

EAGLECREST EXPLORATIONS LTD.

(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010 and 2009

(Expressed in Canadian Dollars)



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Auditors' Report

To the Shareholders of
Eaglecrest Explorations Ltd.
(A Development Stage Company)

We have audited the consolidated balance sheets of Eaglecrest Explorations Ltd. (A Development Stage Company) (the "Company") as at September 30, 2010 and 2009 and the consolidated statements of operations and 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. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Canada LLP"

Chartered Accountants

Vancouver, British Columbia
January 31, 2011

EAGLECREST EXPLORATIONS LTD.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS
September 30, 2010 and 2009
(Expressed in Canadian Dollars)

	<u>ASSETS</u>	<u>2010</u>	<u>2009</u> (Restated - Note 17)
Current			
Cash	\$	853,679	\$ 655,721
Receivables		32,221	30,123
Prepaid expenses and deposits		<u>27,491</u>	<u>35,136</u>
		913,391	720,980
Property, plant and equipment - Note 3		39,427	38,998
Other deferred property charges – Note 4		6,642	-
Resource properties - Schedule 1, Notes 5 and 17		<u>62,012,705</u>	<u>62,441,869</u>
	\$	<u>62,972,165</u>	\$ <u>63,201,847</u>

LIABILITIES

Current			
Accounts payable and accrued liabilities – Notes 7 and 8	\$	585,674	\$ 483,547
Future income tax liability – Notes 11 and 17		16,537,000	17,523,000
Asset retirement obligation – Note 2		<u>80,000</u>	<u>80,000</u>
		<u>17,202,674</u>	<u>18,086,547</u>

SHAREHOLDERS' EQUITY

Share capital - Note 8(b)	71,060,057	67,689,035
Share subscriptions - Note 8(f)	1,156,000	1,156,000
Share subscriptions receivable – Note 8(h)	-	(276,178)
Contributed surplus – Note 8(i)	4,481,337	3,352,521
Deficit	<u>(30,927,903)</u>	<u>(26,806,078)</u>
	<u>45,769,491</u>	<u>45,115,300</u>
	\$ <u>62,972,165</u>	\$ <u>63,201,847</u>

Nature of Operations and Ability to Continue as a Going Concern – Note 1
Commitments – Notes 4, 5, 8 and 14
Subsequent Events – Notes 8 and 15

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

<hr style="border: 0; border-top: 1px solid black; margin-bottom: 5px;"/> Director Tom Pladsen	<hr style="border: 0; border-top: 1px solid black; margin-bottom: 5px;"/> Director Chris McKellar
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SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EAGLECREST EXPLORATIONS LTD.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
For the Years Ended September 30, 2010 and 2009
(Expressed in Canadian Dollars)

	<u>2010</u>	<u>2009</u>
Expenses:		
Accounting and audit	\$ 44,352	\$ 47,343
Administration – Note 7	120,000	120,000
Advertising	1,409	-
Amortization	5,152	6,936
Bank charges	2,440	2,513
Consulting	102,331	136,437
Corporate development – Note 7	359,950	188,551
Filing fees	47,971	27,162
Foreign exchange loss (gain)	19,285	(15,660)
Insurance	27,533	44,787
Interest on convertible debenture – Note 6	-	117,320
Legal – Note 7	58,810	32,005
Management fees – Note 7	187,515	212,069
Office and printing	91,119	80,758
Shareholders information	15,175	10,081
Stock-based compensation – Note 8	811,191	-
Transfer agent	30,911	11,651
Travel and promotion	<u>175,845</u>	<u>105,595</u>
Loss before other items	(2,100,989)	(1,127,548)
Other items:		
Gain (write-off) on property, plant and equipment	7,603	(703)
Due diligence on general mineral property	(28,897)	-
Write off of mineral properties – Note 5	(3,199,542)	-
Debt settlement expense – Note 6	-	(478,704)
Interest income	<u>-</u>	<u>346</u>
Loss before income taxes	(5,321,825)	(1,606,609)
Recovery of future income taxes – Note 11	<u>1,200,000</u>	<u>-</u>
Net loss and comprehensive loss for the year	(4,121,825)	(1,606,609)
Settlement of convertible debt – Note 6	-	(461,452)
Deficit - beginning of year	<u>(26,806,078)</u>	<u>(24,738,017)</u>
Deficit - end of year	<u>\$ (30,927,903)</u>	<u>\$ (26,806,078)</u>
Basic and diluted loss per common share - Note 2	<u>\$ (0.09)</u>	<u>\$ (0.04)</u>
Weighted-average number of common shares outstanding	<u>46,821,518</u>	<u>38,223,420</u>

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EAGLECREST EXPLORATIONS LTD.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2010 and 2009
(Expressed in Canadian Dollars)

	<u>2010</u>	<u>2009</u>
Cash provided by (used in):		
Operating Activities		
Net loss for the year	\$ (4,121,825)	\$ (1,606,609)
Items not affecting cash:		
Accretion of convertible debenture	-	73,051
Amortization	5,152	6,936
Debt settlement expense	-	478,704
Foreign exchange adjustments	-	74,833
Gain (write-off) on property plant and equipment	(7,603)	703
Recovery of future income taxes	(1,200,000)	-
Stock-based compensation	811,191	-
Write-off of mineral properties	<u>3,199,542</u>	<u>-</u>
	(1,313,543)	(972,382)
Net change in non-cash working capital items:		
Receivables	(2,098)	180,065
Prepaid expenses and deposits	7,645	16,783
Accounts payable and accrued liabilities	<u>(94,372)</u>	<u>(321,386)</u>
	<u>(1,402,368)</u>	<u>(1,096,920)</u>
Financing Activities		
Subscription receivable	112,938	-
Shares subscribed	-	269,754
Cash received for capital stock issued (net)	<u>3,347,208</u>	<u>2,560,500</u>
	<u>3,460,146</u>	<u>2,830,254</u>
Investing Activities		
Property, plant and equipment expenditures	(22,818)	(2,914)
Proceeds on sale of property, plant and equipment	18,900	-
Other deferred property expenditures	(6,642)	-
Resource property expenditures	<u>(1,849,260)</u>	<u>(1,840,144)</u>
	<u>(1,859,820)</u>	<u>(1,843,058)</u>
Increase (decrease) in cash	197,958	(109,724)
Cash - beginning of year	<u>655,721</u>	<u>765,445</u>
Cash - end of year	<u>\$ 853,679</u>	<u>\$ 655,721</u>

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EAGLECREST EXPLORATIONS LTD.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2010 and 2009
(Expressed in Canadian Dollars)

	<u>2010</u>	<u>2009</u>
Supplemental disclosure of non-cash financial and investing activities		
Cash paid for:		
Interest	\$ <u> -</u>	\$ <u> 97,979</u>
Income taxes	\$ <u> -</u>	\$ <u> -</u>

Non-cash Transactions – Note 13

EAGLECREST EXPLORATIONS LTD.
(A Development Stage Company)
CONSOLIDATED SCHEDULE OF RESOURCE PROPERTY COSTS
For the Years Ended September 30, 2010 and 2009
(Expressed in Canadian Dollars)

