# EAGLECREST EXPLORATIONS LTD.

Consolidated Financial Statements

September 30, 2009 and 2008

BDO Canada LLP
Chartered Accountants

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# Auditors' Report

To the Shareholders of
Eaglecrest Explorations Ltd.

We have audited the consolidated balance sheets of Eaglecrest Explorations Ltd. (the "Company") as at September 30, 2009 and 2008 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Vancouver, British Columbia
January 26, 2010

**EAGLECREST EXPLORATIONS LTD.**
CONSOLIDATED BALANCE SHEETS
September 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| **Assets** | $ | $ |
| Current | | |
| Cash | 655,721 | 765,445 |
| Receivables | 30,123 | 204,953 |
| Prepaid expenses and deposits | 35,136 | 51,736 |
| | 720,980 | 1,022,134 |
| Property, plant and equipment (note 3) | 38,998 | 143,033 |
| Resource properties (schedule 1 and note 4) | 44,918,869 | 42,968,028 |
| | 45,678,847 | 44,133,195 |
| **Liabilities** | | |
| Current | | |
| Accounts payable and accrued liabilities (note 6) | 483,547 | 791,380 |
| Convertible debenture (note 5) | - | 535,131 |
| | 483,547 | 1,326,511 |
| Asset retirement obligation - Note 2 | 80,000 | 80,000 |
| | 563,547 | 1,406,511 |
| **Shareholders' Equity** | | |
| Share capital (note 7(b)) | 67,689,035 | 63,779,147 |
| Share subscriptions (note 7(f)) | 1,156,000 | 1,156,000 |
| Share subscriptions receivable (note 7 (h)) | (276,178) | (558,885) |
| Contributed surplus (note 7(i)) | 3,352,521 | 3,088,439 |
| Deficit | (26,806,078) | (24,738,017) |
| | 45,115,300 | 42,726,684 |
| | 45,678,847 | 44,133,195 |

Nature of Operations and Ability to Continue as a Going Concern – Note 1
Commitments – Notes 4, 5, 7 and 12
Subsequent Events – Notes 4, 7 and 11

APPROVED BY THE BOARD OF DIRECTORS:

| | | | |
|---|---|---|---|
| *"Paul Zdebiak"* | Director | *"Hans Rasmussen"* | Director |
| Paul Zdebiak | | Hans Rasmussen | |

**EAGLECREST EXPLORATIONS LTD.**
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
for the years ended September 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| **Expenses:** | | |
| Accounting and audit | 47,343 | 69,676 |
| Administration (note 6) | 120,000 | 112,500 |
| Advertising | - | 10,200 |
| Amortization | 6,936 | 7,011 |
| Bank charges and interest | 2,513 | 10,974 |
| Consulting | 136,437 | 251,152 |
| Corporate development (note 6) | 188,551 | 473,433 |
| Filing fees | 27,162 | 84,118 |
| Foreign exchange loss (gain) | (15,660) | (8,992) |
| Insurance | 44,787 | 51,490 |
| Interest on convertible debenture (note 5) | 117,320 | 128,580 |
| Legal (note 6) | 32,005 | 48,609 |
| Management fees (note 6) | 212,069 | 182,437 |
| Office and printing | 80,758 | 86,486 |
| Shareholders information | 10,081 | 38,543 |
| Stock-based compensation (note 7) | - | 419,245 |
| Transfer agent | 11,651 | 16,640 |
| Travel and promotion | 105,595 | 262,593 |
| **Total expenses** | (1,127,548) | (2,244,695) |
| **Other items:** | | |
| General exploration costs | - | (51,366) |
| Write-off property, plant and equipment | (703) | (4,202) |
| Debt settlement expense (note 5) | (478,704) | - |
| Interest income | 346 | 16,700 |
| **Net loss and comprehensive loss for the year** | (1,606,609) | (2,283,563) |
| Settlement of convertible debt (note 5) | (461,452) | - |
| **Deficit - beginning of year** | (24,738,017) | (22,454,454) |
| **Deficit - end of year** | (26,806,078) | (24,738,017) |
| Basic and diluted loss per common share | ($0.04) | ($0.07) |
| Weighted-average number of post-consolidated common shares outstanding (note 11) | 38,223,420 | 33,772,379 |

