Company's exploration program for much of 2009 was on a generative program to identify and evaluate mineral exploration targets, principally in southern Peru. This program is ongoing.

As a direct result of the generative program, in September 2009, the Company entered into an agreement with the Peruvian subsidiary of Panoro Minerals Ltd. that gives the Company the right to earn up to a 100% interest, subject to a 2% Net Smelter Return Royalty (the "Alicia Royalty"), in the 2,593-hectare Alicia property in the Department of Cusco, approximately 500 km southeast of Lima. In October 2009, the Company initiated the first phase of a two-phase exploration program at Alicia. Phase 1 consists of community engagement, surface mapping, sampling and an induced polarization survey to identify drill targets. Phase 2 will include drilling to test for mineralization at depth. Baseline studies, preparation of an inventory of old mine workings in the area and negotiation of a community agreement for surface rights are being conducted as required for issuance of a drilling permit. Registration of all community members has taken place and an agreement with the community is in the process of being formalized by way of public deed.

A planned 1,500-metre drill program at the Company's Letra Rumi South property was postponed in 2008 pending approval from the local community regarding surface rights for the Culebrilla property and the adjoining Letra Rumi South property. In 2009, property access and surface rights issues in respect of Culebrilla were resolved which positions the Company for resumption of work at both Culebrilla and Letra Rumi South. These properties are 100% owned by the Company (subject to a 3% NSR royalty) with no work commitments and nominal holding costs.

For much of 2008 and 2009, the Company was actively involved with the local community and with government agencies with a view to reaching agreement on and executing a closure plan at Culebrilla following a 2007 drill program. The Company completed the closure report for Culebrilla and filed it with Peruvian regulatory bodies in September 2009. Although the time for affected parties to challenge the closure report has now elapsed, the Company awaits notification of final acceptance.

Cash conservation remains a priority for the Company. At December 31, 2009, the Company's cash and cash equivalents was \$569,271 and working capital was \$564,066.

SELECTED ANNUAL INFORMATION

The following is a summary of selected audited financial information as of and for the years ended December 31, 2009, 2008 and 2007. This summary should be read in conjunction with the Company's audited financial statements and related notes.

Statement of Operations Data

	Years ended December 31		
	2009	2008	2007
Revenues	\$ -	\$ -	\$ -
Net Loss from Operations	777,627	1,897,339	637,085
Basic and Diluted Loss per Share	\$0.03	\$0.08	\$0.03

Balance Sheet Data

	December 31		
	2009	2008	2007
Mineral properties	\$ 1,082,493	\$ 1,021,438	\$ 1,943,615
Total Assets	1,708,049	2,259,363	4,184,502
Total Liabilities	51,850	38,817	99,584
Shareholders' Equity	1,656,199	2,220,546	4,084,908

RESULTS OF OPERATIONS

During the periods under review, the Company was in the exploration stage and had no revenues other than interest income earned on its short-term investments. In accordance with Canadian GAAP, expenditures on the acquisition of interests in mineral properties and related exploration costs are deferred and capitalized. If the interests are allowed to lapse or the properties are no longer of interest, accumulated costs are written down. Prior to 2008, the Company's losses related almost entirely to administrative expenses. In 2008, the Company wrote down \$1,359,244 of costs previously capitalized to the Culebrilla, Pallcamachay and San Jorge properties in which the Company relinquished its interest or where further exploration plans were put on hold. In 2009, the Company wrote down a further \$36,025 in respect of concessions relinquished at Culebrilla. Net loss from operations for 2008 and 2009 was \$1,897,339 and \$777,627 respectively. The losses for 2008 and 2009 also included \$75,573 and \$340,690, respectively, for exploration costs. These costs were not capitalized because they relate to closure activities at Culebrilla, where the properties are no longer of interest, and to the properties in the generative program prior to the Company having a contractual interest. During the periods under review, the Company did not have any full time employees. The CEO, the CFO, the VP-Exploration and the Senior Geologist were retained as independent contractors.

Other operating expenses for 2009 were \$400,912 compared with \$462,522 in 2008. Decreases in stock-based compensation (a non-cash item) of \$29,634 and management fees of \$51,226, partially offset by a decrease in interest income of \$49,027, are the major reasons for the swing.

Years Ended December 31, 2009 and 2008

During the year ended December 31, 2009, the Company incurred a loss from operations of \$777,627 compared with a loss of \$1,897,339 in 2008.

The decrease in management fees for 2009 to \$150,424 from \$201,650 in 2008 reflects cut backs in executive compensation and staff hours at the Toronto and Lima offices. Professional fees in 2009 were \$102,634 compared with \$89,991 in 2008. Legal fees relating to new exploration activities in Peru and financing activities in Canada were lower in 2009 than in the previous year, but this was offset by substantial costs relating to Culebrilla closure activities that were ongoing for much of the year. Investor relations and travel expense in 2009 was \$37,318 compared with \$36,676 in 2009. Prior to 2009, the great majority of exploration costs were deferred and included as a component of mineral properties; only exploration costs not incurred in Peru or not attributable to exploration projects were expensed. Exploration costs of \$340,690 in 2009 relate primarily to the generative program and to final remediation work and community projects at Culebrilla. Exploration costs of \$75,573 in 2008 related to geological consulting support in Canada and the shift to generative activities in the second half of the year. Expense of \$34,284 in 2008 reflects the final amortization of stock options awarded in 2007. Office and general expenses were \$82,854 in 2009 compared with \$119,144 for 2008, reflecting lower rental expense in Toronto and Lima and other cost containment measures. Listing and regulatory fees for 2009 YTD were \$16,216 compared to \$17,818 in 2008 YTD.

In addition to the above noted expenses, the Company incurred write downs of \$36,025 in 2009 and \$1,359,244 in 2008 in respect of previously deferred exploration costs at mineral properties. The write downs in 2009 relate to staking and tenure costs for certain concessions at Culebrilla that were relinquished. The write downs in 2008 reflect the shift in focus of exploration activities from Culebrilla to Letra Rumi South and the non-renewal of the Pallcamachay and San Jorge options.

Interest income for 2009 was \$13,385 compared with \$62,412 in 2008, reflecting the drawdown on short-term investments to fund ongoing operations and generally lower rates of interest.

Years Ended December 31, 2008 and 2007

During the year ended December 31, 2008, the Company incurred a loss from operations of \$1,897,339 compared with a loss of \$637,085 in 2007.