	September 30, 2008 (Restated – Note 17)	Additions During the Period (Restated – Note 17)	September 30, 2009 (Restated – Note 17)	Additions During the Period	September 30, 2010
Bolivia:					
San Simon Zone					
Acquisition costs	\$ 4,279,809	\$ 113,791	\$ 4,393,600	\$ 71,245	\$ 4,464,845
Administration and office	447,863	175,679	623,542	69,430	692,972
Assays	772,303	79,856	852,159	115,931	968,090
Camp costs	1,848,635	124,276	1,972,911	148,449	2,121,360
Consulting fees	3,840,146	669,264	4,509,410	269,254	4,778,664
Drilling	2,454,918	-	2,454,918	-	2,454,918
Mapping	122,400	-	122,400	1,487	123,887
Equipment rental	1,173,624	41,626	1,215,250	46,070	1,261,320
Environmental	11,957	9,673	21,630	10,009	31,639
Field costs	738,319	-	738,319	770	739,089
Geophysical and surveys	189,608	3,918	193,526	2,776	196,302
Professional fees	217,391	-	217,391	-	217,391
Sampling and analysis	132,529	-	132,529	-	132,529
Wages	750,769	279,272	1,030,041	383,809	1,413,850
Travel/transportation	521,788	59,774	581,562	67,578	649,140
Underground development	3,958,198	-	3,958,198	-	3,958,198
Vehicle maintenance	393,251	-	393,251	-	393,251
Write-off mineral property costs	-	-	-	(1,809,585)	(1,809,585)
	<u>21,853,508</u>	<u>1,557,129</u>	<u>23,410,637</u>	<u>(622,777)</u>	<u>22,787,860</u>
Dona Amelia Zone					
Acquisition costs	246,333	65,125	311,458	83,985	395,443
Administration and office	1,662,222	235,820	1,898,042	66,408	1,964,450
Amortization	910,335	99,310	1,009,645	5,941	1,015,586
Assays	1,531,451	79,110	1,610,561	2,422	1,612,983
Camp costs	1,336,056	101,874	1,437,930	71,398	1,509,328
Consulting fees	4,312,500	352,543	4,665,043	177,713	4,842,756
Drilling	14,357,111	3,991	14,361,102	-	14,361,102
Environmental	309,215	16,336	325,551	10,009	335,560
Mapping	66,119	441	66,560	1,737	68,297
Equipment rental	1,182,943	38,146	1,221,089	22,512	1,243,601
Field costs	2,176,362	-	2,176,362	770	2,177,132
Geophysical and surveys	77,550	4,603	82,153	2,776	84,929
Supplies	159,349	-	159,349	-	159,349
Travel/transportation	788,364	37,579	825,943	25,200	851,143
Underground development	5,934,895	-	5,934,895	-	5,934,895
Wages	2,626,326	168,650	2,794,976	67,925	2,862,901
Write-off mineral property costs	-	-	-	(60,072)	(60,072)
Recovery – gold concentrates	(1,017,004)	13,192	(1,003,812)	-	(1,003,812)
	<u>36,660,127</u>	<u>1,216,720</u>	<u>37,876,847</u>	<u>478,724</u>	<u>38,355,571</u>

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EAGLECREST EXPLORATIONS LTD.
(A Development Stage Company)
CONSOLIDATED SCHEDULE OF RESOURCE PROPERTY COSTS
For the Years Ended September 30, 2010 and 2009
(Expressed in Canadian Dollars)

	September 30, <u>2008</u> (Restated – Note 17)	Additions During the <u>Period</u> (Restated – Note 17)	September 30, <u>2009</u> (Restated – Note 17)	Additions During the <u>Period</u>	September 30, <u>2010</u>
Bolivia:					
Marco Maria Zone					
Acquisition costs	323,960	32,557	356,517	29,329	385,846
Administration and office	13,033	11,763	24,796	4,258	29,054
Camp costs	7,476	8,505	15,981	5,590	21,571
Consulting fees	11,159	11,892	23,051	5,733	28,784
Equipment rental	7,131	1,991	9,122	-	9,122
Mapping	-	-	-	125	125
Professional fees	10,701	-	10,701	-	10,701
Field costs	1,723	174	1,897	-	1,897
Travel/transportation	1,367	2,733	4,100	2,008	6,108
Wages	-	27,769	27,769	22,330	50,099
Write-off mineral property costs	-	-	-	(543,307)	(543,307)
	<u>376,550</u>	<u>97,384</u>	<u>473,934</u>	<u>(473,934)</u>	<u>-</u>
Dona Angela					
(Campo Nuevo) Zone					
Acquisition costs	220,497	49,528	270,025	61,601	331,626
Administration and office	30,043	18,451	48,494	3,805	52,299
Assays	13,730	6,141	19,871	-	19,871
Camp costs	51,893	21,914	73,807	5,670	79,477
Consulting fees	35,550	26,154	61,704	6,855	68,559
Equipment rental	40,274	11,943	52,217	127	52,344
Environmental	632	-	632	-	632
Field costs	27,552	688	28,240	-	28,240
Mapping	2,777	-	2,777	125	2,902
Professional fees	3,147	-	3,147	-	3,147
Travel/transportation	12,180	11,938	24,118	2,349	26,467
Wages	28,567	66,852	95,419	25,595	121,014
Write-off mineral property costs	-	-	-	(786,578)	(786,578)
	<u>466,842</u>	<u>213,609</u>	<u>680,451</u>	<u>(680,451)</u>	<u>-</u>

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EAGLECREST EXPLORATIONS LTD.
(A Development Stage Company)
CONSOLIDATED SCHEDULE OF RESOURCE PROPERTY COSTS
For the Years Ended September 30, 2010 and 2009
(Expressed in Canadian Dollars)

	September 30, <u>2008</u> (Restated – Note 17)	Additions During the <u>Period</u> (Restated – Note 17)	September 30, <u>2009</u> (Restated – Note 17)	Additions During the <u>Period</u>	September 30, <u>2010</u>
Columbia:					
Fredonia					
Acquisition costs	-	-	-	711,722	711,722
Administration and office	-	-	-	22,778	22,778
Consulting fees	-	-	-	52,610	52,610
Field costs	-	-	-	54,065	54,065
Supplies	-	-	-	9,920	9,920
Travel/transportation	-	-	-	18,179	18,179
	<u>-</u>	<u>-</u>	<u>-</u>	<u>869,274</u>	<u>869,274</u>
Total Bolivia	59,357,027	3,084,842	62,441,869	(1,298,438)	61,143,431
Total Columbia	<u>-</u>	<u>-</u>	<u>-</u>	<u>869,274</u>	<u>869,274</u>
All total	<u>\$ 59,357,027</u>	<u>\$ 3,084,842</u>	<u>\$ 62,441,869</u>	<u>\$ (429,164)</u>	<u>\$ 62,012,705</u>

EAGLECREST EXPLORATIONS LTD.
(A Development Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010 and 2009
(Expressed in Canadian Dollars unless otherwise indicated)

Note 1 Nature of Operations and Ability to Continue as a Going Concern

The Company was incorporated under the laws of the Province of British Columbia on January 20, 1981 and its shares are listed for trading on the TSX Venture Exchange (“Exchange”).

The Company is in the development stage and is in the process of exploring and developing its resource properties in Itenez Province, Bolivia and in Columbia and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for resource properties and related deferred exploration expenditures is dependent upon the discovery of economically recoverable reserves, confirmation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development of the resource properties and upon future profitable production or proceeds from the disposition thereof.

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At September 30, 2010, the Company had not yet achieved profitable operations, has accumulated losses of \$30,927,903 (2009: \$26,806,078) since its inception and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

Note 2 Summary of Significant Accounting Policies

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (“GAAP”) in Canada and are stated in Canadian dollars. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates, which have been made using careful judgment. Actual results may differ from these estimates.