**EAGLECREST EXPLORATIONS LTD.**
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended September 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| **Operating activities** | | |
| Net loss for the year | (1,606,609) | (2,283,563) |
| Items not affecting cash: | | |
| Accretion of convertible debenture | 73,051 | 128,581 |
| Amortization | 6,936 | 7,011 |
| Write-off of equipment | 703 | 4,202 |
| Debt settlement expense | 478,704 | - |
| Foreign exchange adjustments | 74,833 | 79,929 |
| Stock-based compensation | - | 419,245 |
| | (972,382) | (1,644,595) |
| Net change in non-cash working capital items: | | |
| Receivables | 180,065 | (99,497) |
| Prepaid expenses and deposits | 16,783 | 25,887 |
| Accounts payable and accrued liabilities | (321,386) | (1,672,602) |
| | (1,096,920) | (3,390,807) |
| **Financing activities** | | |
| Loan | - | (600,000) |
| Shares subscriptions | 269,754 | - |
| Cash received for capital stock issued (net) | 2,560,500 | 6,570,025 |
| | 2,830,254 | 5,970,025 |
| **Investing activities** | | |
| Property, plant and equipment expenditures | (2,914) | (22,150) |
| Deposit | - | 250,000 |
| Resource property expenditures (net of recovery) | (1,840,144) | (2,905,781) |
| | (1,843,058) | (2,667,931) |
| **Increase (decrease) in cash** | (109,724) | (98,713) |
| **Cash - beginning of year** | 765,445 | 864,158 |
| **Cash - end of year** | 655,721 | 765,445 |
| **Supplementary disclosure of cash flow information** | | |
| Cash paid for: | | |
| Interest | 97,979 | 27,066 |
| Income taxes | - | - |

Non–cash Transactions – Note 10

**EAGLECREST EXPLORATIONS LTD.**
CONSOLIDATED SCHEDULE OF RESOURCE PROPERTY COSTS
for the years ended September 30, 2009 and 2008

