CARAT EXPLORATION INC.

Consolidated Financial Statements
August 31, 2009 and 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Carat Exploration Inc. are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgment based on information currently available.

Management has developed and maintains a system of internal control to ensure that the Company's assets are protected from loss or improper use, transactions are authorized and properly recorded and financial records are reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls through an audit committee, which is comprised primarily of non-management directors. The audit committee reviews the results of the audit and the annual financial statements prior to their submission to the Board of Directors for approval.

The consolidated financial statements have been audited by Smythe Ratcliffe LLP, Chartered Accountants and their report outlines the scope of their examination and gives their opinion on the audited financial statements.

"Yannis Tsitos"
……………………………………
Yannis Tsitos, President

"Albert Wu"
……………………………………
Albert Wu, Chief Financial Officer

Vancouver, British Columbia
December 7, 2009

SmytheRatcliffe
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

TO THE SHAREHOLDERS OF CARAT EXPLORATION INC.

We have audited the consolidated balance sheets of Carat Exploration Inc. as at August 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss 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 August 31, 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.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
December 7, 2009

7th Floor 355 Burrard St
Vancouver, BC V6C 2G8

Tel: 604 687 1231
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CARAT EXPLORATION INC.
Consolidated Balance Sheets
August 31

	2009	2008
Assets		
Current		
Cash and cash equivalents (note 5)	$ 678,574	$ 191,086
GST receivable	6,196	29,430
Tax credit receivable (note 6)	3,630	293,819
Prepaid expenses and deposit	15,947	15,311
	704,347	529,646
Mineral Properties (notes 7 and 9(e))	131,093	234,148
Deferred Exploration Costs (note 7)	1,128,135	2,860,788
	$ 1,963,575	$ 3,624,582
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 141,964	$ 62,392
Due to related parties (note 9)	29,447	14,343
	171,411	76,735
Shareholders' Equity		
Share Capital (note 8)	4,846,882	4,267,477
Contributed Surplus (note 8(b))	5,137,807	3,813,066
Deficit	(8,192,525)	(4,532,696)
	1,792,164	3,547,847
	$ 1,963,575	$ 3,624,582

Nature of Operations and Going Concern (note 1)
Commitment (note 7)
Subsequent Events (note 12)

Approved by the Directors:

"Jim Heras"
………………………………………………………………………… Director
Jim Heras

"Yannis Tsitos"
………………………………………………………………………… Director
Yannis Tsitos

See notes to consolidated financial statements.

CARAT EXPLORATION INC.
Consolidated Statements of Operations, Comprehensive Loss and Deficit
Years Ended August 31

	2009	2008
Expenses		
Stock-based compensation (note 8(c))	$ 1,324,741	$ 2,244,843
Salaries and benefits	127,606	85,782
Professional fees (notes 9(b) and (c))	68,121	53,322
Office and other (note 9(d))	52,229	38,616
Management and administration fees (note 9(a))	36,000	43,000
Investor relations	16,061	22,575
Stock exchange and filing fees	10,412	10,018
Transfer agent fees	6,148	6,843
Travel and promotion	4,185	2,842
Loss Before Other Items	1,645,503	2,507,841
Other Items		
Write-down of mineral properties and deferred exploration costs (note 7)	2,015,465	-
Interest expense (note 9(f))	21,800	518
Foreign exchange	1,962	6,517
Interest income (note 6)	(24,901)	(10,784)
	2,014,326	(3,749)
Net Loss and Comprehensive Loss for Year	3,659,829	2,504,092
Deficit, Beginning of Year	4,532,696	2,028,604
Deficit, End of Year	$ 8,192,525	$ 4,532,696
Basic and Diluted Loss per Share	$ 0.10	$ 0.07
Weighted Average Number of Common Shares Outstanding	38,306,930	37,283,651

See notes to consolidated financial statements.