Principles of Consolidation

These consolidated financial statements have, in management’s opinion, been properly prepared within the framework of the significant accounting policies summarized below:

Note 2 Summary of Significant Accounting Policies – (cont'd)

Principles of Consolidation – (cont'd)

These consolidated financial statements include the accounts of Eaglecrest Explorations Ltd. and its wholly owned subsidiary Eaglecrest Exploration Bolivia SA, a company incorporated in Bolivia. All significant inter-company transactions and balances have been eliminated.

Resource Properties

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse.

All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

These costs are depleted over the useful lives of the properties upon the commencement of commercial production, or written off if the properties are abandoned or the claims are allowed to lapse.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

Management's estimates of mineral prices, recoverable proven and probable reserves and operating capital and reclamation costs are subject to certain risks and uncertainties which may affect the recoverability of mineral property costs. Although management has made its best estimate of these factors, it is possible that changes could occur in the near term that could adversely affect management's estimate of the net cash flow to be generated from its properties.

The acquisition of title to mineral properties is a detailed and time-consuming process. The Company has taken steps, in accordance with industry standards, to verify mineral properties in which it has an interest. Although the Company has taken every precaution to ensure that legal title to its properties is properly recorded in the name of the company, there can be no assurance that such title will ultimately be secured.

Note 2 Summary of Significant Accounting Policies – (cont'd)

Resource Properties – (cont'd)

Administrative costs, along with costs related to the determination of the feasibility of a project, are expensed as incurred.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost and amortized over their estimated useful economic lives using the declining balance method at annual rates of 30% for office equipment, automotive and field equipment and 20% for office furniture.

Property, plant and equipment acquired in a fiscal year are amortized at one-half of the annual rate.

Foreign Currency Translation

The Company's foreign operations are considered integrated with those of the Company's domestic operations.

The Company translates its accounts denominated in foreign currencies as follows: monetary assets and liabilities at the rate of exchange in effect at the balance sheet date and non-monetary assets and liabilities at their applicable historical rates. Revenues and expenses are translated at rates prevailing at the date of the transaction except for amortization which is translated at historical rates.

Exchange gains and losses from the translation of foreign currencies are recognized in the period in which they occur.

Share Issue Costs

Costs incurred for the issue of common shares are deducted from share capital or the balance of share subscriptions prior to the issuance of the shares. Shares issued for consideration other than cash are valued at the quoted market price on the date the agreement to issue the shares was reached.

Stock-based Compensation

The Company records a compensation cost attributable to all share options granted at fair value at the grant date using the Black-Scholes valuation model and the cost is expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

Note 2 Summary of Significant Accounting Policies – (cont'd)

Basic and Diluted Loss Per Share

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation, as the effect would be anti-dilutive. Basic and diluted loss per share are the same for the years presented.

For the year ended September 30, 2010, potentially dilutive common shares (relating to options and warrants outstanding at year-end) totaling 14,646,256 (2009: 9,255,228 post-consolidation) were not included in the computation of loss per share because their effect was anti-dilutive.

Future Income Taxes

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

Asset Retirement Obligations

The Company records a liability for the fair value of the statutory, contractual or legal asset retirement obligations (“ARO”) associated with the retirement and reclamation of tangible long-lived assets in the period in which it is incurred, with a corresponding increase to the carrying amount of the related assets. This corresponding increase to capitalized costs is amortized to earnings on a basis consistent with depreciation, depletion, and amortization of the underlying assets. Subsequent changes in the estimated fair value of the ARO are capitalized and amortized over the remaining useful life of the underlying asset. The ARO liabilities are carried on the consolidated balance sheet at their discounted present value and are accreted over time for the change in their present value, with this accretion charge included in depreciation, depletion and amortization.

As at September 30, 2010, the Company has recorded \$80,000 (2009: \$80,000) as an estimated asset retirement obligation.

Note 2 Summary of Significant Accounting Policies – (cont'd)

Impairment of Long-Lived Assets

Long-lived assets and intangibles to be held and used by the Company are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Except as described in Note 5, management believes there has been no impairment of the Company's long-lived assets as at September 30, 2010 and 2009.

Environmental Expenditures

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly from country to country and are not predictable. The Company's policy is to meet or, if possible, surpass environmental standards set by relevant legislation by the application of technically proven and economically feasible measures.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against operations as incurred or capitalized and amortized depending on their expected future economic benefit. Estimated future removal and site restoration costs are recognized when the ultimate liability is reasonably determinable and are charged against operations over the estimated remaining life of the related business operations, net of expected recoveries.

Financial Instruments Recognition & Measurement

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of changes in the fair value of financial instruments depends on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, investments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, derecognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately.

Note 2 Summary of Significant Accounting Policies – (cont'd)

Adoption of New Accounting Standards

General Accounting

CICA Handbook Section 1000 has been amended to focus on the capitalization of costs that meet the definition of an asset and de-emphasizes the matching principle. The revised requirements have been adopted effective for annual and interim financial statements from October 1, 2009. The adoption of this standard did not have a material impact on these financial statements.

Cash Distributions

CICA Handbook Section 1540, Cash Flow Statements, has been amended to require additional disclosures where cash distributions are made in accordance with a contractual obligation for cash distributions. The adoption of this section has not resulted in any changes on the disclosure within the financial statements.

Goodwill and Intangible Assets

The AcSB issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company has adopted the new standards for its fiscal year beginning October 1, 2008. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this new section had no impact on the Company's financial statements.

Assessing Going Concern

The Canadian Accountability Standards Board ("AcSB") AcSB amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this Section did not result in any changes on the disclosure within the financial statements.

Note 2 Summary of Significant Accounting Policies – (cont'd)

Adoption of New Accounting Standards – (cont'd)

Financial Instruments

CICA Handbook Section 3862, “Financial Instruments – Disclosures” was amended in June 2009. It establishes revised standards for the disclosure of financial instruments. The new standard established a three-tier hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Company’s investments. The hierarchy of inputs and description of inputs is described as follows:

- Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair values are based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
- Level 3 – fair values are based on inputs for the asset or liability that are not based on observable market data, which are unobservable inputs.

Changes in valuation methods may result in transfers into or out of an investment’s assigned level. During the year ended September 30, 2010, there were no significant transfers between level 1 and 2. The Company has classified its financial instruments as follows:

- Cash is classified as held-for-trading.
- Receivables are classified as loans and receivables.
- Accounts payable and accrued liabilities are classified as other liabilities.

The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

Note 2 Summary of Significant Accounting Policies – (cont'd)

Future Accounting Pronouncements

Business Combination, Non-controlling Interest and Consolidation

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, (“Section 1582”), 1601, Consolidated Financial Statements, (“Section 1601”) and 1602, Non-controlling Interests, (“Section 1602”) which replaces CICA handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning October 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time.

International Financial Reporting Standards (“IFRS”)

In 2006, AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of October 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. While the Company has begun assessing the adoption of IFRS for 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Note 3 Property, Plant and Equipment

	<u>September 30, 2010</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Office equipment	\$ 105,408	\$ 83,946	\$ 21,462
Field equipment	40,964	39,894	1,070
Automotive	73,748	56,853	16,895
Recovery mill	<u>872,863</u>	<u>872,863</u>	<u>-</u>
	<u>\$ 1,092,983</u>	<u>\$ 1,053,556</u>	<u>\$ 39,427</u>

Note 3 Property, Plant and Equipment – (cont'd)

	September 30, 2009		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Office equipment	\$ 105,182	\$ 79,220	\$ 25,962
Field equipment	40,964	39,436	1,528
Automotive	86,265	74,757	11,508
Recovery mill	<u>872,863</u>	<u>872,863</u>	<u>-</u>
	<u>\$ 1,105,274</u>	<u>\$ 1,066,276</u>	<u>\$ 38,998</u>

Note 4 Other Deferred Property Charges

On September 30, 2010, the Company signed a Letter Of Intent (“LOI”) to acquire up to a 75% interest in the mineral title of the Venecia Project, located in Antioquia, Colombia. Management is in the process of performing its due diligence and working on finalizing a definitive agreement. All preliminary expenditures relating to the Venecia have been deferred. In the event the transaction is not completed, all expenditures deferred will be expensed at that time.