The increase in management fees for 2008 to \$201,650 from \$153,160 in 2007 relates to the greater use of part-time administrative staff in Canada and Peru during the year and to increases in fees for consulting services provided by our CEO and CFO. Professional fees in 2008 were \$89,991 compared with \$136,204 in 2007. Legal fees in Peru for 2008 were lower than the previous year reflecting a lower level of exploration activity and the fact that 2007 included substantial costs relating to negotiation of the acceleration of the Option Agreement. Legal fees in connection with securing our interests in Peruvian properties are deferred and capitalized to those properties. Legal costs in Canada for 2008 were also lower due to the absence of financing activities in 2008. Investor relations and travel expense for 2008 were lower than the previous year primarily because of lower costs for the 2007 annual report. Exploration costs are generally deferred and included as a component of mineral properties. However, exploration costs that are not incurred in Peru or which cannot be directly attributed to exploration projects are expensed. Such exploration costs for 2008 were \$75,573 as compared to \$47,730 in 2007. The increase relates primarily to geological consulting support in Canada and the shift in focus to “generative” activities in the second half of 2008. The Company incurred non-cash costs of \$34,284 in 2008 in respect of the amortization of the value of stock options granted to consultants and directors, compared with \$173,225 in 2007. The lower figure relates to the fact that options granted in late 2007 were valued lower than those granted in late 2006. The increase in office and general expenses to \$119,144 in 2008 from \$83,745 in 2007 reflects higher office rental costs in Toronto and Lima and higher insurance costs. The decrease in listing and regulatory fees in 2008 to \$17,818 from \$42,674 in 2007 reflects then fact that the Company did not have a share issue in 2008 and accordingly only paid sustaining fees on the TSX Venture Exchange.

In addition to the above noted expenses, the Company incurred write downs of \$1,359,244 in 2008 in respect of previously deferred exploration costs at mineral properties. These write downs reflect the shift in focus of exploration activities from Culebrilla to Letra Rumi South and the non-renewal of the Pallcamachay and San Jorge options.

Interest income for 2008 was \$62,412 compared with \$82,251 the previous year, reflecting the drawdown on short-term investments to fund ongoing operations and generally lower rates of interest during the year.

Summary of Quarterly Results

	Quarter Ended			
	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	March 31, 2009
Revenues	\$ -	\$ -	\$ -	\$ -
Net loss	135,264	237,070	252,309	152,984
Basic and Diluted Loss per Share	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.01

	Quarter Ended			
	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	March 31, 2008
Revenues	\$ -	\$ -	\$ -	\$ -
Net loss	1,489,953	105,627	150,060	151,699
Basic and Diluted Loss per Share	\$ 0.06	\$ 0.00	\$ 0.01	\$ 0.01

Loss per share is calculated using the Treasury Stock Method and is based on the weighted average number of common shares outstanding during each period. Diluted loss has not been calculated since the effect of issuing shares through the exercise of options and warrants would be anti-dilutive.

PROPERTIES

Years Ended December 31, 2009 and 2008

In accordance with Canadian GAAP, expenditures on the acquisition of interests in mineral properties and related exploration costs are deferred and capitalized. During 2009 and 2008, expenditures on mineral properties were \$97,080 and \$437,067, respectively. Write downs in 2009 and 2008 were \$36,025 and \$1,359,244, respectively.

Alicia Property

On September 25, 2009, the Company and Panoro Apurimac S.A. entered into an Option and Mining Lease Agreement under which it has the right to acquire up to a 100% interest, subject to a 2% Net Smelter Return Royalty, in the 2,593 hectare Alicia copper-gold property. The Alicia property is located in the Department of Cusco, approximately 500 km southeast of Lima, and lies within the prolific Andahuaylas-Yauri metallogenic belt of porphyry and skarn deposits. Under the terms of the agreement, the Company can acquire a 100% interest by issuing 1,000,000 shares and incurring US\$1.25 million in work expenditures over the three-year term of the agreement. The Company has the right to purchase 50% of the Alicia Royalty for a one-time payment of US\$2.3 million within six months of earning a 100% interest.

Summary expenditure information on the Alicia property is as follows:

	December 2009
Acquisition	\$ 6,500
Deferred exploration expenses	62,080
Total	<u>\$ 68,580</u>

Culebrilla Property

The Culebrilla gold-silver property originally consisted of eight contiguous mining claims totaling 5,900 hectares in the Department of Ancash, Peru. The Company wrote down \$942,601 of deferred exploration costs at Culebrilla at year-end 2008. In 2009, the Company renounced its interest in six mining concessions that formed a portion of the Culebrilla property and wrote down a further \$36,025 of deferred exploration costs. The remaining claims (Culebrilla 1 and Rosa Mistica 20 and 30), when combined with the adjoining Letra Rumi South property, constitute a single geographic domain of approximately 3,100 hectares.

Exploration expenditures at Culebrilla were minimal during 2009 and related exclusively to tenure costs. The Company's focus during the year was on completion of closure activities relating to the 2007 drill program. All associated costs were expensed.

Summary expenditure information on the Culebrilla property is as follows:

	Cumulative to December 31	
	2009	2008
Acquisition	\$ 821,082	\$ 821,082
Deferred exploration expenses	1,066,469	1,045,529
Write downs	(978,626)	(942,601)
Total	\$ 908,925	\$ 924,010

Letra Rumi South Property

The Company staked the 900-hectare Letra Rumi South copper-silver property in 2006. The property is adjacent to and to the south of the Culebrilla property, and lies within the area of influence of the Culebrilla option agreement. Based on the results of mapping, sampling and geophysics, the Letra Rumi South prospect is considered to have potential to host significant bulk-tonnage copper mineralization, and a 1,500-metre diamond drill program is planned for this property. The resolution during 2009 of property access and surface rights issues in respect of Culebrilla positions the Company for resumption of work at Letra Rumi South provided it receives community approval for the program. Cumulative expenditures to December 31, 2009 at this property are \$104,988 (2008 - \$97,428).

Project Plans and Outlook

In October 2009, the Company announced that it had completed a technical report regarding the Alicia property in compliance with NI 43-101, recommending a two-phase exploration program. Phase 1, currently under way, consists of community engagement, surface mapping and sampling and an induced-polarization survey to identify drill targets. Phase 2 will consist of approximately 1,000 metres of drilling to test for mineralization at depth. The report recommended a second drilling program of 2,000-2,500 metres depending on the success of the initial drill program.

At Letra Rumi South, exploration to date has identified the potential for significant disseminated copper mineralization. Based on mapping, sampling and geophysical surveys, a 1,500-metre drilling program is proposed to test the down-dip continuity of the mineralized gossans and corresponding geophysical anomalies. The recent resolution of the property access and surface rights issues in relation to the Culebrilla drilling program positions the Company to move forward with this project in the future. Work at Letra Rumi South has been postponed while the Company focuses its efforts on the Alicia property.

Work at Culebrilla has been postponed while the Company focuses its efforts on the Alicia property.

