

MARIFIL MINES LIMITED

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

(Unaudited – Prepared by Management)

THE ACCOMPANYING FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2009 AND 2008 HAVE NOT BEEN REVIEWED OR AUDITED BY THE CORPORATION'S AUDITORS

MARIFIL MINES LIMITED
INTERIM CONSOLIDATED BALANCE SHEETS
September 30, 2009
(Unaudited – Prepared by Management)

| | <u>ASSETS</u> | <u>September 30,</u> <u>2009</u> (Unaudited) | <u>December 31,</u> <u>2008</u> (Audited) |
|------------------------------------|---------------|--|---|
| Current | | | |
| Cash and cash equivalents | | \$ 170,452 | \$ 46,164 |
| Marketable securities – Note 3 | | 243,775 | 24,000 |
| Amount receivable – Note 7 | | 9,867 | - |
| GST recoverable | | 9,972 | 3,424 |
| Advances receivable | | 4,134 | 5,130 |
| Prepaid expense | | <u>11,084</u> | <u>10,944</u> |
| | | 449,284 | 89,662 |
| Equipment – Note 4 | | 6,802 | 10,645 |
| Mineral properties – Notes 5 and 7 | | <u>5,757,697</u> | <u>5,621,676</u> |
| | | <u>\$ 6,213,783</u> | <u>\$ 5,721,983</u> |

LIABILITIES

| | | | |
|---|--|-------------------|-------------------|
| Current | | | |
| Accounts payable and accrued liabilities – Note 7 | | <u>\$ 189,230</u> | <u>\$ 426,462</u> |

SHAREHOLDERS' EQUITY

| | | | |
|---|--|---------------------|---------------------|
| Share capital – Notes 5 and 10 | | | |
| Authorized: | | | |
| Unlimited number of Class A common and Class B preferred shares with no par value | | | |
| Issued and outstanding: | | | |
| 48,627,349 (2008: 35,394,418) Class A common shares | | 11,465,070 | 10,800,320 |
| Subscriptions received | | 5,000 | 14,000 |
| Contributed surplus – Note 6 | | 1,260,989 | 1,260,989 |
| Deficit | | <u>(6,706,506)</u> | <u>(6,779,788)</u> |
| | | <u>6,024,553</u> | <u>5,295,521</u> |
| | | <u>\$ 6,213,783</u> | <u>\$ 5,721,983</u> |

Nature of Operations and Ability to Continue as a Going Concern – Note 1
Subsequent Events – Notes 3, 5 and 11

APPROVED BY THE DIRECTORS:

| | | | |
|---------------------------------|----------|-------------------------------------|----------|
| <u>“John Hite”</u> John Hite | Director | <u>“Bill Schara”</u> Bill Schara | Director |
|---------------------------------|----------|-------------------------------------|----------|

SEE ACCOMPANYING NOTES

MARIFIL MINES LIMITED
INTERIM CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
for the three and nine month periods ended September 30, 2009 and 2008
(Unaudited – Prepared by Management)

| | Nine months ended September 30 | | Three months ended September 30 | |
|---|-----------------------------------|-----------------------|------------------------------------|-----------------------|
| | 2009 | 2008 | 2009 | 2008 |
| Administrative expenses | | | | |
| Accounting and audit – Note 7 | \$ 43,841 | \$ 39,483 | \$ 10,905 | \$ 11,580 |
| Amortization | 1,804 | 5,689 | 1,183 | 5,254 |
| Bank charges and interest | 3,941 | 3,112 | 582 | 564 |
| Consulting fees – Note 7 | 53,832 | 64,173 | 8,247 | 21,877 |
| Directors fees | 4,549 | 6,111 | 1,087 | 3,090 |
| Filing fees and investor relations | 70,888 | 186,472 | 13,653 | 41,990 |
| Insurance | 12,420 | 13,504 | 3,825 | 4,028 |
| Legal fees | (6,143) | 19,288 | 4,857 | 14,704 |
| Office and miscellaneous | 8,109 | 7,848 | 170 | 395 |
| Stock-based compensation | - | 66,000 | - | 5,500 |
| Travel and promotion | 21,855 | 47,289 | - | 16,383 |
| Loss before other items: | (215,096) | (458,969) | (44,509) | (125,365) |
| Other items: | | | | |
| Write-off of mineral properties – Note 5 | - | (1,251,095) | - | (1,155,826) |
| Gain on disposal of marketable securities - Note 3 | 58,619 | 3,218 | 229 | 63 |
| Write up (down) of marketable securities | 25,292 | (168,005) | - | (168,005) |
| Foreign exchange gain (loss) | (78,777) | 28,645 | (3,088) | 2,891 |
| Interest income | 9 | 8,760 | - | 58 |
| Other income – Note 5 | 283,235 | 504,933 | 206,804 | 320,632 |
| Net income (loss) for the period | <u>\$ 73,282</u> | <u>\$ (1,332,513)</u> | <u>\$ 159,436</u> | <u>\$ (1,125,552)</u> |
| Basic and diluted loss per share | <u>\$ 0.00</u> | <u>\$ (0.04)</u> | <u>\$ 0.00</u> | <u>\$ (0.03)</u> |
| Weighted average number of shares Outstanding | <u>41,757,128</u> | <u>34,537,275</u> | <u>43,715,697</u> | <u>34,683,307</u> |