The Company can acquire a 75% interest in the Venecia Project as follows:

<u>Date</u>	<u>Expenditures (US\$)</u>	<u>Common Shares or Warrants Issuance</u>	<u>Cash (US\$)</u>	<u>Interest Earned (%)</u>
Upon signature of Letter of Intent (“LOI”)	\$ -	-	\$ 30,000 ⁽ⁱ⁾	-
During six months after TSX-V’s acceptance of the LOI	50,000	-	-	-
Upon signature of* Definitive Agreement (the “Signature Date”)	-	250,000 shares and 250,000 warrants**	-	12.5%
At the end of the 12 months after the Signature Date	950,000	125,000 shares and 125,000 warrants***	80,000	25.0%
During 24 months after the Signature Date	1,000,000	125,000 shares and 125,000 warrants***	75,000	37.5%
During 36 months after the Signature Date	<u>1,000,000</u>	<u>125,000 shares and 125,000 warrants***</u>	<u>350,000</u>	<u>75.0%</u>
Total	<u>\$ 3,000,000</u>		<u>\$ 535,000</u>	<u>75.0%</u>

Note 4 Other Deferred Property Charges – (cont'd)

- * The Definitive Agreement must be signed by March 31, 2011.
- ** Each warrant will have an exercise price equal to the market price on the last trading day preceding the date of issue of a news release regarding the Definitive Agreement (the “Minimum Exercise Price”) plus a 25% premium. The warrants will have an expiry date of 2 years.
- *** Each warrant will have an exercise price equal to the greater of the closing price of the Company’s common shares at the date of execution plus a 25% premium or the Minimum Price plus a 25% premium. The warrants will have an expiry date of 2 years.
- (i) By agreement with both parties, time for payment was extended to December 20, 2010 (paid subsequently).

In the event that any of the above-noted expenditures are not made within the timeframe specified above, the Company will be required to pay the portion of expenditures unspent directly to the optionor in cash.

Upon acquisition of a 75% interest in the Venecia Project, the parties intend to form a 75/25 joint venture and funding of further exploration and development of the project will be based on the parties’ percentage interest. Or, the optionor can choose to sell its interest in the project at its fair market value or have the Company fund the optionor’s share of expenses, in which event, the Company will receive 100% of proceeds from production until it has been repaid such funds plus interest at the U.S. prime rate plus 5%.

The Option Agreement is subject to acceptance by the TSX Venture Exchange.

Note 5 Resource Properties

The Company’s resource properties are located in Bolivia and Colombia, South America and its interest in these resource properties is maintained pursuant to agreements with the titleholders. The Company is satisfied that evidence of title to each of its resource properties is adequate and acceptable by prevailing Bolivian and Columbian standards with respect to the current stage of exploration on these properties, however, recoverability of amounts shown for resource properties are subject to confirmation of the Company’s interest in the underlying resource properties.

Bolivia:

San Simon and Dona Amelia Zones

Pursuant to a formal agreement (the San Simon Agreement) executed in fiscal 1999 and subsequently amended, the Company owns the right to acquire 100% of all production from eleven mineral concessions. Total consideration paid to acquire this right was US\$600,000.

These eleven mineral concessions are subject to a 3% net smelter returns royalty, of which the Company can purchase 1% for US\$500,000 and a second 1% for US\$750,000.

Note 5 Resource Properties – (cont'd)

Bolivia: – (cont'd)

San Simon and Dona Amelia Zones – (cont'd)

On April 15, 2003 San Simon Resources Ltd. (“SSR”) and the Company entered into an agreement by which the Company acquired from SSR an 80% interest in production from seven non-core mineral concessions and the right to acquire one additional mineral concession (known as the California concession) by incurring US\$500,000 in mineral exploration expenditures over two years (incurred) and reimbursing SSR certain costs aggregating US\$10,000 (paid).

The Company also entered into a separate agreement on June 9, 2003 with the underlying owner of the California concession whereby it paid US\$48,000 and issued 200,000 common shares to obtain a 100% interest in this concession.

These concessions are subject to a 3% net smelter returns royalty, of which the Company can purchase 1% for US\$500,000 and a second 1% for US\$1,000,000. The Company advanced US\$250,000 during the year ended September 30, 2007 as collateral for payment of exploration services to be provided. This amount was fully expensed during the year ended September 30, 2008.

By an agreement dated November 16, 2007, the Company had a 50 year option to acquire an additional mineral concession in the San Simon zone in Bolivia, South America for US\$25,000 (paid) and US\$25,000 within six months of delivery of samples by the optionor. The option was terminated by the Company during the year ended September 30, 2008 without payment of the 2nd US\$25,000. The initial US \$25,000 paid was recorded as a part of general exploration costs.

During the year ended September 30, 2010, certain concessions on San Simon and Dona Amelia Zones have been abandoned and \$1,809,585 (2009: \$nil) and \$60,072 (2009: \$nil) in related deferred costs have been written off, respectively.

Marco Maria Zone

Pursuant to an agreement (the Marco Maria Agreement) signed during fiscal 1999, the Company acquired the right to 100% of all production from eight mineral concessions located contiguous to the existing San Simon mineral concessions. Total consideration paid to acquire this right was US\$50,000 plus the issuances of 650,000 common shares.

These concessions are subject to a 3% net smelter royalty of which the Company can purchase 1% for US\$500,000 and a second 1% for US\$1,000,000.

During the year ended September 30, 2010, the Marco Maria concessions have been abandoned and \$543,307 (2009: \$nil) in related deferred costs have been written off.

Note 5 Resource Properties – (cont'd)

Bolivia: – (cont'd)

Dona Angela (Campo Nuevo) Zone

Pursuant to an agreement signed March 2, 2001, the Company has acquired the right to 100% of all production from 13 concessions located to the north, east and west of the Company's existing holdings at the San Simon property. The Company had originally agreed to pay US\$95,000 (US\$20,000 paid) to the optionor prior to July 31, 2003.

Pursuant to an amending agreement signed in August, 2003, the Company has agreed to pay the optionor the remaining US\$75,000 (US\$37,500 paid) and incur annual exploration expenditures until production of US\$100,000. The optionor agreed to accept 375,000 common shares (issued by the Company) at a price of US\$0.10 for the remaining US\$37,500. The agreement also calls for annual payments until production of US\$20,000, commencing in fiscal 2005, to the optionor. In 2007, the payment was renegotiated down to US\$10,000 per annum. Payments totaling US\$70,000 have been paid to date and the next payment of US\$10,000 is due October, 2010.

These concessions are subject to a 3% net smelter royalty of which the Company can purchase 1% for US\$1,000,000 and a second 1% for US\$2,000,000.

During the year ended September 30, 2010, the Dona Angela concessions have been abandoned and \$786,578 (2009: \$nil) in related deferred costs have been written off.

Colombia:

Fredonia

Pursuant to an agreement signed in August, 2010, the Company has an option to acquire up to a 75% interest in the mineral title of the 15,000 hectare Fredonia Area located in Antioquia, Colombia.