LIQUIDITY

Year Ended December 31, 2009

At December 31, 2009, the Company had cash and cash equivalents of \$569,271 compared to \$1,178,616 at the previous year-end. In November 2009, the Company raised \$202,130, net of commissions and fees,

through the private placement of common shares and warrants. In January 2010, a further \$118,500, net of commissions was raised. During 2008, the Company did not raise any funds through the issue of shares or exercise of warrants. Working capital at December 31, 2009 was \$569,563 compared with \$1,180,610 the previous year.

Under the option and royalty agreement with Panoro Minerals Ltd. in respect of the Alicia property, the Company can earn a 100% interest in the property by issuing 1,000,000 shares and incurring US\$1.25 million in work expenditures over a three-year period. Work expenditures for the periods from execution of the agreement until the first and second anniversaries of the Community Agreement, are US\$150,000 and US\$500,000, respectively. It is anticipated that a public deed recording the Community Agreement will be finalized in the near future, thereby starting the time periods during which the above expenditures must be undertaken.

While the Company has sufficient liquidity to fund the first phase of its exploration program at Alicia, it will require further financing to carry out its plans thereafter. The ability to raise further financing depends on market conditions.

Capital Resources

The Company currently has approximately \$460,000 of cash resources and working capital.

OUTSTANDING SHARE CAPITAL

Strait Gold Corporation is authorized to issue an unlimited number of common shares. As of the date of this MD&A, the Company has 27,010,436 common shares outstanding.

A summary of the Company's warrants⁽¹⁾ and broker warrants⁽¹⁾ outstanding as of the date of this MD&A is as follows:

	Exercise Price \$	Expiry Date	Outstanding
Warrants	0.15	May 30, 2011	1,344,500
Warrants	0.15	July 11, 2011	25,000
Warrants	0.15	July 15, 2011	575,000
Broker warrants	0.10	May 30, 2011	243,900
Broker warrants	0.10	July 15, 2011	15,000
			<u>2,203,400</u>

(1) Each warrant or broker warrant can be exercised for one common share

A summary of the Company's stock options outstanding as of the date of this MD&A is as follows:

	Exercise Price \$	Expiry Date	Outstanding
	0.40	Nov. 28, 2011	970,000
	0.14	Dec. 18, 2012	475,000
	0.10	Dec. 31, 2014	100,000
	0.14	Jan. 26, 2015	620,000
			<u>2,165,000</u>

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements at December 31, 2009 and 2008, or at the date of this MD&A.

TRANSACTIONS WITH RELATED PARTIES

During the year ended December 31, 2009, the Company entered into the following transactions with related parties:

- (a) payment of \$108,000 in respect of management and administrative services to Borland Levand & Associates, a firm in which a director is a principal; .
- (b) payment of \$22,100 in respect of financial management services to Graham L. Desson Consulting Inc., a firm in which an officer is a principal; and
- (c) payment of legal fees of \$21,129 to Gardiner Roberts LLP, a firm in which a director is a principal.

All transactions with related parties are established and agreed by the various parties and approximate the exchange amount.

CHANGES IN ACCOUNTING POLICY

The Company adopted the following new accounting standards in 2009:

(a) *Goodwill and Intangible Assets*

Effective January 1, 2009, the Company adopted CICA Handbook Section 3064 “Goodwill and Intangible Assets” which establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27 relating to revenues and expenses during the pre-operating period. As a result of this withdrawal, the Company will no longer be able to defer costs and revenues incurred prior to commercial production at new operations. The adoption of this new policy had no impact on the reported results of the Company.

(b) *Mining Exploration Costs*

On March 27, 2009, the Emerging Issues Committee of the CICA issued EIC – 174 requiring that an entity consider the following criteria in its determination of impairments that may exist in its properties, in addition to those conditions set out in CICA Handbook Section 3063.09 and AcG 11, Paragraphs 15-19, for current and future accounting periods:

- i) Market value of the underlying commodity that the Company is exploring for has had no long-term, non-temporary decreases;
- ii) The entity’s book value is in excess of its market value; and
- iii) The entity’s ability to meet future commitments is in question.

The existence of any of the above conditions may signify that an impairment exists in the fair value of a company’s properties.

FUTURE ACCOUNTING CHANGES

Convergence with International Reporting Standards

In 2006, the Canadian Accounting Standards Board (“Board”) confirmed that the transition to International Financial Reporting Standards (“IFRS”) from Canadian GAAP will occur on January 1, 2011 for public entities. The Company has developed a transition plan covering selection of accounting policies under IFRS, the accounting treatment of significant items, the preparation of an opening balance sheet at January 1, 2010 and the preparation of interim financial statements under IFRS during 2010 in parallel with Canadian GAAP. As at December 31, 2009, the Company has completed the preliminary planning and scoping phase of the conversion, including review with the Audit Committee of the project plan and identification of relevant IFRS policies and policy differences between IFRS and Canadian GAAP.

Generally, IFRS has more extensive disclosure requirements than under Canadian GAAP. The Company has identified some areas where there is potential for changes in disclosure under IFRS:

IFRS 1 – first time adoption of IFRS requires that an entity apply all standards effective at the end of its first reporting period retrospectively, and provides entities with a number of optional and mandatory exemptions. The Company is currently analyzing the exemptions available and will make the most appropriate elections.

Stock based compensation – treatment under IFRS is substantially consistent with Canadian GAAP. However, where stock options vest in installments, IFRS requires that the fair value of each installment be treated as a separate share option grant, whereas under Canadian GAAP options are valued at the outset and amortized over the vesting period. This is not likely to be of significant impact to the Company.

The most significant aspects of the Company's financial statements relate to deferred exploration costs and asset impairments. Based on its assessment of the impact of IFRS in these areas, management is not anticipating any material changes in the opening balance sheet at January 1, 2010 and in the reporting of financial results after January 1, 2011.

The Company is also assessing the impact of IFRS in the following areas:

Information systems – the Company does not anticipate conversion to IFRS having any significant impact on its capability of collecting financial information for compliance.

Internal controls over financial reporting – as part of its conversion plan, the Company will consider the impact of IFRS on internal controls over financial reporting and on disclosure controls and procedures.

Financial reporting expertise – given the present size of the Company, the lead in the IFRS conversion project is being taken by the CFO, reporting to the CEO and the Audit Committee. The CFO has attended various external IFRS training sessions, including some specific to the junior mining industry, and provides quarterly updates on the status of the project.