| Bolivia | September 30, 2007 $ | Additions During the Year $ | September 30, 2008 $ | Additions During the Year $ | September 30, 2009 $ |
|---|---|---|---|---|---|
| **San Simon Zone** | | | | | |
| Acquisition costs | 2,596,665 | 20,225 | 2,616,890 | 44,045 | 2,660,935 |
| Admin and office | 217,570 | 56,276 | 273,846 | 68,000 | 341,846 |
| Assays | 466,746 | 5,479 | 472,225 | 30,910 | 503,135 |
| Camp costs | 1,796,707 | 51,928 | 1,848,635 | 124,276 | 1,972,911 |
| Consulting fees | 2,239,790 | 108,268 | 2,348,058 | 259,052 | 2,607,110 |
| Drilling | 1,501,060 | - | 1,501,060 | - | 1,501,060 |
| Mapping | 120,058 | 2,342 | 122,400 | - | 122,400 |
| Equipment rental | 1,150,002 | 23,622 | 1,173,624 | 41,626 | 1,215,250 |
| Environmental | 1,848 | 10,109 | 11,957 | 9,673 | 21,630 |
| Field costs | 720,195 | 18,124 | 738,319 | - | 738,319 |
| Geophysical & surveys | 171,867 | 17,741 | 189,608 | 3,918 | 193,526 |
| Professional fees | 217,391 | - | 217,391 | - | 217,391 |
| Sampling and analysis | 132,529 | - | 132,529 | - | 132,529 |
| Wages | 704,859 | 45,910 | 750,769 | 279,272 | 1,030,041 |
| Travel/transportation | 504,439 | 17,349 | 521,788 | 59,774 | 581,562 |
| Underground development | 2,420,241 | - | 2,420,241 | - | 2,420,241 |
| Vehicle maintenance | 393,251 | - | 393,251 | - | 393,251 |
| | 15,355,218 | 377,373 | 15,732,591 | 920,546 | 16,653,137 |
| **Dona Amelia Zone** | | | | | |
| Acquisition costs | 134,952 | 21,190 | 156,142 | 21,146 | 177,288 |
| Admin and office | 924,254 | 129,370 | 1,053,624 | 76,571 | 1,130,195 |
| Amortization | 716,628 | 193,707 | 910,335 | 99,310 | 1,009,645 |
| Assays | 802,525 | 168,208 | 970,733 | 25,687 | 996,420 |
| Camp costs | 1,124,551 | 211,505 | 1,336,056 | 101,874 | 1,437,930 |
| Consulting fees | 2,397,021 | 336,521 | 2,733,542 | 114,471 | 2,848,013 |
| Drilling | 7,721,502 | 1,378,966 | 9,100,468 | 1,296 | 9,101,764 |
| Environmental | 201,605 | 107,610 | 309,215 | 16,336 | 325,551 |
| Mapping | 22,721 | 43,398 | 66,119 | 441 | 66,560 |
| Equipment rental | 1,028,668 | 154,275 | 1,182,943 | 38,146 | 1,221,089 |
| Field costs | 2,084,560 | 91,802 | 2,176,362 | - | 2,176,362 |
| Geophysical & surveys | 25,471 | 52,079 | 77,550 | 4,603 | 82,153 |
| Supplies | 146,355 | 12,994 | 159,349 | - | 159,349 |
| Travel/transportation | 673,747 | 114,617 | 788,364 | 37,579 | 825,943 |
| Underground development | 3,375,290 | 386,631 | 3,761,921 | - | 3,761,921 |
| Wages | 2,125,787 | 500,539 | 2,626,326 | 168,650 | 2,794,976 |
| Recovery - gold concentrates | (471,864) | (545,140) | (1,017,004) | 13,192 | (1,003,812) |
| | 23,033,773 | 3,358,272 | 26,392,045 | 719,302 | 27,111,347 |

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**EAGLECREST EXPLORATIONS LTD.**
CONSOLIDATED SCHEDULE OF RESOURCE PROPERTY COSTS
for the years ended September 30, 2009 and 2008

| | September 30, 2007 $ | Additions During the Year $ | September 30, 2008 $ | Additions During the Year $ | September 30, 2009 $ |
|---|---|---|---|---|---|
| **Marco Maria Zone** | | | | | |
| Acquisition costs | 290,378 | 33,582 | 323,960 | 32,557 | 356,517 |
| Admin and office | - | 13,033 | 13,033 | 11,763 | 24,796 |
| Camp costs | - | 7,476 | 7,476 | 8,505 | 15,981 |
| Consulting | - | 11,159 | 11,159 | 11,892 | 23,051 |
| Equipment rental | - | 7,131 | 7,131 | 1,991 | 9,122 |
| Professional fees | 10,701 | - | 10,701 | - | 10,701 |
| Field costs | - | 1,723 | 1,723 | 174 | 1,897 |
| Travel/transportation | - | 1,367 | 1,367 | 2,733 | 4,100 |
| Wages | - | - | - | 27,769 | 27,769 |
| | 301,079 | 75,471 | 376,550 | 97,384 | 473,934 |
| **Dona Angela (Campo Nuevo) Zone** | | | | | |
| Acquisition costs | 183,142 | 37,355 | 220,497 | 49,528 | 270,025 |
| Admin and office | 987 | 29,056 | 30,043 | 18,451 | 48,494 |
| Assays | 9,066 | 4,664 | 13,730 | 6,141 | 19,871 |
| Camp costs | 1,573 | 50,320 | 51,893 | 21,914 | 73,807 |
| Consulting | 799 | 34,751 | 35,550 | 26,154 | 61,704 |
| Equipment rental | - | 40,274 | 40,274 | 11,943 | 52,217 |
| Environmental | - | 632 | 632 | - | 632 |
| Field costs | 9,422 | 18,130 | 27,552 | 688 | 28,240 |
| Mapping | - | 2,777 | 2,777 | - | 2,777 |
| Professional fees | 3,147 | - | 3,147 | - | 3,147 |
| Travel/transportation | 1,130 | 11,050 | 12,180 | 11,938 | 24,118 |
| Wages | 4,165 | 24,402 | 28,567 | 66,852 | 95,419 |
| | 213,431 | 253,411 | 466,842 | 213,609 | 680,451 |
| **Total** | 38,903,501 | 4,064,527 | 42,968,028 | 1,950,841 | 44,918,869 |