Note 5 Resource Properties – (cont'd)

Colombia: – (cont'd)

Fredonia – (cont'd)

The Company can acquire a 75% interest in the Fredonia Property as follows:

<u>Date</u>	<u>Expenditures (US\$)</u>	<u>Common Shares or Warrants Issued</u>	<u>Cash (US\$)</u>	<u>Interest Earned (%)</u>
Upon signature of Letter of Intent (“LOI”)	\$ 52,500	-	\$ 10,000	-
By September 28, 2010	-	1,000,000 shares and 1,000,000 warrants*	-	-
	\$97,500 (paid Via issuance of 319,922 shares)			
By October 28, 2010	\$ 32,500 ⁽ⁱ⁾	319,922 shares	-	-
By March 28, 2011	47,500	-	50,000	12.5%
By September 28, 2011	902,500	-	27,500	25.0%
By September 28, 2012	1,100,000	-	-	50.0%
By September 28, 2013	<u>600,000</u>	<u>-</u>	<u>-</u>	<u>50.0%</u>
Total	<u>\$ 2,832,500</u>		<u>\$ 87,500</u>	<u>50.0%</u>
By September 28, 2018, upon completion of a positive feasibility study				<u>75.0%</u>

* Each warrant exercisable to purchase an additional share of the Company at \$0.40 per share expiring September 28, 2012. . The fair value of warrants issued was estimated using the Black-Scholes option valuation model with the following assumptions; risk-free interest rate 1.39%; expected dividend yield – Nil; expected stock price volatility 200.04%; and expected warrant life of 2.0 years.

(i) By agreement with both parties, time for payment was extended to January, 2011 (paid subsequently).

In the event that any of the above-noted expenditures are not made within the timeframe specified above, the Company will be required to pay the portion of expenditures unspent directly to the Optionor in cash.

By December 27, 2013 the Company must deliver to the Optionor written notice (the “Study Notification”) of the Company’s intention to fund the preparation of a feasibility study, which must be completed by December 27, 2018. In order to maintain its 75% interest, the Optionor must incur a minimum in exploration expenses of US\$250,000 during each one-year period after the Study Notification until the earlier of: (i) completion of the Feasibility Study; or (ii) the end of such five year period.

Note 5 Resource Properties – (cont'd)

Colombia: – (cont'd)

Fredonia – (cont'd)

In the event the Company does not meet this expenditure requirement in any such one-year period, the Company may maintain its 75% interest by issuing shares to the Optioner with a value equivalent to the difference between the amount spent during that year and the US\$250,000 minimum, provided that such shares shall be valued at the closing price on the TSX Venture Exchange on the last trading day before the applicable anniversary of the Study Notification date.

After completion of a detailed feasibility study (National Instrument 43-101 compliant), each party will be required to fund its pro-rata share of development costs. During the duration of the Definitive Agreement, the Company will be responsible for all expenditures related to concession maintenance, including canon payments and insurance policies.

Upon acquisition of a 75% interest in the Fredonia Property, the parties will form a 75/25 joint venture and funding of further exploration and development of the project will be based on the parties' percentage interest. If the Optionor chooses not to contribute to funding such work its interest will be diluted based on an industry standard dilution formulae to a minimum 2.5% net smelter royalty.

Note 6 Convertible Debenture

In August 2007, the Company completed a non-secured convertible debenture financing in the amount of \$632,580 (US\$600,000). The term of the debenture was two years and matured on August 8, 2009 bearing an interest rate of 12% per annum. The lender had the option to convert any or all of the principal balance into conversion units at a deemed price of US\$0.165 per unit. A conversion unit consisted of one common share of the Company and one warrant. Each warrant had a term expiring on August 8, 2009 and was exercisable to purchase one common share of the Company at US\$0.165 per share, which would total 3,636,364 shares.

The Company used the fair value method and recorded \$436,662 (US\$414,172) to the liability component and \$195,918 (US\$185,828) to the equity component as determined by the Black-Scholes Option Valuation Model with the following assumptions:

	<u>Conversion Option</u>
Expected dividend yield	0%
Expected volatility	76.02%
Risk-free interest rate	4.67%
Expected term in years	2 years

Note 6 Convertible Debenture – (cont'd)

On June 25, 2009, a debt settlement agreement was reached to repay the principal amount of US\$600,000 through the issuance by the Company to the debtor 12,000,000 units at the fair value of US\$0.05 per unit (issued). Each unit consisted of one common share of the Company and one share purchase warrant exercisable at US\$0.10 per share to purchase an additional share of the Company until October 19, 2010. The 8,363,636 incremental shares were valued at \$480,156 (US\$418,182) and allocated \$461,452 (US\$401,892) to the equity component and \$18,704 (US\$16,290) to debt settlement expense during the year ended September 30, 2009. The incremental value of the warrants was calculated as \$460,000 using the Black-Scholes option valuation model with the following assumptions; risk-free interest rate 1.50%; expected dividend yield – Nil; expected stock price volatility 199% - 236%; and expected warrant life of 0.1 – 2.0 years. This amount has been included in debt settlement expense for the year ended September 30, 2009.

Also, pursuant to the debt settlement agreement, a cash payment of US\$90,038 was made during the year ended September 30, 2009 to satisfy the accrued interest up to the date of the agreed settlement.

Over the term of the debenture, the liability was accreted to its face value. During the year ended September 30, 2009, total interest recorded amounted \$117,320 (US\$106,438); \$44,269 (US\$35,068) was paid as part of US\$90,038 above and \$73,051 (US\$71,370) was accreted.

During the year ended September 30, 2009, as a result of the early conversion of the loan, \$1,349,388 was credited to share capital as follows: \$673,314 (US\$576,210) from the liability component of the loan; \$264,802 (US\$214,799) to contributed surplus; \$461,452 (US\$401,892) from deficit; and \$478,704 (US\$416,917) of debt settlement expense.

Note 7 Related Party Transactions

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the transacting parties. The unpaid year-end balances referred to below are non-interest bearing, payable on demand and have arisen from the provision of services described.

During year ended September 30, 2010:

- A director of the Company was paid or accrued \$138,000 (2009: \$158,226) for corporate development fees and one officer of the Company was paid or accrued \$120,000 (2009: \$120,000) for accounting and administration services. At September 30, 2010, the related parties were owed \$28,765 (2009: \$38,027) for the unpaid portions of these amounts and reimbursement of expenditures made on behalf of the Company, which is included in accounts payable.

Note 7 Related Party Transactions – (cont'd)

- A Private company owned by a director of the Company was paid or accrued \$187,516 (2009: \$212,069) in management fees. At September 30, 2010, the related party was owed \$32,287 (2009: \$24,125) for the unpaid portions of these amounts and reimbursement of expenditures made on behalf of the Company, which is included in accounts payable.
- During the year ended September 30, 2009, a law firm, of which a former officer of the Company is a partner, charged the Company \$32,005 for legal services and was owed \$Nil for the unpaid portion of this amount at September 30, 2009.
- Officers of the Company and a private company controlled by a director of the Company were paid or accrued \$113,139 (2009: \$44,040) for geological consulting services. At September 30, 2010, the related parties were owed \$18,428 (2009: \$Nil) for the unpaid portion of the amount, which is included in accounts payable.

As at September 30, 2010, accounts payable are inclusive of \$79,480 (2009: \$62,152) due to related parties.