CARAT EXPLORATION INC.
Consolidated Statements of Cash Flows
Years Ended August 31

	2009	2008
Operating Activities		
Net loss for the year	$ (3,659,829)	$ (2,504,092)
Items not affecting cash		
Write-down of mineral properties and deferred exploration costs	2,015,465	-
Stock-based compensation	1,324,741	2,244,843
Interest expense	20,000	-
	(299,623)	(259,249)
Net changes in non-cash working capital items		
Short-term investment	-	550,000
GST receivable	23,234	(21,929)
Accrued interest receivable	-	2,995
Tax credit receivable	290,189	(3,189)
Prepaid expenses and deposit	(636)	(5,697)
Accounts payable and accrued liabilities	19,862	(33,960)
Amounts due to related parties	15,104	18,795
Cash Provided by Operating Activities	48,130	247,766
Financing Activities		
Shares issued for cash, net of share issue costs	559,405	237,970
Proceeds of loan from related party	100,000	-
Repayment of loan due to related party	(100,000)	-
Cash Provided by Financing Activities	559,405	237,970
Investing Activities		
Purchase of interest in resource properties	(22,846)	(108,246)
Expenditures on deferred exploration	(97,201)	(519,311)
Cash Used in Investing Activities	(120,047)	(627,557)
Inflow (Outflow) of Cash and Cash Equivalents	487,488	(141,821)
Cash and Cash Equivalents, Beginning of Year	191,086	332,907
Cash and Cash Equivalents, End of Year	$ 678,574	$ 191,086
Supplemental Cash Flow Information		
Accounts payable included in mineral properties	$ 89,050	$ 29,339
Bonus shares issued recorded as interest expense (note 8(b))	$ 20,000	$ -
Tax credits receivable included in mineral properties	$ -	$ 293,819
Income taxes paid	$ -	$ -
Interest paid	$ 1,800	$ 518

See notes to consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Carat Exploration Inc. (the “Company”) was incorporated under the laws of the province of British Columbia on October 16, 2003. The Company is an exploration stage company and is in the process of acquiring and exploring mineral properties.

These consolidated financial statements were prepared on a “going concern” basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As of August 31, 2009, the Company had working capital of $532,936 (2008 - $452,911). The Company does not currently hold any revenue-generating properties and thereby continues to incur losses. The Company has an accumulated deficit of $8,192,525 as at August 31, 2009 (2008 - $4,532,696).

The ability of the Company to continue as a going concern and meet its commitments as they become due, including exploration and development of its mineral interests, is dependent on the Company’s ability to obtain the necessary financing. Management is planning to raise additional capital to finance operations and expected growth, if necessary, or alternatively to dispose of its mineral interests. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, the Company will be unable to continue.

The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. Ultimately, the Company continuing as a going concern is dependent upon its success in locating properties with economically recoverable resources and attaining either profitable operations from those properties or the proceeds from the disposition of those properties. Failure to continue as a going concern would require the restatement of assets and liabilities on a liquidation basis, which could differ materially from the going concern basis.

These consolidated financial statements do not reflect any adjustments that would be necessary if the going concern assumptions were not appropriate because management believes that actions taken or planned will mitigate the adverse conditions that raise doubts about the Company’s viability.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars.

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its integrated wholly-owned subsidiary, Acarat (Chile) S.A. All significant intercompany transactions and balances have been eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral properties and deferred exploration costs, amount of tax credit receivable and accrued liabilities, the assumptions used in the determination of the fair value of stock-based compensation and the determination of the valuation allowance for future income tax assets. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

(c) Mineral properties and exploration costs

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, the property is sold or the Company's mineral rights are allowed to lapse.

All capitalized costs 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 (as estimated by quantifiable evidence of an economic geological resource or reserve or by reference to option or joint venture expenditure commitments) or when, in the Company’s assessment, it will be unable to sell the property for an amount greater than the deferred costs, the property is written down for the impairment in value.

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

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

(d) Revenue recognition

Interest income is recorded as earned at the stated rate of interest of the short-term investment over the term to maturity.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Loss per share

Basic loss per share is calculated by dividing net loss for the year by the weighted average number of common shares outstanding during the year.

The Company uses the treasury stock method to compute the dilutive effect of outstanding options, warrants and similar instruments. Under this method, the dilutive effect on loss per common share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(f) Stock-based compensation

The Company has a stock option plan, which is described in note 8(c). The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged either to operations or mineral property interests, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are exercised, the applicable amounts from contributed surplus are transferred to share capital.

(g) Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid investments that are readily redeemable or that have an initial maturity of three months or less.