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 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, 2009, the Company had not yet achieved profitable operations, has accumulated losses of $26,806,078 since its inception, has working capital of $237,433 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.

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

Resource Properties – (cont'd)

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.

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. The Company has also constructed a rock crusher plant and recovery mill that are recorded at cost and amortized on a straight-line basis over five years.

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.

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

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.

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 years ended September 30, 2009 and 2008, potentially dilutive common shares (relating to options and warrants outstanding at year-end) totaling 92,552,283 (2008: 71,049,633) 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.

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

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 when the related assets are put into use, 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, 2009, the Company has recorded $80,000 (2008: $80,000) as an estimated asset retirement obligation.

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. Management believes there has been no impairment of the Company's long-lived assets as at September 30, 2009 and 2008.

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.

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

Comprehensive Income

Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 provides standards for the reporting and presentation of comprehensive income, which is defined as the change in equity, from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles. A statement of comprehensive income has not been presented as no components of comprehensive income have been identified and therefore have not affected the current or comparative period balances on the financial statements.

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.

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 and convertible debenture 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)

Adoption of New Accounting Standards in 2008

Effective October 1, 2007, the Company adopted four new Canadian Institute of Chartered Accountants ("CICA") accounting standards: (a) Handbook Section 1535, *Capital Disclosures*; (b) Handbook Section 3862, *Financial Instruments – Disclosures*; (c) Handbook Section 3863, *Financial Instruments – Presentation*; and (d) Handbook Section 1506, *Accounting Changes*. The main requirements of these new standards and the resulting financial statement impact are described below.

Consistent with the requirements of the new accounting standards, the Company has not restated any prior period amounts as a result of adopting the accounting changes. The effect of the adoption of these standards is summarized below:

Capital Disclosure, Section 1535

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 period ended September 30, 2009.

Financial Instruments – Disclosure and Presentation, Section 3862 and 3863

Sections 3862 and 3863 replace Section 3861, "Financial Instruments Disclosure and Presentation." 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. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements.

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

Financial Instruments – Disclosure and Presentation, Section 3862 and 3863 – (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 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, 2009, 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 and Bolivian Boliviano, the Company is not significantly exposed to foreign currency exchange risk at this time.

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

Adoption of New Accounting Standards – (cont'd)

Financial Instruments – Disclosure and Presentation, Section 3862 and 3863 – (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.

Accounting Changes, Section 1506:

Section 1506 revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively (unless doing so is impracticable or is specified otherwise by a new accounting standard), changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact of this new standard cannot be determined until such time as the Company makes a change in accounting policy, other than the changes resulting from the implementation of the new CICA Handbook standards discussed in this note.

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

Adoption of New Accounting Standards – (cont'd)

Transaction Costs

On June 1, 2007, the Emerging Issues Committee of the CICA issued abstract No. 166, Accounting Policy Choice for Transaction Costs ("EIC-166"). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial liabilities that are classified as other than held-for-trading to its initial carrying cost measured upon the adoption of CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement ("Section 3855"). Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company adopted EIC-166 effective for the year ended September 30, 2008. The Company has chosen to recognize all transaction costs in operations on all financial instruments that have been designated as other than held-for-trading. The adoption of this policy had no material effect on the Company's 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)

Recent Released Canadian Accounting Standards

Business Combinations, Section 1582

This Section, which replaces the former Business Combinations, Section 1581, establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, "Business Combinations".

The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted, in which case an entity would also early adopt Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. The application of this accounting pronouncement does not impact the Company.