Note 8 Share Capital

a) Authorized:

The Company's authorized share capital consists of an unlimited number of common shares without par values.

b) Issued:

	<u>September 30, 2010</u>		<u>September 30, 2009</u>	
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>
Issued, beginning of year	433,812,034	\$ 67,689,035	374,993,034	\$ 63,779,147
Shares consolidation 10:1	(390,430,800)	*	-	-
Issued:				
Private placements	6,798,956	3,429,908	44,819,000	2,570,294
Shares issued for finders' fees	105,000	55,356	2,000,000	108,820
Shares issued for option on property	1,000,000	400,000	-	-
Settlement of debt	-	-	12,000,000	1,349,388
Returned to treasury/cancelled	(254,000)	⁽¹⁾ (213,240)	-	-
Issue costs	-	⁽²⁾ (301,002)	-	⁽³⁾ (118,614)
Issued, end of year	<u>51,031,190</u>	<u>\$ 71,060,057</u>	<u>433,812,034</u>	<u>\$ 67,689,035</u>

Note 8 Share Capital – (cont'd)

b) Issued: – (cont'd)

* On December 10, 2009, the Company consolidated its issued common shares on a 10:1 basis.

(1) Shares returned to treasury and cancelled due to the non-payment of shares subscribed for.

(2) \$32,700 in cash was paid, 65,400 agent's warrants valued at \$16,447 and 105,000 shares valued at \$55,356 were issued and another 400,000 shares valued at \$200,000 have been accrued as finders' fees – net of decrease adjustment of \$3,501 in cash finder's fee pertaining to 2006.

(3) \$9,794 in cash was paid and 2,000,000 common shares valued at \$108,820 were issued as finders' fees.

During the year ended September 30, 2010, the Company issued common shares pursuant to the following non-brokered private placements:

11,000,000 pre-consolidation units pursuant to a non-brokered private placement at a price of US\$0.05 per unit for gross proceeds of US\$550,000. Each unit consists of one pre-consolidation common share of the Company and one pre-consolidation non-transferable share purchase warrant exercisable to purchase one additional common share of the Company for US\$0.10 until December 4, 2010. Finders' fees of 1,050,000 pre-consolidation shares have been issued. As a result of the share capital consolidation on December 10, 2009, the private placement units and finder's fee shares issued were reduced to 1,100,000 units and 105,000 shares respectively. The value of the 105,000 shares issued as finder's fees was determined by the market value of the shares issued in the private placement.

1,160,000 post-consolidation units pursuant to a non-brokered private placement at a unit price of \$0.50 raising a total of \$580,000. Each post-consolidation unit consists of one common share of the Company and one warrant exercisable to purchase an additional common share of the Company at a price of \$0.75 expiring December 24, 2011. A finder's fee of \$25,000 cash has been paid and 50,000 warrants each exercisable to purchase one common share of the Company at \$0.50 expiring December 24, 2011 have been issued in connection to the private placement. The fair value of warrants issued was estimated using the Black-Scholes option valuation model with the following assumptions; risk-free interest rate 1.39%; expected dividend yield – Nil; expected stock price volatility 200.28%; and expected warrant life of 2.0 years.

Note 8 Share Capital – (cont'd)

b) Issued: - (cont'd)

4,538,956 post-consolidation units pursuant to a non-brokered private placement at a unit price of \$0.50 raising a total of \$2,269,478. Each post-consolidation unit consists of one common share of the Company and one warrant exercisable to purchase an additional common share of the Company at a price of \$0.75 expiring May 10, 2012; provided that at any time the Company's shares have a closing price higher than \$1.10 per share for a period of 20 consecutive trading days on the TSX Venture Exchange, the Company shall be entitled to give notice to the holders of warrants that the warrants will expire 21 days after the date of such notice unless exercised before the expiry of that period.

A finder's fee of \$7,700 cash has been paid, 15,400 agent warrants have been issued and 400,000 common shares will be issued in connection to the private placement. Each agent warrant is exercisable to purchase one common share at \$0.50 per share expiring May 10, 2012; provided that at any time the Company's shares have a closing price higher than \$1.10 per share for a period of 20 consecutive trading days on the TSX Venture Exchange, the Company shall be entitled to give notice to the holders of warrants that the warrants will expire 21 days after the date of such notice unless exercised before the expiry of that period. The fair value of warrants issued was estimated using the Black-Scholes option valuation model with the following assumptions; risk-free interest rate 1.93%; expected dividend yield – Nil; expected stock price volatility 201.65%; and expected warrant life of 2.0 years.

All of the proceeds from the above private placements were allocated to share capital with none allocated to warrants.

During the year ended September 30, 2009, the Company issued 44,819,000 common shares pursuant to the following non-brokered private placement:

44,819,000 units at \$0.057 (US\$0.05) per unit for total proceeds of \$2,570,294 (US\$2,240,950). Each unit consists of one common share and one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for US\$0.10 per share until August 13, 2010. Finders' fees relating to this offering were 2,000,000 common shares valued at \$108,820 (US\$100,000) and cash of \$9,794 (US\$9,000).

All of the proceeds from the above private placement were allocated to share capital with none allocated to warrants.

Note 8 Share Capital – (cont'd)

b) Issued: - (cont'd)

During the year ended September 30, 2009, the Company reached an agreement to settle convertible debt of \$632,580 (US\$600,000) through the issuance of 12,000,000 units at the fair value of US\$0.05 per unit. Each unit consists of one common share of the Company and one share purchase warrant exercisable at US\$0.10 per share to purchase an additional share of the Company until October 19, 2010. The equity component \$195,918 (US\$185,828) was reclassified from contributed surplus to share capital. Refer to Note 6.

c) Escrow Shares:

In accordance with an Escrow Agreement dated September 19, 1999, 187,500 common shares of the Company were subject to escrow and may not be transferred, assigned or otherwise dealt with without the consent of the Exchange. These shares may not be released from escrow unless the escrow agent receives a letter consenting to release from the Exchange. Any shares not released will expire in ten years from the date of the agreement. As at September 30, 2010, the Company had a balance of 18,750 post-consolidation shares in escrow. Subsequent to September 30, 2010, 18,750 post-consolidation escrow shares have been cancelled and returned to the Company's treasury.

d) Directors' and Employees' Stock Options Outstanding:

i) The Company has a stock option plan whereby, the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. Options vest at the date of grant. The exercise price of each option granted under the plan may not be less than the Discounted Market Price (as that term is defined in the policies of the TSX). Options may be granted for a maximum term of five years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as director or officer of the Company and, in the case of death, expire within one year thereafter. Upon death, the options may be exercised by legal representation or designated beneficiaries of the holder of the option.

Note 8 Share Capital – (cont'd)

d) Directors' and Employees' Stock Options Outstanding: – (cont'd)

ii) The continuity of stock options outstanding is as follows:

	<u>September 30, 2010</u>	<u>Weighted Average Exercise Price</u>	<u>September 30, 2009</u>	<u>Weighted Average Exercise Price</u>
Balance outstanding – beginning of year	11,150,000	\$0.20	15,950,000	\$0.18
Activity during year:				
Consolidation 10:1	(10,035,000)	-	-	-
	1,115,000	\$1.96	15,950,000	\$0.18
Options granted	1,735,000	\$0.93	-	-
Options cancelled/expired	<u>(450,000)</u>	<u>\$1.21</u>	<u>(4,800,000)</u>	<u>\$0.15</u>
Balance outstanding, end of year	<u>2,400,000</u>	<u>\$1.36</u>	<u>11,150,000</u>	<u>\$0.20</u>

iii) Details of stock options outstanding at September 30 2010:

<u>Number of Options</u>	<u>Option Price</u>	<u>Expiry Date</u>
30,000	\$4.55	September 13, 2011
370,000	\$2.70	January 4, 2012
30,000	\$2.70	January 9, 2012
100,000	\$0.60	January 19, 2012
135,000	\$1.80	January 8, 2013
200,000	\$1.20	May 29, 2013
100,000	\$0.60	January 19, 2015
<u>1,435,000</u>	<u>\$1.00</u>	<u>January 19, 2015</u>
<u>2,400,000</u>		

As at September 30 2010, the contractual weighted average remaining life is 3.38 years (2009 – 2.05 years).