(h) Future income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is substantively enacted. Future tax benefits are recognized to the extent that realization of such benefits is considered to be more likely than not.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Asset retirement obligation

The Company recognizes the estimated fair value of legal obligations associated with the retirement of tangible long-lived assets that it is required to settle as a result of existing or enacted laws or by legal construction of a contract. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. The Company estimates fair value by determining the current market cost required to settle the asset retirement obligation, adjusts for inflation through to the expected date of the expenditures and discounts this amount back to the date when the obligation was originally incurred. As the liability is initially recorded on a discounted basis, it is increased each period until the estimated date of settlement. The resulting expense is referred to as accretion expense and is included in operations. The Company reviews the asset retirement obligation for each long-lived asset on a periodic basis and adjusts the liability as necessary to reflect changes in the estimated future cash flows and timing underlying the fair value measurement.

(j) Foreign currency translation

The functional currency of the Company is the Canadian dollar. The Company uses the temporal method for foreign currency translation of its subsidiaries. Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are recognized in the determination of net loss in the year in which they arise.

(k) Financial instruments and comprehensive income

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income (loss). Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition. Any financial asset may be designated as available-for-sale upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value.

Comprehensive income or loss is defined as the change in equity from transactions and other events from sources other than the Company's shareholders. Other comprehensive income or loss refers to items recognized in comprehensive income or loss that are excluded from operations calculated in accordance with generally accepted accounting principles.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments and comprehensive income (Continued)

The Company has no items of other comprehensive income in the periods presented. Therefore, net loss as presented in the Company's consolidated statements of operations equals comprehensive loss.

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

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity's financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

The new sections are effective for the Company for the year commencing September 1, 2008. As a result of the adoption of these standards, additional disclosures on the risks of certain financial instruments have been included in note 4.

(l) Unit offerings

The proceeds from the issuance of units are allocated between common shares and common share purchase warrants on a pro-rata basis based on relative fair values using the market trading price and the Black-Scholes option pricing model for the shares and warrants, respectively.

(m) New accounting standards

The Canadian Institute of Chartered Accountants ("CICA") issued the following recommendations that were adopted by the Company on September 1, 2008. In accordance with the transitional provisions, these standards have been applied without restatement of prior periods.

(i) Goodwill and Intangible Assets

In January 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces existing Section 3062, "Goodwill and Other Intangible Assets". This new section establishes standards for the recognition of internally developed intangible assets. The adoption of this section has had no impact on the consolidated financial statements of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) New accounting standards (Continued)

(ii) Going Concern

In June 2007, the CICA amended Handbook Section 1400, “General Standards of Financial Statement Presentation”, which requires management to make an assessment of a company’s ability to continue as a going concern. When financial statements are not prepared on a going concern basis that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going concern. As a result of this standard, additional disclosure regarding going concern has been included in note 1.

(iii) Capital Disclosures

In February 2007, the CICA issued Handbook Section 1535, “Capital Disclosures”, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity’s objectives, policies and procedures for managing capital. As a result of the standard, disclosure regarding capital management is presented in note 3.

(n) Recent accounting pronouncements

(i) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the AcSB confirmed that generally accepted accounting principles for publicly accountable enterprises will be converged with IFRS effective for fiscal years beginning on or after January 1, 2011. The Company will therefore be required to report using IFRS commencing with its unaudited interim financial statements for the three months ended November 30, 2011, which must include restated interim results for the three-month period ended November 30, 2010, prepared on the same basis. The conversion to IFRS will impact the Company’s accounting policies, information technology and data system, internal control over financial reporting, and disclosure controls and procedures. The Company is currently evaluating the future impact of IFRS on its consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Recent accounting pronouncements (Continued)

(ii) Business Combinations

In January 2009, the CICA issued Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”. These sections replace the former Section 1581, “Business Combinations”, and Section 1600, “Consolidated Financial Statements”, and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to the Company’s interim and annual consolidated financial statements relating to fiscal years commencing September 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

3. CAPITAL MANAGEMENT

The Company’s objectives in managing its capital are as follows:

- To safeguard its ability to continue as a going concern
- To have sufficient capital to be able to meet its strategic objectives including the continued exploration of its existing mineral projects and the identification of additional projects.

Given the current exploration stage of its projects, the Company considers capital to be the shareholders’ equity of the Company. The Company manages its capital structure in accordance with its strategic objectives and changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue new shares in the form of private placements and/or secondary public offerings.

The Company has no externally imposed capital requirements.