Business Combinations

In January 2009, the CICA issued Handbook Section 1582, "Business combinations," which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. 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 periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

Non-controlling Interests

In January 2009, the CICA issued Handbook Section 1602, "Non-controlling interests," which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective for 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

Consolidated Financial Statements

In January 2009, the CICA issued Handbook Section 1601, "Consolidated financial statements," which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

Mineral Properties

The Company capitalizes all expenditures that result in the acquisition and retention of mineral properties or an interest therein. The amount shown for mineral properties represents costs to date and does not necessarily reflect present or future values. If the properties are sold, allowed to lapse or are no longer of interest, accumulated costs are written off. Expenditures on properties in which the Company does not have a registered or contractual interest are expensed as incurred. The recoverability of the carrying values of the properties is dependent on the ability of the Company to obtain the necessary financing and permits to continue exploration, the establishment of economically recoverable reserves, future profitable production and/or proceeds from the disposition thereof.

Stock Based Compensation

The Company has a stock-based compensation plan that is described in Note 6. The CICA Handbook, Section 3870, establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments for goods and services. The Section requires that awards of stock be at fair value.

Other significant accounting policies are summarized in Note 2 to the Consolidated Financial Statements.

FINANCIAL AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents held at a Canadian chartered bank, other receivables and accounts payable, some of which are denominated in Canadian dollars, US dollars or Peruvian soles. All financial instruments are designated as held for trading and are recorded at market value which approximates their carrying value. It is management's opinion that the Company is not exposed to significant interest rate, currency or credit risks arising from financial instruments. The Company does not have major commitments to acquire assets in foreign currencies at this time, but in the event of successful future financings the Company expects that significant future expenditures will be denominated in US dollars or Peruvian soles.

COMMITMENTS AND CONTINGENCIES

Office Rental

In February 2008, the Company entered into an agreement to lease office premises in Toronto for a five year period commencing June 1, 2008. Annual base rental is \$19,448 in the first year with annual increments of approximately \$450 thereafter. Annual operating costs are estimated to be approximately \$17,400.

OUTLOOK

Since acquiring rights to the Alicia property in September 2009, the Company has made substantial progress in establishing a framework with the local communities for future exploration activities. The Company intends to implement its early stage exploration plans for this property in 2010.

Although the resolution of community relations issues at Culebrilla clears the way for future exploration activities at Letra Rumi South and Culebrilla, work at these locations will not be resumed until sufficient financing is obtained.

RISK FACTORS

Financing Risk

Further exploration and development of the Company's properties will require additional equity financing. Failure to obtain this financing will result in the delay or indefinite postponement of exploration, development or production on any or all of the properties or even a loss of property interests. The Company will require additional funding to acquire additional property interests. The ability to arrange such financing in the future will depend, in part, upon the prevailing capital market conditions as well as the Company's business performance. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on satisfactory terms. If additional financing is raised by the issuance of shares from treasury, control of the Company may change and existing shareholders may suffer dilution.

Mineral Pricing Risk

The feasibility of the Company's mineral exploration is significantly affected by changes in the market price of gold, silver and copper. Commodity prices fluctuate widely and are affected by numerous factors beyond the Company's control. The level of interest rates, the rate of inflation, world supply of gold, silver and copper and stability of exchange rates can all cause significant fluctuations in commodity prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

Other Significant Risks

In addition to the foregoing, the Company's business risks include operating hazards, environmental and other government regulations, competition in the marketplace, and the market for our securities. Its properties are located in Peru and are subject to the laws and regulations of that country. The Company carries on its exploration activity outside of Canada. Accordingly, it is subject to the risks associated with the fluctuation of the rate of exchange of the Canadian dollar and foreign currencies, in particular the US dollar and the Peruvian soles. Such fluctuations may materially affect the Company's financial position and results.

Additional risk factors are set out in the Company's Annual Information Form.

ADDITIONAL INFORMATION

- (1) Additional information may be found on SEDAR at www.sedar.com.
- (2) Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans will be included in the information circular for the Company's next annual meeting of security holders.
- (3) Additional information is provided in the Company's financial statements for the most recently completed financial reporting period and its Annual Information Form, both of which are available on SEDAR at www.sedar.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

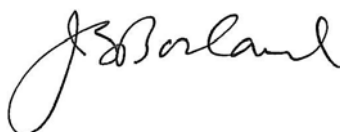
The accompanying consolidated financial statements of Strait Gold Corporation were prepared in accordance with generally Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

Wasserman Ramsay, Chartered Accountants, the Company's independent auditors, conduct an audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards. Their audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. As well, they may make an assessment of the accounting principles used and significant estimates made by management and they evaluate the overall financial statement presentation.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for ensuring that management fulfils its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The members of the Audit Committee are not officers of the Company. The Audit committee meets with management as well as with the independent auditors to review the internal controls over the financial reporting process, the consolidated financial reporting process, the consolidated financial statements and the auditors' report. The Audit Committee also reviews the Annual Report to ensure that the financial information reported therein is consistent with the information presented in the financial statements. The Audit committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

Management accepts its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.



James S. Borland
President



Graham L. Desson
Chief Financial Officer

April 22, 2009

AUDITORS' REPORT

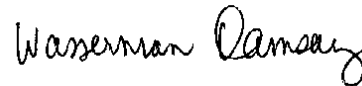
To the Shareholders of Strait Gold Corporation:

We have audited the consolidated balance sheets of Strait Gold Corporation as at December 31, 2009 and 2008 and the consolidated statements of net loss and comprehensive loss, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the balance sheet is 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 cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Markham, Ontario
April 14, 2010



Chartered Accountants
Licensed Public Accountants

CONSOLIDATED FINANCIAL STATEMENTS

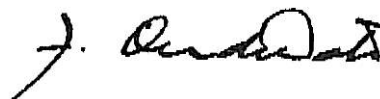
Consolidated Balance Sheet

	<u>2009</u>	<u>2008</u>
ASSETS		
Current		
Cash and cash equivalents (Note 3)	\$ 569,271	\$ 1,178,616
Prepaid expenses and GST receivable	44,055	32,935
Other receivables (Note 3)	<u>2,590</u>	<u>7,876</u>
	615,916	1,219,427
Fixed assets, net of depreciation (Note 5)	9,640	18,498
Mineral properties (Note 4)	1,082,493	1,021,438
	<u>\$ 1,708,049</u>	<u>\$ 2,259,363</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 51,850	\$ 38,817
Commitments and contingencies (Note 14)		
SHAREHOLDERS' EQUITY		
Capital stock (Notes 6 and 7)	4,258,343	4,049,713
Contributed surplus (Note 8)	1,232,732	1,228,082
Deficit	<u>(3,834,876)</u>	<u>(3,057,249)</u>
	1,656,199	2,220,546
	<u>\$ 1,708,049</u>	<u>\$ 2,259,363</u>