Note 8 Share Capital – (cont'd)

e) Share Purchase Warrants Outstanding:

i) The continuity of share purchase warrants outstanding is as follows:

Warrants with exercise price in US\$:

	September 30, 2010	Weighted Average Exercise Price US\$	September 30, 2009	Weighted Average Exercise Price US\$
Balance outstanding – beginning of year	81,402,283	\$0.19	55,099,633	\$0.27
Activity during year:				
Consolidation 10:1	(73,262,055)	-	-	-
	8,140,228	\$1.90	55,099,633	\$0.27
Warrants issued	1,100,000	\$1.00	44,819,000	\$0.10
Warrants expired	(3,658,328)	\$3.00	(18,516,350)	\$0.22
Warrants amended (1)	<u>(1,100,000)</u>	<u>\$1.00</u>	-	-
Balance outstanding - end of year	<u>4,481,900</u>	<u>\$1.00</u>	<u>81,402,283</u>	<u>\$0.19</u>

Warrants with exercise price in CAD\$:

	September 30, 2010	Weighted Average Exercise Price CAD\$	September 30, 2009	Weighted Average Exercise Price CAD\$
Balance outstanding - beginning of year	-	-	-	-
Activity during year:				
Warrants issued	6,664,356	\$0.70	-	-
Warrants amended (1)	<u>1,100,000</u>	<u>\$0.75</u>	-	-
Balance outstanding - end of year	<u>7,764,356</u>	<u>\$0.70</u>	-	-

(1) Warrants originally exercisable at a unit price of US\$1.00 expiring December 4, 2010 have been amended to a unit exercise price of CAD\$0.75 expiring December 4, 2011.

Note 8 Share Capital – (cont'd)

e) Share Purchase Warrants Outstanding: – (cont'd)

ii) Details of share purchase warrants outstanding at September 30, 2010:

Warrants outstanding with exercise price in US\$:

<u>Number of Shares</u>	<u>Exercise Price US\$</u>	<u>Expiry Date</u>	
<u>4,481,900</u>	<u>\$1.00</u>	August 13, 2012	(1)

As at September 30, 2010, the weighted average remaining contractual life of warrants exercisable in US\$ is 1.87 years (2009: 0.53 year).

(1) Expiry date was extended from August 13, 2010 to August 13, 2012

Warrants outstanding with exercise price in CAD\$:

<u>Number of Shares</u>	<u>Exercise Price CDN\$</u>	<u>Expiry Date</u>
1,100,000	\$0.75	December 04, 2011
1,060,000	\$0.75	December 24, 2011
50,000	\$0.50	December 24, 2011
4,538,956	\$0.75	May 10, 2012
15,400	\$0.50	May 10, 2012
<u>1,000,000</u>	<u>\$0.40</u>	September 28, 2012
<u>7,764,356</u>	<u>\$0.70</u>	

As at September 30, 2010, the weighted average remaining contractual life of warrants exercisable in CAD\$ is 1.55 years (2009: N/A).

f) Share Subscriptions:

- During the year ended September 30, 2001, the Company proposed to enter into a private placement for the issuance of 2,000,000 units at \$0.50 per unit for proceeds of \$1,000,000, less a 7.5% finder's fee. Each unit is to consist of a common share and a two-year share purchase warrant to purchase an additional common share at \$0.50 per share in the first year and at \$0.60 per share in the second year. The Company has received subscriptions for 1,983,171 units (proceeds of \$925,000, net of related issue costs).

Note 8 Share Capital – (cont'd)

f) Share Subscriptions: – (cont'd)

- During the year ended September 30, 2001, the Company entered into an agreement with a purchaser for a private placement of 770,000 units at \$0.30 per unit to raise \$231,000. Each unit was to be comprised of one common share and one share purchase warrant to purchase one common share at \$0.30 per share in the first year and at \$0.40 per share in the second year. The Company subsequently amended the terms of that private placement to 1,500,000 units at \$0.154 (US\$0.10) per unit, with each unit comprised of one common share and one share purchase warrant exercisable for two years to purchase one additional share for \$0.154 (US\$0.10). The Company has received subscriptions for 1,500,000 units for proceeds of \$231,000.
- Pursuant to a private placement closed during the year ended September 30, 2010, 400,000 common shares of the Company valued at \$200,000 payable (not issued) as a finder's fee were accrued in accounts payable and accrued liabilities. The value of this finder's fee was determined by the market value of the shares issued in the private placement.

g) Stock-based Compensation

The Company recorded stock-based compensation during the year ended September 30, 2010 of \$811,191 (2009: Nil). The fair value of stock options granted was estimated using the Black-Scholes option valuation model with the following assumptions; risk-free interest rate 1.89% - 3.44%; expected dividend yield – Nil; expected stock price volatility 142.99% - 198.59%; and expected option life of 2.0 – 5.0 years.

During the 2009 fiscal year, no options were granted and as a result \$nil stock-based compensation was recorded.

h) Subscriptions Receivable:

During the year ended September 30, 2010, the Company received \$112,938 (US\$104,750) of subscriptions receivable and \$163,240 (US\$154,000) in subscriptions receivable were nullified which were included in the 2008 private placement of 33,057,700 shares (10:1 consolidation to 3,305,770 shares). The corresponding 1,540,000 share certificates (10:1 consolidation to 154,000 shares) were cancelled and returned to treasury due to non-payment.

Note 8 Share Capital – (cont'd)

i) Contributed Surplus:

Continuity of contributed surplus is as follows:

Balance - September 30, 2008	\$ 3,088,439
Convertible debenture exercised	<u>264,082</u>
Balance - September 30, 2009	3,352,521
Agent's warrants issued	16,447
Stock-based compensation	811,191
Fair value of warrants for Fredonia acquisition	<u>301,178</u>
Balance - September 30, 2010	<u>\$ 4,481,337</u>

Note 9 Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the exploration of its mineral properties. Therefore, the Company monitors the level of risk incurred in its mineral property expenditures relative to its capital structure which is comprised of working capital and shareholders' equity.

The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to facilitate the management of capital and the exploration of its mineral properties, the Company prepares annual expenditure budgets which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors. To maintain or adjust the capital structure, the Company may issue new equity if available on favorable terms, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of mineral properties.

The Company's investment policy is to hold excess cash in interest bearing bank accounts.

The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the year ended September 30, 2010.

Note 10 Financial Risk Management

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments.

Note 10 Financial Risk Management – (cont'd)

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies as set out herein.

a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's receivable relates to Goods and Services Tax and Harmonized Sales Tax input tax credits and recovery from gold concentrates.

b) Liquidity Risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company anticipates it will have adequate liquidity to fund its financial liabilities through its future equity placements.