4. FINANCIAL INSTRUMENTS

The Company classifies its cash and cash equivalents, as held-for-trading; and accounts payable and due to related parties as other financial liabilities.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Fair value

The carrying values of cash and cash equivalents and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these financial instruments.

The fair values of amounts due to related parties are not practicable to determine due to their nature.

(b) Credit risk

Credit risk to the Company is the risk that they will not be able to recover their financial assets, principally cash and cash equivalents. The Company has $653,438 (2008 - $172,698) of cash and cash equivalents in a Canadian chartered bank and $25,136 (2008 - $18,388) in a subsidiary of a Canadian chartered bank located in Chile. The amounts kept in Chile are to cover expected mineral property and deferred exploration costs for the ensuing quarter. The Company's exposure to credit risk is not considered significant.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet current obligations and future commitments. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. The Company normally maintains sufficient cash and cash equivalents to meet the Company's obligations and requirements for planned operations; however, at August 31, 2009, the cash and cash equivalent balance of $678,574 is insufficient to meet the needs for the coming year. Therefore, the Company will be required to raise additional capital or sell a mineral property interest in order to fund its operations in 2010.

At August 31, 2009, the Company had accounts payable and accrued liabilities totalling $141,964 (2008 - $62,392), due within three months of year-end, and amounts due to related parties of $29,447 (2008 - $14,343), with no stated terms of repayment.

4. FINANCIAL INSTRUMENTS (continued)

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

The Company's cash and cash equivalents consists of cash held in bank accounts and a guaranteed investment certificate ("GIC") that earns interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in interest rates will not have a significant impact on the fair value of the cash and cash equivalents of the Company.

(ii) Foreign currency risk

The Company is exposed to foreign currency fluctuations to the extent expenditures incurred are not denominated in Canadian dollars. The Company has operations in both Brazil and Chile. As at August 31, 2009, the Company has monetary net assets of approximately $15,000 (2008 - $13,000) in Chilean pesos and $nil (2008 - $nil) in Brazilian reals. A 10% increase or decrease in the value of the Chilean peso against the Canadian dollar would have a $1,500 (2008 - $1,300) increase or decrease on the monetary net assets of the Company.

The Company has not entered into any foreign currency contracts to mitigate this risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

5. CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents consists of cash of $178,574 and a GIC of $500,000.

The GIC was purchased July 3, 2009 and matures one year later on July 2, 2010. The GIC has a principal of $500,000, is redeemable at any time at the option of the Company and bears interest at a rate of prime minus 1.8%.

6. TAX CREDIT

The Company made certain expenditures on the Seneca property that qualified for the British Columbia Mining Exploration Tax Credit ("BCMETC"). The BCMETC is a refundable income tax credit, which is equal to 20% of qualified mining exploration costs incurred by the Company. It is refundable in the following year to the extent it exceeds the Company's income tax payable. The Company received $315,090 during the year ended August 31, 2009 relating to their 2005 and 2006 work programs on the Seneca property, including interest of $24,901.

7. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

Mineral Properties

		2009		2008
Seneca Property, British Columbia	$	125,902	$	125,902
Combarbala Property, Chile		19,080		-
Tucuma Property, Brazil		112,012		108,246
		256,994		234,148
Write-down of mineral property		(125,901)		-
	$	131,093	$	234,148

Seneca Property

Pursuant to an option agreement dated June 21, 2004, the Company was granted an option to acquire a 100% undivided interest in six mineral claims situated in the New Westminster Mining Division, British Columbia. As consideration for the property, the Company paid $20,000. The claims are subject to a net smelter return royalty of 1%. Under the terms of the agreement, the Company also has the option to purchase the net smelter return royalty for $250,000 at any time before the property is put into commercial production. The Company has not exercised this option. During the years ended August 31, 2004 and 2005, the Company staked 28 additional mineral claims at a cost of $38,958.

By another option agreement dated July 22, 2005, the Company was granted an option to acquire a 100% undivided interest in two mineral claims situated in the New Westminster Mining Division, British Columbia. As consideration, the Company paid $40,000 and agreed to $20,000 of exploration expenditures on or before March 20, 2006 (incurred). The claims are subject to a 2% net smelter royalty, which can be purchased by the Company for $1,250,000 at any time. The Company has not yet exercised this option. Included in the cost of acquisition is $26,944 paid for assessment fees.