Consolidated Financial Statements, Section 1601

This Section, which, together with new Section 1602, replaces the former Consolidated Financial Statements, Section 1600, establishes standards for the preparation of consolidated financial statements.

The Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, Business Combinations and Section 1602, Non-Controlling Interests. The application of this accounting pronouncement does not impact the Company.

Non-Controlling Interests, Section 1602

This new Section establishes standards for accounting for non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. In addition, the definition of a business is expanded.

This Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted, in which case an entity would also early adopt Section 1582, Business Combinations and Section 1601, Consolidated Financial Statements. The application of this accounting pronouncement does not impact the Company.

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

Recent Released Canadian Accounting Standards – (cont'd)

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 January 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 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Note 3 Property, Plant and Equipment

| | 2009 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| 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 | 872,863 | 872,863 | - |
| | $ 1,105,274 | $ 1,066,276 | $ 38,998 |

| | 2008 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Office equipment | $ 105,714 | $ 72,303 | $ 33,411 |
| Field equipment | 40,964 | 38,781 | 2,183 |
| Automotive | 86,265 | 69,825 | 16,440 |
| Recovery mill | 872,863 | 781,864 | 90,999 |
| | $ 1,105,806 | $ 962,773 | $ 143,033 |

Note 4 Resource Properties

The Company's resource properties are located in Bolivia, 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 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.

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.

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.

Note 4 Resource Properties – (cont'd)

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

The Company advanced US$250,000 during the year ended September 30, 2007 as security 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. As a result, US $25,000 was not paid and initial US $25,000 paid was recorded as a part of general exploration costs.

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.

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$60,000 have been paid to date and the next payment of US$10,000 is due October, 2009 (paid subsequently).

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.

Note 5 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 is two years maturing August 8, 2009 and bears interest at 8% per annum and 12% per annum thereafter. The lender has 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 consists of one common share of the Company and one warrant. Each warrant has a term expiring on August 8, 2009 and is 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:

| | Conversion Option |
|---|---|
| Expected dividend yield | 0% |
| Expected volatility | 76.02% |
| Risk-free interest rate | 4.67% |
| Expected term in years | 2 years |

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. 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.

Also, pursuant to the debt settlement agreement, a cash payment of US$90,038 has been made to satisfy the accrued interest up to the date of the agreed settlement.

Over the term of the loan, the liability was accreted to its face value. During the year ended September 30, 2009, total interest recorded amounted to $138,806 (US$130,228) (2008: $128,580 (US$128,068)); $42,753 (US$35,068) was paid as part of US$90,038 above ((2008: $49,135 (US$48,000) was included in accounts payable), and $73,051 (US$71,370) (2008: $79,445 (US$80,068)) 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 6 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 the year ended September 30, 2009:

- A director of the Company was paid or accrued $158,226 (2008: $145,849) for corporate development fees and one officer of the Company was paid or accrued $120,000 (2008: $112,500) for accounting and administration services. At September 30, 2009, the related parties were owed $38,027 (2008: $3,371) for the unpaid portions of these amounts and reimbursement of expenditures made on behalf of the Company, which is included in accounts payable.
- A Private company owned by a director of the Company was paid or accrued $212,069 (2008: $182,437) in management fees. At September 30, 2009, the related party was owed $24,125 (2008: $5,239) for the unpaid portions of these amounts and reimbursement of expenditures made on behalf of the Company, which is included in accounts payable.
- A law firm of which an officer of the Company is a partner charged the Company or accrued by the Company $32,005 (2008: $48,609) for legal services. At September 30, 2009, this related party was owed $Nil (2008: $42,352) for the unpaid portion of this amount, which is included in accounts payable.
- Officers of the Company and a private company controlled by a director of the Company were paid or accrued $44,040 (2008: $239,541) for geological consulting services. At September 30, 2009, the related parties were owed $Nil (2008: $25,089) for the unpaid portion of the amount, which is included in accounts payable.

As at September 30, 2009, accounts payable are inclusive of $62,152 (2008: $76,051) due to related parties.