As at September 30, 2010, the Company's financial liabilities were comprised of accounts payable and accrued liabilities.

c) Market Risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

i) Currency Risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company is considered to be in the development stage and has not yet developed commercial mineral interests, the underlying commodity price for minerals is impacted by changes in the exchange rate between the Canadian and United States dollar. Although a portion of the Company's transactions are denominated in US dollars, Bolivian Boliviano and Columbian Pesos, the Company is not significantly exposed to foreign currency exchange risk at this time. As at September 30, 2010, US\$221,000 is included in accounts payable; a change in the exchange rate of 10% could expose the Company to a potential loss of \$22,000.

Note 10 Financial Risk Management – (cont'd)

c) Market Risk – (cont'd)

ii) Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. As the Company has not yet developed commercial mineral interests, it is not exposed to commodity price risk at this time.

iii) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As the Company has no interest-bearing investments or debt, it is not exposed to interest rate risk at this time.

Note 11 Income Taxes

A reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	<u>2010</u>	<u>2009</u>
Basic statutory and provincial income tax rate	<u>28.88%</u>	<u>30.13%</u>
Expected income tax recovery on net loss, before income tax	\$ 1,537,000	\$ 484,000
Foreign income taxed at other than Canadian rate	275,000	-
Differences due to recognition of items for tax purposes:		
Effect of reduction in statutory rate	(51,000)	(142,000)
Expiry of loss carryforward	(84,000)	(78,000)
Share issue cost	71,000	30,000
Permanent difference	(233,000)	(193,000)
Valuation allowance	<u>(315,000)</u>	<u>(101,000)</u>
Income tax recovery	<u>\$ 1,200,000</u>	<u>\$ -</u>

Note 11 Income Taxes – (cont'd)

The significant components of the Company's future income tax assets and liabilities are as follows:

	<u>2010</u>	<u>2009</u>
Future income tax assets:		
Non-capital losses carried forward	\$ 2,472,000	\$ 2,175,000
Capital losses carried forward	104,000	105,000
Undeducted financing cost	113,000	95,000
Exploration and development expenses	(16,436,000)	(17,422,000)
Capital assets	129,000	128,000
Less: valuation allowance	<u>(2,919,000)</u>	<u>(2,604,000)</u>
Net future income tax assets (liabilities)	<u>\$ (16,537,000)</u>	<u>\$ (17,523,000)</u>

The Company has recorded a valuation allowance against its future income tax assets based on the extent to which it is more likely-than-not that sufficient taxable income will be realized during the carry-forward period to utilize all the future tax assets.

As at September 30, 2010, the Company had accumulated non-capital losses totaling \$9,888,000 that are available to offset future years' taxable income. The non-capital losses expire as follows:

2014	\$ 1,203,000
2015	1,177,000
2026	1,342,000
2027	1,699,000
2028	1,826,000
2029	1,118,000
2030	<u>1,523,000</u>
	<u>\$ 9,888,000</u>

In the ordinary course of business the Company transacts in multiple foreign jurisdictions and is subject to the tax regime of each foreign jurisdiction. The Company records tax contingencies for specific transaction when it determines that the likelihood of an unfavorable outcome is likely and the loss is reasonably estimable. Management currently believes that the Company is not exposed to tax contingencies that could have a material impact on the liquidity results of operations or financial condition of the Company. As at September 30, 2010, the Company has not recorded an accrual for any tax contingencies.

Note 12 Segmented Information

The Company operates in three reportable operating segments, the exploration and development of mineral properties. Geographic information is as follows:

	September 30	
	<u>2010</u>	<u>2009</u>
Assets		
Canada		
Assets other than mineral property interests	\$ 376,242	\$ 549,139
Colombia		
Deferred mineral costs	875,916	-
Bolivia		
Assets other than mineral property interests	576,576	210,839
Mineral property interests	<u>61,143,431</u>	<u>62,441,869</u>
Total Assets	<u>\$ 62,972,165</u>	<u>\$ 63,201,847</u>

Note 13 Non-cash Transactions

Investing and financing activities that do not have a direct impact on cash flows are excluded from the statements of cash flows.

During the years ended September 30, 2010 and 2009:

- Equipment amortization of \$5,941 (2009: \$99,310) was included in resource property costs.
- The Company issued or accrued 505,000 common shares (2009: 200,000 (post-consolidation 10:1)) valued at \$255,356 (2009: \$108,820) and 65,400 (2009: nil) agents' warrants valued at \$16,447 as finder's fee.
- The Company issued 1,000,000 common shares valued at \$400,000 and 1,000,000 warrants valued at \$301,178 pursuant with their option to acquire the Frediona resource property.
- Pursuant to a private placement closed during the year ended September 30, 2010, 400,000 common shares of the Company valued at \$200,000 payable (not issued) as a finder's fee were accrued in accounts payable and accrued liabilities.

Additionally during 2009:

- The Company entered into an agreement to settle a \$632,500 (US\$600,000) loan by agreeing to issue 12,000,000 units at a fair value of US\$0.05 per unit. Each unit consists of one common share of the Company and one share purchase warrant exercisable at US\$0.10 per share to purchase an additional share of the Company until October 19, 2010.

Note 14 Commitment

The Company is required to pay US\$225,000 for management fees to a private company owned by a director of the Company as follows:

2011	US\$180,000
2012	<u>US\$ 45,000</u>
	<u>US\$225,000</u>

Note 15 Subsequent Events

In addition to information disclosed elsewhere in these notes, the following occurred during the period subsequent to September 30, 2010:

- Pursuant to the closing of the first tranche of the Company's private placement, the Company issued 11,478,258 units and received gross proceeds of \$3,443,477. Each unit is comprised of one common share of the Company and one warrant exercisable to purchase one additional share of the Company for \$0.45 for a period of 24 months from closing; provided that if after the issuance of the warrants the average closing trading price of the common shares of the Company is \$ 0.75 or higher for a period of 20 consecutive trading days, the Company may issue a notice that the warrants must be exercised within 21 days of the date of the notice or they will expire at the end of that 21 day period.

Cash of \$207,427 has been paid and 671,426 in share purchase warrants have been issued as finders' fees. The finders' fees warrants have the same exercise terms as the private placement warrants. All shares issued as part of the first tranche, and all shares which are issued pursuant to the exercise of warrants issued as part of the first tranche, are subject to a hold period expiring on April 30, 2011.

Note 16 Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's financial statement presentation.

Note 17 FIT Restatement

During the preparation of the financial statements for the year ended September 30, 2010, the Company determined that a future income tax liability totaling \$17,523,000 was required to have been presented in the financial statements for the year ended September 30, 2009.

The Company determined that the September 30, 2009 tax basis for exploration and development expenses was overstated by \$29,204,000 (2008: \$27,315,000), as a result of those expenditures being incurred over the past 14 years by the Canadian parent company and capitalized on the balance sheet as resource properties, but unable to claim for tax purposes in the wholly owned Bolivian subsidiary. The 2009 future income tax liability and resource properties balances were each understated by \$17,523,000 (2008: \$16,389,000). These corrections have been adjusted in the comparative figures.

The impact on the financial statements for this understatement is presented below:

Resource Properties

As at September 30, 2008, as previously reported on Schedule 1	\$ 42,968,027
Adjustment to opening resource properties balance	<u>16,389,000</u>

As at September 30, 2008, as restated on Schedule 1	<u>\$ 59,357,027</u>
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As at September 30, 2009, as previously reported	\$ 44,918,869
Adjustment to resource properties balance	<u>17,523,000</u>

As at September 30, 2009, as restated	<u>\$ 62,441,869</u>
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Future Income Tax Liability

As at September 30, 2009, as previously reported	\$ -
Adjustment to future income tax liability	<u>17,523,000</u>

As at September 30, 2009, as restated	<u>\$ 17,523,000</u>
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