The Company did not perform any significant exploration activities on the property during 2008 and 2009. During the 2009 fiscal year, the Company extended the term of two tenure claims totaling 504 hectares to 2013 and six tenure claims totaling 150 hectares to 2016 with the Government of British Columbia. The Company has no future exploration programs planned on this property and is in the process of seeking a joint venture partner. During 2009, the Company wrote-off $125,901 of mineral properties and $1,889,564 of deferred exploration costs related to the Seneca property. The net book value of the Seneca property at August 31, 2009 is $1 (2008 - $2,013,946).

7. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)

Combarbala Property

Pursuant to an option agreement dated July 14, 2006, the Company was granted an option to acquire a 50% undivided interest in 33 mineral claims located in Region IV of Chile. To earn its interest, the Company is required to spend US $250,000 by July 14, 2007 (incurred) and an additional US $1,000,000 by July 14, 2009. Upon completing the expenditures the Company may elect to be vested with an undivided 50% interest in the property and form a joint venture with the optionor ("BHP Billiton") for the continued exploration and development of the property. BHP Billiton may elect to acquire up to a 70% interest in the joint venture within 180 days of formation, by repaying the historical expenditures incurred by the Company and funding additional expenditures on the property up to an aggregate of $12,000,000 or complete a pre-feasibility study, whichever occurs earlier.

As of August 31, 2009, the Company has expended a total of US $1,006,876 on the Combarbala Property, being US $958,930 (Cdn $994,274) plus 5% management fees allowable by the option agreement.

On August 31, 2009, the Company entered into a Royalty Agreement with BHP Billiton whereby the Company acquired 100% title to the 33 mineral claims of the Combarbala Property by agreeing to pay BHP Billiton a 2% net smelter return royalty (note 12(b)).

Tucuma Property

In March 2008, the Company entered into an Option and Joint Venture Agreement with Brasilca Mining Corporation to earn a 70% interest in the Tucuma property in Brazil. The Company paid US $100,000 at the conclusion of the due diligence, was to pay an additional US $100,000 on or before March 13, 2009 and was to incur an aggregate of US $2,000,000 in exploration expenditures over three years with a minimum of US $400,000 in the first year. The Company did not pay the US $100,000 nor did they incur exploration expenditures totaling US $400,000 as required on or before March 13, 2009. Subsequent to August 31, 2009, the Company acquired the rights to the property (note 12(c)).

Realization

The Company's investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful commercial production or from the proceeds of their disposal. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or proceeds from the disposition thereof.

Title

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

7. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)

Environmental

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral property interests, the potential for production on the property may be diminished or negated.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company. As at August 31, 2009 and 2008, the Company has determined that no provision for asset retirement obligations is required.

7. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)

Deferred exploration costs

The Company incurred the following deferred exploration costs:

		2009		2008
Seneca Property, British Columbia				
Balance, beginning of year	$	1,888,044	$	1,875,289
Additions during the year:				
Analytical fees		1,587		1,300
Geological surveys, consulting and reports		-		7,601
Miscellaneous		622		408
Sampling and prospecting		-		6,519
Travel, supplies and field expenses		-		116
		2,209		15,944
Mineral exploration tax credit		(689)		(3,189)
		1,520		12,755
		1,889,564		1,888,044
Less: Write-down of deferred exploration costs		(1,889,564)		-
Balance, end of year		-		1,888,044
Combarbala Property, Chile				
Balance, beginning of year		951,155		466,188
Additions during the year:				
Analytical fees		18,152		34,416
Drilling		-		83,466
Geological surveys, consulting and reports		11,537		182,547
Miscellaneous		448		11,044
Sampling and prospecting		220		118,517
Travel, supplies and field expenses		12,762		54,977
		43,119		484,967
Balance, end of year		994,274		951,155
Tucuma Property, Brazil				
Balance, beginning of year		21,589		-
Additions during the year				
Consulting and report		64,534		21,589
Miscellaneous		5,898		-
Sampling and prospecting		16,167		-
Travel, supplies and field expenses		25,673		-
		112,272		21,589
Balance, end of year		133,861		21,589
Total deferred exploration costs	$	1,128,135	$	2,860,788