Note 7 Share Capital

a) Authorized:

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

Note 7 Share Capital – (cont'd)

b) Issued:

| | September 30, 2009 | | | September 30, 2008 | | |
|---|---|---|---|---|---|---|
| | Number of Shares | $ | | Number of Shares | $ | |
| Issued - beginning of period | 374,993,034 | 63,779,147 | | 304,382,821 | 55,887,682 | |
| Activities during year: | | | | | | |
| Private placements | 44,819,000 | 2,570,294 | | 69,840,983 | 8,094,588 | |
| Shares issued for finder's fees | 2,000,000 | 108,820 | | 19,230 | 2,500 | |
| Settlement of debt | 12,000,000 | 1,349,388 | | - | - | |
| Exercise of options | - | - | | 500,000 | 75,000 | |
| Exercise of option compensation | - | - | | - | 46,350 | |
| Exercise of warrants | - | - | | 250,000 | 38,000 | |
| Issue costs | - | (118,614) | (1) | - | (364,973) | (2) |
| Issued - end of year | 433,812,034 | 67,689,035 | | 374,993,034 | 63,779,147 | |

(1) $9,794 in cash was paid or accrued and 2,000,000 common shares valued at $108,820 were issued as finders' fees.

(2) $362,473 in cash was paid or accrued and 19,230 common shares valued at $2,500 were issued as finder's fee

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 7 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 5.

During the year ended September 30, 2008, the Company issued 69,840,983 common shares pursuant to the following private placements:

i) Issued 36,783,283 common shares pursuant to a non-brokered private placement of units at $0.13 (US$0.13) per unit for total proceeds of $4,699,351 (US$4,781,827). 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$0.15 per share until November 14, 2008 and $0.30 per share until November 14, 2009. Finder's fees relating to this offering were 19,230 common shares valued at $2,500 and cash of $285,358 (US$292,619).

ii) Issued 33,057,700 common shares pursuant to a non-brokered private placement of units at $0.10 (US$0.10) per unit for total proceeds of $3,395,237 (US$3,305,770). Each unit consists of one common share and one-half share purchase warrant entitling the holder thereof to purchase an additional common share for each one warrant held for US$0.20 per share until September 17, 2009. A finder's fee relating to this offering was cash of $77,115. As at September 30, 2008, $558,885 (US$527,250) of the total proceeds was recorded as share subscriptions receivable.

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

c) Escrow Shares:

In accordance with an Escrow Agreement dated September 30, 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, 2009, the Company had a balance of 187,500 in escrow shares.

Note 7 Share Capital – (cont'd)

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.

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

| | September 30, 2009 | Weighted Average Exercise Price $ | September 30, 2008 | Weighted Average Exercise Price $ |
|---|---|---|---|---|
| Balance outstanding - beginning of year | 15,950,000 | 0.18 | 17,600,000 | 0.19 |
| Activity during year: | | | | |
| Options granted | - | - | 5,750,000 | 0.14 |
| Options expired | (4,800,000) | 0.11 | (6,900,000) | 0.17 |
| Options exercised | - | - | (500,000) | 0.15 |
| Balance outstanding end of year | 11,150,000 | 0.20 | 15,950,000 | 0.18 |

Note 7 Share Capital – (cont'd)

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

iii) Details of stock options outstanding at September 30, 2009:

| Number of Shares | Option Price | Expiry Date |
|---|---|---|
| 1,500,000 | $0.15 | December 24, 2009* |
| 400,000 | $0.16 | January 31, 2010 |
| 100,000 | $0.16 | April 22, 2010 |
| 1,500,000 | $0.12 | May 29, 2010 |
| 300,000 | $0.455 | September 13, 2011 |
| 3,700,000 | $0.27 | January 4, 2012 |
| 300,000 | $0.27 | January 9, 2012 |
| 1,350,000 | $0.18 | January 8, 2013 |
| 2,000,000 | $0.12 | May 29, 2013 |
| 11,150,000 | | |

* These options expired unexercised subsequent to year end.