Approved on behalf of the Board



James S. Borland
Director



Frank van de Water
Director

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

Consolidated Statement of Loss and Comprehensive Loss

	Year ended December 31,	
	2009	2008
Expenses		
Management fees (<i>Note 10</i>)	\$ 150,424	\$ 201,650
Professional fees (<i>Note 10</i>)	102,634	89,991
Investor relations and travel	37,318	36,676
Exploration costs	340,690	75,573
Stock based compensation (<i>Note 7</i>)	4,650	34,284
Directors' fees and expenses	8,714	13,871
Office and general	82,854	119,144
Listing and regulatory fees	16,216	17,818
Depreciation	8,858	7,611
	<u>752,358</u>	<u>596,618</u>
Other (income) expense		
Write down of mineral properties (<i>Note 4</i>)	36,025	1,359,244
Exchange loss	2,629	3,889
Interest income	(13,385)	(62,412)
	<u>25,269</u>	<u>1,300,721</u>
Net loss and comprehensive loss for the year	<u><u>\$ 777,627</u></u>	<u><u>\$ 1,897,339</u></u>
Weighted average number of common shares outstanding - basic and diluted		
	<u>23,282,116</u>	<u>23,021,436</u>
Loss per share - basic and diluted	<u>\$ 0.03</u>	<u>\$ 0.08</u>

Consolidated Statement of Deficit

	Year ended December 31,	
	2009	2008
Deficit, beginning of year	\$ 3,057,249	\$ 1,159,910
Net loss for the year	777,627	1,897,339
Deficit, end of year	<u><u>\$ 3,834,876</u></u>	<u><u>\$ 3,057,249</u></u>

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

Consolidated Statement of Cash Flows

	Year ended December 31,	
	2009	2008
Cash was provided by (used in) the following activities:		
Operations		
Net loss for the year	\$ (777,627)	\$ (1,897,339)
Add: items not requiring an outlay of cash:		
Stock-based compensation	4,650	34,284
Depreciation	8,858	7,611
Write down of mineral properties	36,025	1,359,244
Net change in non-cash working capital items (<i>Note 12</i>)	7,199	(31,681)
	<u>(720,895)</u>	<u>(527,881)</u>
Investing		
Fixed asset additions	-	(18,279)
Expenditures on mineral properties	(90,580)	(477,161)
	<u>(90,580)</u>	<u>(495,440)</u>
Financing		
Issuance of common shares and warrants	202,130	-
Financing costs	-	(1,307)
	<u>202,130</u>	<u>(1,307)</u>
Net change in cash and cash equivalents for the year	(609,345)	(1,024,628)
Cash and cash equivalents, beginning of the year	1,178,616	2,203,244
Cash and cash equivalents, end of the year	<u>\$ 569,271</u>	<u>\$ 1,178,616</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

1. Nature of operations and going concern

Strait Gold Corporation (“Strait Gold” or the “Company”) was incorporated under the Business Corporations Act of the Province of Ontario, Canada, on March 7, 2003. The primary business of Strait Gold is the acquisition of, exploration for and development of mineral properties in Peru. Other than earning interest income on its invested funds, Strait Gold has not earned revenue to date and is considered to be in the development stage.

The Company has investigated ownership of its mineral interests and, to the best of its knowledge, ownership of its interests is in good standing.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration will result in profitable mining operations. As at December 31, 2009, Strait Gold has no source of operating cash flows. The Company’s ability to meet its obligations and continue as a going concern is dependent on management’s ability to identify and complete future financings. While Strait Gold has been successful in raising financing to date, there can be no assurance that it will be able to do so in future.

These financial statements have been prepared using Canadian Generally Accepted Accounting Principles applicable to a going concern and do not reflect any adjustments in the carrying values of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used that would be necessary if the going concern assumption was not appropriate.

2. Basis of presentation and significant accounting policies

Basis of presentation

The financial statements of Strait Gold Corporation have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles.

On February 21, 2006, the Company incorporated a wholly owned Peruvian subsidiary, Minera Strait Gold Peru S.A.C. (“MSG Peru”) to hold its interest in the option agreement disclosed in Note 3 and to conduct its exploration activities in Peru. Financial information for the year ended December 31, 2009 includes the accounts of MSG Peru and those of the Company. All inter-company transactions and balances have been eliminated.

Significant accounting policies

The financial statements have, in management’s opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Cash and cash equivalents

Cash and cash equivalents consist of cash balances and demand deposits in a Canadian chartered bank plus highly liquid investments which have an initial term of less than 90 days.

(b) Mineral properties

The Company capitalizes all expenditures that result in the acquisition and retention of mineral properties or an interest therein. The amount shown for mineral properties represents costs to date and does not necessarily reflect present or future values. If the properties are sold, allowed to lapse or are no longer of interest, accumulated costs are written off. Expenditures on properties in which the Company does not have a registered or contractual interest are expensed as incurred.

The recoverability of the carrying values of the properties is dependent on the ability of the Company to obtain the necessary financing and permits to continue exploration, the establishment of economically recoverable reserves, future profitable production and/or proceeds from the disposition thereof.

(c) Long-term assets

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, 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 period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset.

(d) Fixed assets

Fixed assets, which consist of office equipment, are being amortized on a straight-line basis over a period of 3 years.

(e) Asset retirement obligations

The Company has adopted CICA Handbook Recommendation 3110, "Asset Retirement Obligations", which requires that the estimated fair value of liabilities for asset retirement obligations be recognized in the period in which they occurred. A corresponding increase in the carrying amount of the related asset is recorded and depreciated over the life of the asset. The estimates used in the valuations are based primarily on legal and regulatory requirements. It is possible that the Company's estimates of its ultimate reclamation and closure liabilities 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 estimate are accounted for prospectively from the period the estimate is revised.

An obligation has not been recorded with respect to the asset retirement obligations for the Company's exploration properties. The mining and processing activities that give rise to the legal obligation have not yet occurred and/or the environmental disturbance which has occurred is not yet significant.

(f) Stock based compensation

The Company has a stock-based compensation plan that is described in Note 6. CICA Handbook, Section 3870, establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments for goods and services. The Section requires that awards of stock be at fair value.

(g) Foreign currencies

Foreign currency accounts are translated into Canadian dollars as follows:

Monetary assets and liabilities are translated into Canadian dollars at the balance sheet date rate of exchange and non-monetary assets and liabilities are converted at historical rates. Revenues and expenses are translated at the average exchange rate for the year. Resulting exchange gains or losses are included in income.

(h) Comprehensive income

The Company applies CICA Handbook Section 1530, "Comprehensive Income" which requires that certain gains and losses arising from changes in fair value be presented in comprehensive income and accumulated other comprehensive income. Comprehensive income would include the following unrealized gains and losses which are potentially relevant to the Company: changes in the currency translation adjustment relating to self-sustaining foreign operations, and unrealized gains and losses on available-for-sale investments.