8. SHARE CAPITAL

(a) Authorized

400,000,000 common shares without par value

(b) Issued and fully paid

	Number of Shares		Share Capital		Contributed Surplus
Balance, August 31, 2007	37,263,404	$	4,040,914	$	1,556,816
Private placement	612,500		245,000		-
Agent's compensation	37,800		15,120		-
Fair value of warrants	-		(8,302)		8,302
Fair value of brokers' warrants	-		(3,105)		3,105
Share issuance costs	-		(22,150)		-
Stock-based compensation	-		-		2,244,843
Balance, August 31, 2008	37,913,704		4,267,477		3,813,066
Private placement	2,072,163		621,649		-
Share issuance costs	-		(62,244)		-
Bonus shares issued for loan	76,923		20,000		-
Stock-based compensation	-		-		1,324,741
Balance, August 31, 2009	40,062,790	$	4,846,882	$	5,137,807

In June 2009, the Company completed a non-brokered private placement of 2,072,163 common shares at a price of $0.30 per share for total gross proceeds of $621,649. The Company incurred $62,244 in share issuance costs, which includes $44,689 paid as commission.

In July 2009, the Company issued 76,923 common shares, with an agreed upon value of $0.26 per share, to a relative of a director of the Company. These bonus shares were issued as interest in connection with a loan in the amount of $100,000 extended to the Company, by the relative, during the period from April to July 2009 (note 9(f)). The fair market value of the shares was $0.32 per share and the value was discounted 20% as agreed upon by both parties and in compliance with the TSX-V regulations.

In August 2008, the Company completed a non-brokered private placement of 612,500 units at a price of $0.40 per unit. Each unit consists of one common share and one-half of one share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.65 per share for twelve months. If the Company’s common shares trade at a price greater than $0.90 per share for a period of ten consecutive business days, the Company may force the warrant holder to exercise the warrants within ten business days. If the warrants are not exercised during this period, they will be terminated. The Company incurred $22,150 in share issuance costs of which $7,030 was paid in cash and $15,120 was settled through the issuance of 37,800 units with the same terms as the placement units. In addition, the Company issued 42,875 warrants to the brokers exercisable at a price of $0.40 per share for twelve months.

8. SHARE CAPITAL (Continued)

(b) Issued and fully paid (continued)

During the year ended August 31, 2008, the Company recorded $8,302 for the fair value of the warrants issued pursuant to the private placement and recorded $3,105 for the fair value of the brokers' warrants as share issue costs.

(c) Stock options

The Company has granted share purchase options to directors and officers of the Company to purchase common shares of the Company. These options are granted with an exercise price equal to the market price of the Company's stock at the date of grant.

At the Company's annual general meeting held on February 25, 2009, the Company adopted a stock option plan (the "Plan") whereby the maximum number of options to acquire common shares of the Company that may be granted under the Plan will be 7,582,740. The term of those options to acquire common shares can be no longer than five years.

A summary of the stock options activities follows:

	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
Balance, August 31, 2007	6,425,000	$ 0.93	2,993,750	$ 0.93
Granted	1,200,000	$ 0.42	950,000	$ 0.42
Vested from prior periods	-	$ 0.93	2,306,250	$ 0.93
Expired	(1,675,000)	$ 0.91	(1,675,000)	$ 0.91
Balance, August 31, 2008	5,950,000	$ 0.83	4,575,000	$ 0.82
Granted	1,000,000	$ 0.31	850,000	$ 0.32
Vested from prior periods	-	-	1,375,000	$ 0.83
Expired	(450,000)	$ 0.87	(450,000)	$ 0.87
Balance, August 31, 2009	6,500,000	$ 0.75	6,350,000	$ 0.75

During the year ended August 31, 2009:

- On May 19, 2009, the Company granted 200,000 options to a consultant with an exercise price of $0.25 per share of which 25% vested each quarter thereafter.

- On July 28, 2009, the Company granted 800,000 options to two directors and an officer with an exercise price of $0.32 per share, which vested immediately.

8. SHARE CAPITAL (Continued)

(c) Stock options (Continued)

During the year ended August 31, 2008:

- On May 1, 2007, the Company granted 4,500,000 options to directors with an exercise price of $0.92 of which 12.5% vested immediately and the remaining vest as to 12.5% each quarter thereafter.
- On October 22, 2007, the Company granted 200,000 options to consultants with an average exercise price of $0.50 of which 25% vested immediately and the remaining vest as to 25% each quarter thereafter.
- On January 2, 2008, the Company granted 1,000,000 options to an officer with an exercise price of $0.40 of which 25% vested immediately and the remaining vest as to 25% each quarter thereafter.