As at September 30, 2009, the contractual weighted average remaining life is 2.05 years (2008 – 2.36 years).

Note 7 Share Capital – (cont'd)

e) Share Purchase Warrants Outstanding:

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

| | September 30, 2009 | Weighted Average Exercise Price US$ | September 30, 2008 | Weighted Average Exercise Price US$ |
|---|---|---|---|---|
| Balance outstanding - beginning of year | 55,099,633 | 0.27 | 16,848,375 | 0.18 |
| Activity during year: | | | | |
| Warrants issued | 44,819,000 | 0.10 | 53,312,133 | 0.39 |
| Warrants exercised | - | - | (250,000) | 0.27 |
| Warrants expired | (18,516,350) | 0.22 | (14,810,875) | 0.16 |
| Balance outstanding - end of year | 81,402,283 | 0.19 | 55,099,633 | 0.27 |

ii) Details of share purchase warrants outstanding at September 30, 2009:

| Number of shares | US Exercise price $ | Expiry date |
|---|---|---|
| 36,583,283 | 0.30 | Nov 14, 2009* |
| 44,819,000 | 0.10 | Aug 13, 2010 |
| 81,402,283 | 0.19 | |

* These warrants expired unexercised subsequent to year end.

As at September 30, 2009, the weighted average remaining contractual life is 0.53 years (2008: 1.07 years).

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 7 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.

g) Stock-based Compensation:

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

The Company recorded stock-based compensation during the year ended September 30, 2009 of $nil (2008: $419,245). The fair value of stock options granted was estimated using the Black-Scholes option valuation model with the following assumptions; risk-free interest rate 2.50% - 3.50%; expected dividend yield – Nil; expected stock price volatility 31.56% - 85.78%; and expected option life of 2.5 – 5.0 years.

h) Subscriptions Receivable:

During the year ended September 30, 2009, the Company received $317,017 (US$300,500) of subscriptions receivable and issued shares for which $34,310 (US$32,000) is receivable at year-end. Subsequent to September 30, 2009, the Company received $112,313 (US$104,750) and nullified $165,119 (US$154,000) in subscriptions receivable which were included in the 2008 private placement of 33,057,700 shares. The corresponding 1,540,000 share certificates were subsequently cancelled and returned to treasury due to non-payment.

Note 7 Share Capital – (cont'd)

i) Contributed Surplus:

Continuity of contributed surplus is as follows:

| | $ |
|---|---|
| Balance - September 30, 2007 | 2,715,544 |
| Options exercised | (46,350) |
| Stock-based compensation | 419,245 |
| Balance - September 30, 2008 | 3,088,439 |
| Convertible debenture exercised | 264,082 |
| Balance - September 30, 2009 | 3,352,521 |

Note 8 Income Taxes

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

| | 2009 | 2008 |
|---|---|---|
| Basic statuary and provincial income tax rate | 30.13% | 31.91% |
| Expected income tax recovery on net loss, before income tax | $ 484,000 | $ 729,000 |
| Foreign income taxed at other than Canadian rate | - | 3,000 |
| Differences due to recognition of items for tax purposes: | | |
| Effect of reduction in statutory rate | (142,000) | (727,000) |
| Expiry of loss carryforward | (78,000) | (173,000) |
| Share issue cost | 30,000 | 91,000 |
| Increase in valuation allowance | (101,000) | 239,000 |
| Permanent difference | (193,000) | (162,000) |
| Income tax recovery | $ - | $ - |

Note 8 Income Taxes – (cont'd)

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

| | 2009 | 2008 |
|---|---|---|
| Future income tax assets: | | |
| Non-capital losses carried forward | $ 2,175,000 | $ 2,054,000 |
| Capital losses carried forward | 105,000 | 109,000 |
| Undeducted financing cost | 95,000 | 108,000 |
| Exploration and development expenses | 10,000 | 52,000 |
| Capital assets | 129,000 | 91,000 |
| Less: valuation allowance | (2,514,000) | (2,414,000) |
| Net future income tax assets | $ - | $ - |