(i) Financial instruments - recognition and measurement

The Company applies CICA Handbook Section 3855 which establishes standards for the recognition and measurement of financial instruments. It requires all financial instruments within its scope, including derivatives, to be included on a company's balance sheet and measured either at fair value or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. The standard also specifies when gains or losses as a result of changes in fair value are to be recognized in the consolidated statement of operations and comprehensive loss.

The Company's financial instruments recognized in the balance sheet consist of cash and cash equivalents, other receivables and accounts payable. The fair value of these financial instruments approximates the carrying value due to the short maturity or current market rate associated with these instruments.

The Company also applies CICA Handbook Sections 3862 and 3863 relating to Financial Instruments – Disclosure and Presentation. These Sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Company manages those risks.

(j) Capital disclosures

The Company applies CICA Handbook Section 1535 which specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

(k) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the period. Actual results may differ from those estimates.

Adoption of New Accounting Standards

(a) Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted CICA Handbook Section 3064 "Goodwill and Intangible Assets" which establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27 relating to revenues and expenses during the pre-operating period. As a result of this withdrawal, the Company will no longer be able to defer costs and revenues incurred prior to commercial production at new operations. The adoption of this new policy had no impact on the reported results of the Company.

(b) Mining Exploration Costs

On March 27, 2009, the Emerging Issues Committee of the CICA issued EIC – 174 requiring that an entity consider the following criteria in its determination of impairments that may exist in its properties, in addition to those conditions set out in CICA Handbook Section 3063.09 and AcG 11, Paragraphs 15-19, for current and future accounting periods:

- Market value of the underlying commodity that the Company is exploring for has had no long-term, non-temporary decreases
- The entity's book value is in excess of its market value
- The entity's ability to meet future commitments

The existence of any of the above conditions may signify that an impairment exists in the fair value of a company's properties.

Future accounting changes

(a) Convergence with International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board confirmed that the transition to International Financial Reporting Standards ("IFRS") from Canadian GAAP will occur on January 1, 2011, for public entities. The Company has prepared a plan to give effect to this transition, including the selection of accounting policies under IFRS, the accounting treatment of significant items, the preparation of an opening balance sheet at January 1, 2010 and the preparation of interim financial statements under IFRS during 2010 in parallel with Canadian GAAP. In its preliminary assessment, management identified the accounting treatment of deferred exploration costs and asset impairments as possible areas of divergence between IFRS and Canadian GAAP. However, management believes that it can continue with its current approach to accounting for these items and that no material change in reported financial results will result from the introduction of IFRS.

(b) Business combinations.

In January 2009, the CICA issued Handbook Section 1582, "Business combinations," which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. 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 periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

(c) Non-controlling interests

In January 2009, the CICA issued Handbook Section 1602, "Non-controlling interests," which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective for 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

(d) Consolidated financial statements

In January 2009, the CICA issued Handbook Section 1601, "Consolidated financial statements," which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

3. Financial instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments:

	December 31, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents ⁽¹⁾	\$ 569,271	\$ 569,271	\$ 1,718,616	\$1,178,616
Other receivables ⁽²⁾	2,590	2,590	7,876	7,876
Financial Liabilities				
Accounts payable ⁽³⁾	51,850	51,850	38,817	38,817

(1) Cash and cash equivalents are designated as held for trading and are recorded at market value

(2) Other receivables relate primarily to interest receivable on short term bank deposits. They are designated as held for trading and are recorded at market value.

(3) Accounts payable are all short term in nature and are designated as held for trading and are recorded at market value.

The Company is exposed to various credit and market risks associated with its financial instruments. 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. Market risk comprises currency risk, interest rate risk and other price risk.

The Company manages these risks as follows:

- Cash and cash equivalents - With the exception of relatively minor amounts remitted to Peru to fund the ongoing operations of the Company, cash and cash equivalents are on deposit with a major Canadian chartered bank and are not considered to be at risk. The functional currency of the Company is the Canadian dollar. Cash held in other currencies is limited to amounts required to settle immediate obligations in US dollars or Peruvian soles.
- Accounts payable and accrued liabilities - The exposure to market risk relates to changes in exchange rates. The Company does not hedge its future expenditures in Peruvian soles because it believes that there is a degree of correlation between the Canadian and Peruvian currencies based on the significance of mineral resources to both economies, and because the Company is unable to predict with any certainty when future obligations will be met.

The effect of a change in the Cdn\$: US\$ and Cdn\$: Peruvian Soles exchange rates is not considered to be significant given the Company's current expenditure levels.

4. Mineral properties

The Company's principal mineral properties are located in the Department of Ancash, Peru.

Cumulative expenditures on the Culebrilla Property and other properties are set out below.

	Balance Dec. 31, 2007	Spending during 2008	Write downs during 2008	Balance Dec. 31, 2008	Spending during 2009	Write downs during 2009	Balance Dec. 31, 2009
Alicia Property							
<i>Acquisition costs</i>							
Option payments	-	-	-	-	\$ 6,500	\$ -	\$ 6,500
<i>Deferred exploration costs</i>							
Staking & tenure					14,900	-	14,900
Field exploration & travel					47,180	-	47,180
<i>Total – Alicia</i>					68,580	-	68,580
Culebrilla Property							
<i>Acquisition costs</i>							
Finder's fees	\$ 80,000	\$ -	\$ -	\$80,000	\$ -	\$ -	\$ 80,000
Option payments	741,082	-	-	741,082	-	-	741,082
<i>Deferred exploration costs</i>							
Staking & tenure	163,898	19,903	(80,873)	102,928	20,940	(36,025)	87,843
Field exploration & travel	643,781	59,411	(703,192)	-	-	-	-
Consulting & technical reports	71,837	-	(71,837)	-	-	-	-
Assays & geochemical analysis	83,398	3,301	(86,699)	-	-	-	-
<i>Total – Culebrilla</i>	1,783,996	82,615	(942,601)	924,010	20,940	(36,025)	908,925
Other properties							
Letra Rumi South	19,015	78,413	-	97,428	7,560	-	104,988
Vera Luz & Anna Rose	7,982	3,779	(11,761)	-	-	-	-
Pallcamachay & San Jorge	132,622	272,260	(404,882)	-	-	-	-
<i>Total - other</i>	159,619	354,452	(416,643)	97,428	7,560	-	104,988
Total December 31	\$1,943,615	\$ 437,067	\$(1,359,244)	\$1,021,438	\$ 97,080	\$(36,025)	\$1,082,493

Alicia Property

On September 25, 2009, the Company and Panoro Apurimac S.A. (“Panoro”) entered into an Option and Mining Lease Agreement (the “Panoro Agreement”) pursuant to which MSG Peru has the right to acquire up to a 100% interest, subject to a 2% Net Smelter Return Royalty (the “Alicia Royalty”), in the 2,593 hectare Alicia property in the Department of Cusco, approximately 500 km southeast of Lima. The Company issued 100,000 common shares, valued at \$6,500, to Panoro on execution of the Panoro Agreement.