Stock options outstanding at August 31, 2009 were as follows:

Expiry Date	Number of Options	Exercise Price	Exercisable
May 19, 2011	200,000	$ 0.25	50,000
April 30, 2012	4,500,000	$ 0.92	4,500,000
January 2, 2013	1,000,000	$ 0.40	1,000,000
July 28, 2014	800,000	$ 0.32	800,000
Balance, end of year	6,500,000		6,350,000
Weighted average remaining contractual life	3.02 years		3.05 years

Stock options outstanding at August 31, 2008 were as follows:

Expiry Date	Number of Options	Exercise Price	Exercisable
October 22, 2008	100,000	$ 0.40	100,000
October 22, 2008	100,000	$ 0.60	100,000
April 15, 2009	250,000	$ 1.17	250,000
April 30, 2012	4,500,000	$ 0.92	3,375,000
January 2, 2013	1,000,000	$ 0.40	750,000
Balance, end of year	5,950,000		4,575,000
Weighted average remaining contractual life	3.54 years		3.46 years

8. SHARE CAPITAL (Continued)

(c) Stock options (Continued)

During the year ended August 31, 2009, the Company recognized $1,324,741 (2008 - $2,244,843) of stock-based compensation expense in the Statements of Operations for stock options that were granted or vested to directors, officers and consultants of the Company. As shown below, $1,102,376 (2008 - $2,217,037) of the stock-based compensation expense recognized in 2009 relates to options that vest over multiple years.

Grant Date	**2008**	**2009**	**2010**
May 1, 2007	$ 1,770,729	$ 1,055,693	$ -
January 2, 2008	246,823	37,622	-
May 19, 2009	-	9,061	22,919
Stock-based compensation	$ 2,017,552	$ 1,102,376	$ 22,919

The fair value of the stock options granted during the years was estimated using the Black-Scholes option pricing model with the following assumptions:

	2009	**2008**
Risk-free interest rate	1.11% to 2.68%	4.32% to 2.62%
Expected dividend yield	0.0%	0.0%
Expected stock price volatility	114% to 120%	63% to 89%
Expected life of options	2 to 5 years	1 to 5 years
Weighted average fair value of options granted	$0.25	$0.25
Weighted average exercise price of options granted	$0.31	$0.42

(d) Warrants

	2009		**2008**	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	368,025	$ 0.62	375,000	$ 1.20
Issued	-	$ -	368,025	$ 0.62
Expired	(368,025)	$ 0.62	(375,000)	$ 1.20
Balance, end of year	-	$ -	368,025	$ 0.62

8. SHARE CAPITAL (Continued)

(d) Warrants (continued)

Warrants exercisable and outstanding at August 31, 2008 were as follows:

Number of Warrants	Exercise Price		Expiry Date
325,150	$	0.65	August 19, 2009
42,875	$	0.40	August 19, 2009
368,025			

The fair value of the compensatory warrants issued to agents is calculated to determine the cost of the warrants. The fair value of the agents' warrants issued during the year was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2009	2008
Risk-free interest rate	N/A	2.67%
Expected dividend yield	N/A	0.0%
Expected stock price volatility	N/A	63%
Expected life of agents warrants	N/A	1
Weighted average exercise price of options granted	N/A	$0.62

9. RELATED PARTY TRANSACTIONS

During the year ended August 31, 2009, the Company had the following related party transactions:

(a) incurred $36,000 (2008 - $43,000) for management and administration fees to a company controlled by a director;

(b) incurred $8,188 (2008 - $17,427) for legal fees included in professional fees to a firm controlled by an officer of the Company. As of August 31, 2009, $nil (2008 - $6,446) was included in due to related parties;

(c) incurred $17,040 (2008 - $nil) for accounting fees included in professional fees to a company controlled by an officer. As of August 31, 2009, $210 (2008 - $nil) was included in due to related parties;

(d) incurred $17,205 (2008 - $7,700 rent recovery) for office and other expense reimbursements to a company related through common directors. As of August 31, 2009, a balance of $29,237 (2008 - $7,657) was due to this company;

(e) incurred $105,794 (2008 - $3,352) for mineral property and deferred exploration expenditures to a private company controlled by an officer. As of August 31, 2009, a balance of $nil (2008 - $240) was due to a director; and

9. RELATED PARTY TRANSACTIONS (Continued)

(f) incurred $21,085 (2008 - $nil) for interest expense paid to a relative of a director in connection with a loan in the amount of $100,000. The interest was comprised of bonus shares totaling $20,000 (note 8(b)) and cash of $1,085. The loan was repayable on or before April 27, 2010, with interest at 6% per annum. The loan and interest were fully repaid as of August 31, 2009.

