

STRAIT GOLD CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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

Wasserman Ramsay

Chartered Accountants
Licensed Public Accountants

STRAIT GOLD CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Current		
Cash and cash equivalents <i>(Note 3)</i>	\$ 569,271	\$ 1,178,616
Prepaid expenses and GST receivable	44,055	32,935
Other receivables <i>(Note 3)</i>	2,590	7,876
	615,916	1,219,427
Fixed assets, net of depreciation <i>(Note 5)</i>	9,640	18,498
Mineral properties <i>(Note 4)</i>	1,082,493	1,021,438
	\$ 1,708,049	\$ 2,259,363

LIABILITIES

Current		
Accounts payable and accrued liabilities	\$ 51,850	\$ 38,817
<i>Commitments and contingencies (Note 14)</i>		

SHAREHOLDERS' EQUITY

Capital stock <i>(Notes 6 and 7)</i>	4,258,343	4,049,713
Contributed surplus <i>(Note 8)</i>	1,232,732	1,228,082
Deficit	(3,834,876)	(3,057,249)
	1,656,199	2,220,546
	\$ 1,708,049	\$ 2,259,363

Approved on behalf of the Board

“James S. Borland”

James S. Borland
Director

“Frank van de Water”

Frank van de Water
Director

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

STRAIT GOLD CORPORATION

**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	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
	752,358	596,618
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)
	25,269	1,300,721
Net loss and comprehensive loss for the year	\$ 777,627	\$ 1,897,339
Weighted average number of common shares outstanding - basic and diluted	23,282,116	23,021,436
Loss per share - basic and diluted	\$ 0.03	\$ 0.08

**CONSOLIDATED STATEMENTS OF DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	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	\$ 3,834,876	\$ 3,057,249

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

STRAIT GOLD CORPORATION

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	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)
	(720,895)	(527,881)
Investing		
Fixed asset additions	-	(18,279)
Expenditures on mineral properties	(90,580)	(477,161)
	(90,580)	(495,440)
Financing		
Issuance of common shares and warrants	202,130	-
Financing costs	-	(1,307)
	202,130	(1,307)
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	\$ 569,271	\$ 1,178,616

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

STRAIT GOLD CORPORATION

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.

Management has determined that there was no impairment of carrying value at December 31, 2009 and 2008.

(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:

	# of Shares	\$ Value
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
Private placement	2,689,000	94,244
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:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
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.