Under the terms of the Panoro Agreement, in order to secure a 55% interest in the Alicia property, the Company is required to: (a) issue 200,000 and 300,000 common shares, respectively, to Panoro on the first and second anniversaries of the execution of the public deed resulting from the Community Agreement (the “Public Deed”); and (b) carry out work expenditures of US\$150,000 and US\$500,000, respectively, at the Alicia property, by the first and second anniversaries of the execution of the Public Deed. MSG Peru is seeking an agreement with the community that has jurisdiction over the surface lands at Alicia in order to establish the Public Deed execution date. To secure the remaining 45% interest in Alicia, the Company is required to (a) issue 400,000 common shares to Panoro on the third anniversary of the execution of the Public Deed, and (b) carry out work expenditures at the Alicia property, aggregating \$1.25 million from the date of completion of the Panoro Agreement to the third anniversary of the execution of the Public Deed. The Company has the right to purchase 50% of the Alicia Royalty for a one-time payment of US\$2.3 million within six months of earning a 100% interest.

Culebrilla Property

MSG Peru holds a 100% interest, subject to a 3% Net Smelter Returns Royalty (the "Culebrilla Royalty"), in Mining Claims Culebrilla 1 and Rosa Mistica 20 and 30 (collectively the "Culebrilla Property"). The Company has the right to buy back two-thirds of the Culebrilla Royalty at any time for the sum of US\$1.0 million for each 1% of Royalty.

The results of an exploration program that focused on the Culebrilla 1, Culebrilla 2 and Rosa Mistica 20 concessions, were inconclusive. The Company wrote down most of the costs associated with these claims as at December 31, 2008 and June 30, 2009 and relinquished certain claims that were subject to penalty payments.

Letra Rumi South Property

MSG Peru holds a 100% interest in the Letra Rumi South property, which is contiguous to the Culebrilla Property and subject to the Culebrilla Royalty.

Other properties

The Company also holds rights in relation to the Vera Luz and Anna Rose properties located in Ancash Department. These are minor properties in which the Company no longer has plans for further exploration activity. Accordingly, all deferred exploration costs were written off as at December 31, 2008.

In 2007, the Company acquired certain mineral rights on two additional properties, Pallcamachay and San Jorge, in Ancash Department. The Company relinquished these rights and wrote down all related deferred development costs at the properties as at December 31, 2008.

5. Fixed assets

	December 31	
	2009	2008
Office equipment, at cost	\$ 26,550	\$ 26,550
Less: accumulated depreciation	16,910	8,052
Net fixed assets	<u>\$ 9,640</u>	<u>\$ 18,498</u>

6. Capital stock

Authorized:

Unlimited number of common shares

Capital stock is made up as follows:

	2009	2008
Warrants	\$ 107,886	\$ -
Common shares (see below)	4,150,457	4,049,713
Balance December 31	<u>\$ 4,258,343</u>	<u>\$ 4,049,713</u>

Issued common shares:

	<u># of Shares</u>	<u>\$ Value</u>
Balance December 31, 2007	23,021,436	4,051,020
Expenses of 2007 issuance	-	(1,307)
Balance December 31, 2008	23,021,436	4,049,713
Issued for interest in mineral property	100,000	6,500
	2,689,000	94,244
Private placement		
Balance December 31, 2009	<u>25,810,436</u>	<u>4,150,457</u>

Private Placement – 2009

On November 30, 2009, the Company closed the initial tranche of a Private Placement financing (“the Private Placement”) of 2,689,000 units at a price of \$0.10 per unit, for gross proceeds of \$268,900 (*Note 15*). Each unit consisted of one common share and one-half of a warrant. Each full warrant entitles the holder to acquire an additional common share at the price of \$0.15 per share for a period of eighteen months following closing of the issue. The value attributed to the shares and warrants was \$178,819 and \$90,081, respectively. Costs of the private placement were \$66,770 including a broker’s finder’s fee of \$24,390 and other costs of \$42,380. In addition, the broker received 243,900 broker warrants. Each broker warrant entitles the broker to acquire one common share of the Company at \$0.10 per share for a period of eighteen months following the closing of the issue. The value attributed to the broker warrants was \$17,805.

Other issuance of common shares - 2009

On October 2, 2009, the Company issued 100,000 common shares at a price of \$0.65 per share to Panoro Apurimac S.A., a wholly owned Peruvian subsidiary of Panoro Minerals Ltd., in settlement of the first installment of the Company’s obligations under an option and lease agreement in respect of the Alicia Property in the department of Cusco, Peru (*Note 4*).

7. Options and warrants

Common share warrants

Under the Private Placement of November 30, 2009, the Company issued 1,344,500 warrants to acquire common shares of the Company at a price of \$0.15 per share for a period of eighteen months after the closing of the issue. The Company also issued 243,900 broker warrants. Each broker warrant entitles the broker to acquire one common share of the Company at \$0.10 per share for a period of eighteen months following the closing of the issue. For purposes of valuation, the fair value of the warrants and broker warrants was estimated at the date of issuance using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 178%; risk free rate of return of 1.05% and an expected life of 1.5 years. The value attributed to the warrants and broker warrants was \$90,081 and \$17,805 respectively.

800,000 warrants, to which no value had been attributed on issuance on October 17, 2008, expired unexercised on April 20, 2009.

A summary of the Company’s warrants at December 31, 2009 and 2008 and of the changes for the years then ended is presented below:

	Warrants Outstanding	Weighted Average Exercise Price \$
At December 31, 2007	7,826,000	0.43
Expired	(7,826,000)	0.43
Issued	800,000	0.60
At December 31, 2008	800,000	0.60
Expired	(800,000)	0.60
Issued in Private Placement	1,344,500	0.15
Broker warrants	243,900	0.10
	<u>1,588,400</u>	<u>0.14</u>

The remaining contractual life of the 1,588,400 warrants outstanding at December 31, 2009 was 17 months.

Options

Agent's options

During 2008, 958,000 agent's options to acquire units of the Company expired unexercised. The value attributable to these options (\$149,608) was transferred to contributed surplus.

A summary of the Company's Agent's options at December 31, 2009 and 2008, and of the changes for the years then ended is presented below:

	Agent's Option Outstanding (Units) ⁽¹⁾	Weighted Average Exercise Price \$
At December 31, 2007	958,000	0.30
Expired	(958,000)	0.30
At December 31, 2008 and 2009	<u>-</u>	<u>-</u>

(1) Each unit comprises one common share and one half-share purchase warrant.