All transactions were measured by the exchange amount, which is the amount agreed upon by the transacting parties and are on terms and conditions similar to non-related entities.

The remaining amounts due to related parties are non-interest bearing, unsecured and are with no fixed terms of repayment.

10. INCOME TAXES

A reconciliation of income taxes at Canadian statutory rates of 30.17% (2008: 33.08%) with the reported taxes is as follows for the years ended August 31:

	2009	2008
Net loss for the year	$ (3,659,829)	$ (2,504,092)
Expected income tax recovery	(1,104,000)	(828,000)
Share issue costs	(12,000)	(25,000)
Write-down of mineral properties	608,000	-
Stock-based compensation	400,000	744,000
Change in timing differences:		
Resource properties	(667,000)	-
Share issue costs	(7,000)	-
Reduction in future income taxes resulting from statutory rate reduction	219,000	20,000
Change in valuation allowance	563,000	89,000
	$ -	$ -

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

	2009	2008
Non-capital losses carried forward	$1,431,000	$1,070,000
Tax value in excess of book value of share issuance costs	164,000	143,000
Tax value in excess of book value of mineral properties and deferred exploration costs	1,669,000	(347,000)
Total	3,264,000	866,000
Future enacted tax rate	26%	33%
	849,000	286,000
Valuation allowance	(849,000)	(286,000)
Future income tax assets	$ -	$ -

Future tax benefits that may arise as a result of these amounts have been offset by a valuation allowance reflecting the Company's estimate that these amounts, more likely than not, will not be realized.

10. INCOME TAXES (Continued)

The Company has available approximate non-capital losses that may be carried forward to apply against future years' income for income tax purposes in certain jurisdictions. These losses expire as follows:

Available to	Canada	Foreign	Total
2014	$ 29,000	$ -	$ 29,000
2015	101,000	-	101,000
2026	271,000	-	271,000
2027	336,000	-	336,000
2028	333,000	-	333,000
2029	361,000	-	361,000
	$ 1,431,000	$ -	$ 1,431,000

11. SEGMENTED DISCLOSURE

	2009			
	Canada	Chile	Brazil	Total
Cash	$ 653,438	$ 25,136	$ -	$ 678,574
Mineral property and deferred exploration costs	1	1,013,354	245,873	1,259,228
Other assets	25,773	-	-	25,773
Total assets	$ 679,212	$ 1,038,490	$ 245,873	$ 1,963,575

	2008			
	Canada	Chile	Brazil	Total
Cash	$ 172,698	$ 18,388	$ -	$ 191,086
Mineral property and deferred exploration costs	2,013,946	951,155	129,835	3,094,936
Other assets	338,560	-	-	338,560
Total assets	$ 2,525,204	$ 969,543	$ 129,835	$ 3,624,582

12. SUBSEQUENT EVENTS

(a) Subsequent to August 31, 2009, 3,000,000 vested stock options exercisable at $0.92 were cancelled when two directors resigned from the Company.

(b) On November 20, 2009, the title transfer from BHP Billiton to the Company for the claims forming the Combarbala property was completed when the public deed of transfer was completed by the Government of Chile.

12. SUBSEQUENT EVENTS (Continued)

(c) On December 3, 2009, the Company entered into an agreement with Brasilca Mineracao Brasileira Ltd. ("BMBL") whereby the Company and BMBL agreed to terminate the option agreement dated March 3, 2008 pursuant to which the Company was granted an option to earn a 70% interest in the Tucuma property.

On December 4, 2009, the Company entered into an agreement with Mineracao Vale do Sonho Ltda. ("Do Sonho"), the 100% owner of the exploration rights to the Tucuma property, whereby the Company will acquire all of the issued and outstanding shares of Do Sonho. In consideration, the former shareholders of Do Sonho will receive 1,500,000 common shares of the Company upon receiving regulatory approval, the payment of US $3,000,000 upon commencement of commercial production and a 1% net smelter return.