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, 2009, the Company had accumulated non-capital losses totaling $8,701,000 that are available to offset future years' taxable income. The non-capital losses expire as follows:

| | |
|---|---|
| 2010 | $ 336,000 |
| 2014 | 1,203,000 |
| 2015 | 1,177,000 |
| 2026 | 1,342,000 |
| 2027 | 1,699,000 |
| 2028 | 1,826,000 |
| 2029 | 1,118,000 |
| | $ 8,701,000 |

Note 9 Segmented Information

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

| | September 30, 2009 | 2008 |
|---|---|---|
| Assets | | |
| Canada | | |
| Assets other than mineral property interests | $ 549,139 | $ 962,265 |
| Bolivia | | |
| Assets other than mineral property interests | 210,839 | 202,902 |
| Mineral property interests | 44,918,869 | 42,968,028 |
| Total Assets | $ 45,678,847 | $ 44,133,195 |

Note 10 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 year ended September 30, 2009:

- Equipment amortization of $99,310 (2008: $193,707) was included in resource property costs.
- The Company issued 2,000,000 common shares (2008: 19,230) valued at $108,820 (2008: $2,500) as a finder's fee.
- The Company entered into an agreement to settle a $632,500 (US$600,000) loan by agreeing to issue 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.

These transactions were excluded from the statements of cash flows.

Note 11 Subsequent Events

In addition to information disclosed elsewhere in these notes, the following occurred during the period subsequent to September 30, 2009:

i) On December 10, 2009, the Company consolidated its issued common shares on a 10:1 basis. The consolidation resulted in the weighted average number of post consolidated shares outstanding to be reduced to 38,223,420. The 2008 comparative figure has been restated to reflect this consolidation.

ii) The Company issued 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.

iii) On December 16, 2009, the Company entered into a service agreement with an investor relations company to receive market-making services. The agreement is for twelve months. The Company agreed to pay $7,500 per month and grant 100,000 options each exercisable into one post-consolidated common share of the Company for $0.60 until December 15, 2011.

Note 11 Subsequent Events – (cont'd)

iv) The Company issued 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 have 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.

v) On December 6, 2009, the Company signed a letter of intent to purchase up to a 75% interest in the mineral rights of the Fredonia area (the "Fredonia Property"), located in Antioquia, Colombia. The Company can acquire a 75% interest in the Fredonia Property as follows:

| Date | Expenditures (US$) | Shares or Warrants Issuance | Cash (US$) | Interest Earned (%) |
|---|---|---|---|---|
| Upon signature of letter of intent | $ - | - | $ 10,000<br>52,500* | - |
| Upon signature of Definitive Agreement (the "Signature Date") | - | 1,000,000 shares and 1,000,000 warrants** | - | - |
| During 6 months after the Signature Date | 100,000 | - | 50,000 | 12.5% |
| At the end of the 12 months after the Signature Date | 1,000,000 | - | 60,000 | 12.5% |
| During 24 months after the Signature Date | 1,100,000 | - | - | 25.0% |
| During 36 months after the Signature Date | 600,000 | - | - | 25.0% |
| Total | $ 2,800,000 | | $ 120,000 | 75.0% |

* Refundable if no Definitive Agreement is reached. The Definitive Agreement must be reached no later than 90 days after the signature of letter of intent.

** Each warrant will have an exercise price equal to the closing price of the Company's common shares on the Signature Date plus a 25% premium. The warrants will have an expiry date of 2 years.

Note 11 Subsequent Events – (cont'd)

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 outstanding directly to the optionor in cash.

At the end of thirty six months after the Signature Date, the Company must fund all additional expenditures required to reach the completion of a detailed feasibility study in respect of the Fredonia Property. 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 concessions' maintenance, including canon payments and insurance policies.

Upon acquisition of 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 a standard dilution formulae to a 2.5% net smelter royalty.

The agreement is subject to approval by the regulatory authorities.

Note 12 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:

| | |
|---|---|
| 2010 | US$180,000 |
| 2011 | US$ 45,000 |
| | US$225,000 |

Note 13 Comparative Figures

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