Incentive stock options

The Company has an incentive stock option plan for directors, officers, key employees and consultants. The option price is determined by the Compensation Committee of the Board of Directors and is not less than the closing price of the Company's common shares on the date prior to the date of the grant. The terms of the options may not exceed five years and are subject to earlier expiry upon the termination of employment.

The Company issued 100,000 incentive stock options effective December 31, 2009. For purposes of valuation, the fair value of the options was estimated at the date of issuance using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 178%; risk free rate of return of 2.3% and an expected life of 4 years. No options were issued in 2008.

A summary of the Company's incentive stock options outstanding at December 31, 2009 and 2008 and of the changes for the years then ended is presented below:

	Stock Options Outstanding	Weighted Average Exercise Price \$
At December 31, 2007 and 2008	1,745,000	0.31
Granted	100,000	0.10
At December 31, 2009	<u>1,845,000</u>	<u>0.30</u>

The following table summarizes certain information about stock options outstanding at December 31, 2009:

Exercise Price	Stock Options Outstanding and Exercisable	Remaining Contractual Life
\$0.40	1,170,000	1.9 years
\$0.14	575,000	3.0 years
\$0.10	100,000	5.0 years
	<u>1,845,000</u>	<u>2.41 years</u>

The weighted average fair value of options granted during the year was \$0.09 per share.

The following table summarizes certain information about stock options outstanding at December 31, 2008:

Exercise Price	Stock Options Outstanding and Exercisable	Remaining Contractual Life
\$0.40	1,170,000	2.9 years
\$0.14	575,000	4.0 years
	<u>1,745,000</u>	<u>3.21 years</u>

Loss per share

The loss per share is calculated using the Treasury Stock Method. As a result of net losses in each of the periods, the potential effect of exercising stock options and warrants has not been included in the calculation of loss per share because to do so would be anti-dilutive.

8. Contributed surplus

Balance December 31, 2007	\$ 393,340
Stock based compensation expense	34,284
Transferred to contributed surplus on exercise/expiry of warrants	800,458
At December 31, 2008	<u>1,228,082</u>
Stock based compensation expense	4,650
At December 31, 2009	<u>\$ 1,232,732</u>

9. Capital management

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

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

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

There was no change in the Company's approach to capital management during the year ended December 31, 2009 compared to the year ended December 31, 2008. Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

10. Related party transactions

Included under management fees for the year ended December 31, 2009 is \$108,000 (2008 - \$141,000) in respect of fees for management and administrative services paid to Borland Levand & Associates, a firm in which a director is a principal, and \$22,100 (2008 - \$28,000) in respect of fees for financial consulting services paid to a Graham L. Desson Consulting Inc., a firm in which an officer is a principal.

Included under professional fees for the year ended December 31, 2009, is \$21,129 (2008 - \$45,658) in respect of legal fees paid to Gardiner Roberts LLP, a firm in which a director is a principal. Fees paid during 2009 to the same firm in respect of mineral property acquisitions and financings were \$5,821 and \$2,426, respectively. Included under current liabilities is \$ nil (2008 - \$270) in respect of legal fees accrued or payable to this firm.

All transactions with related parties are established and agreed by the various parties and approximate the exchange amount.

11. Income taxes

The Company has approximately \$1,614,000 in non-capital loss carry forwards which can be used to reduce future taxable income. The losses have not been recognized in these financial statements and will expire in the fiscal years ending on December 31, as follows:

2010	\$ 16,967
2014	5,693
2015	16,782
2026	268,854
2027	449,746
2028	387,113
2029	468,449
	<u>\$ 1,613,604</u>

The Company has future income tax assets at the Company's statutory tax rate of 33.0% (2008-33.5%) as noted below:

	December 31,	
	2009	2008
Loss carryforwards	\$ 558,076	\$ 396,388
Less: Valuation allowance	(558,076)	(396,388)
	<u>\$ -</u>	<u>\$ -</u>

12. Supplemental cash flow information

	Year ended December 31,	
	2009	2008
Net change in non-cash working capital items		
Prepaid expenses and other receivables	\$ (5,834)	\$ (10,998)
Accounts payable and accrued liabilities	13,033	(20,683)
	<u>\$ 7,199</u>	<u>\$ (31,681)</u>
Non-cash investing and financing activities:		
Common shares issued for mineral properties	\$ 6,500	\$ -

13. Segmented information

The Company has no revenues and its only operating segment is the resource sector. All of the Company's mineral properties are in Peru, where cumulative expenditures before write downs at December 31, 2009 were \$2,477,764 (2008 - \$2,380,682).

14. Commitments and contingencies

Office rental

In February 2008, the Company entered into an agreement to lease office premises in Toronto for a five year period commencing June 1, 2008. Annual base rental is \$19,448 in the first year with annual increments of approximately \$450 thereafter. Annual operating costs are estimated to be approximately \$17,400.

Culebrilla surface rights and rehabilitation costs

The Company is currently in negotiations regarding surface rights at the Letra Rumi South Property. The Company is also in discussions with a Peruvian government agency with a view to determining the extent of surface rehabilitation costs at Culebrilla. In both instances, the Company is unable to determine the extent of the liability, but the Company believes that the combined effect will not be material to the financial results of the Company.

15. Subsequent events

Private placement

On January 11, 2010, and January 15, 2010, the Company completed private placements of 50,000 units and 1,150,000 units for gross proceeds of \$5,000 and \$115,000, respectively, at a price of \$0.10 per unit. Each unit consisted of one common share and one-half of a warrant. Each full warrant entitles the holder to acquire an additional common share at the price of \$0.15 per share for a period of eighteen months following closing of the issue.

Options

On January 26, 2010, the Company issued 620,000 options to certain directors, officers and consultants with an exercise price of \$0.10 per share.

CORPORATE INFORMATION

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Stock Exchange

TSX Venture Exchange
Symbol: SRD
As at December 31, 2009:

- 25,810,436 Shares Outstanding
- 29,093,436 Fully Diluted

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Directors and Officers

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*John Gammon, Ph.D.*¹
Director*

Austin Gulliver, Ph.D.
Director*

*William R. Johnstone, LLB*²
Director and Corporate Secretary

Roger Moss, Ph.D., P.Geo.
Consulting Geologist and Director**

John T. Postle, P.Eng.^{1,2}
Director*

*Frank van de Water, CA*¹
Director*

Graham L. Desson, CA, LLB
Chief Financial Officer

- 1 – Audit Committee
- 2 – Disclosure Committee
- * – Independent Director
- ** – Roger Moss, Ph.D., P.Geo.,
is the Qualified Person for the
purpose of this annual report.

Cover photo: historical trenching on the Alicia property
Additional copies of this Annual Report may be obtained upon request to the Head Office.