SEE ACCOMPANYING NOTES

MARIFIL MINES LIMITED
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three and nine month periods ended September 30, 2009 and 2008
(Unaudited – Prepared by Management)

| | Nine months ended September 30 | | Three months ended September 30 | |
|---|-----------------------------------|----------------|------------------------------------|---------------|
| | 2009 | 2008 | 2009 | 2008 |
| Operating Activities | | | | |
| Net income (loss) for the period | \$ 73,282 | \$ (1,332,513) | \$ 159,436 | \$(1,125,552) |
| Add non-cash items: | | | | |
| Write-off of resource properties | - | 1,251,095 | - | 1,155,826 |
| Write-up of marketable securities | (25,292) | 168,005 | - | 168,005 |
| Gain on disposal of marketable securities | (58,619) | - | (229) | - |
| Amortization | 1,804 | 5,689 | 1,183 | 5,254 |
| Loss on disposal of equipment | 2,039 | - | - | - |
| Stock-based compensation | - | 66,000 | - | 5,500 |
| | (6,786) | 158,276 | 160,390 | 209,033 |
| Change in non-cash working capital: | | | | |
| Advances receivable | 996 | 7,591 | 2,555 | 8,950 |
| GST and amounts receivable | (16,415) | 21,489 | (11,775) | 4,932 |
| Prepaid expenses | (140) | (12,976) | 1,222 | (314) |
| Accounts payable and accrued liabilities | (118,706) | (160,195) | (75,620) | 121,691 |
| | (141,051) | 14,185 | 76,772 | 344,292 |
| Financing Activities | | | | |
| Shares issued for cash | 546,224 | 400,000 | 287,625 | - |
| Share issue costs | - | (28,500) | - | - |
| Shares issued for subscriptions received | (9,000) | - | - | - |
| | 537,224 | 371,500 | 287,625 | - |
| Investing Activities | | | | |
| Acquisition of equipment | - | (4,437) | - | - |
| Proceeds on disposition of marketable securities | 184,343 | - | 21,753 | - |
| Resource properties | (456,228) | (1,248,233) | (270,593) | (379,888) |
| | (271,885) | (1,252,670) | (248,840) | (379,888) |
| Increase (decrease) in cash | 124,288 | (866,985) | 115,557 | (35,596) |
| Cash, beginning of period | 46,164 | 922,218 | 54,895 | 90,829 |
| Cash, end of period | \$ 170,452 | \$ 55,233 | \$ 170,452 | \$ 55,233 |
| Cash and cash equivalents consist of: | | | | |
| Cash | \$ 170,452 | \$ 55,233 | \$ 170,452 | \$ 55,233 |
| Term deposits | - | - | - | - |
| | \$ 170,452 | \$ 55,233 | \$ 170,452 | \$ 55,233 |
| Supplemental disclosure of cash flow information | | | | |
| Cash paid for: | | | | |
| Interest | \$ - | \$ - | \$ - | \$ - |
| Income Taxes | \$ - | \$ - | \$ - | \$ - |

SEE ACCOMPANYING NOTES

MARIFIL MINES LIMITED
INTERIM CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
for the nine month period ended September 30, 2009 and 2008
(Unaudited – Prepared by Management)

| | <u>Number</u> | <u>Amount</u> | <u>Subscriptions Received</u> | <u>Contributed Surplus</u> | <u>Deficit</u> | <u>Balance</u> |
|---|-------------------|----------------------|-----------------------------------|--------------------------------|-----------------------|---------------------|
| Balance, December 31, 2006 | 28,974,138 | \$ 8,072,172 | \$ 107,755 | \$ 437,533 | \$ (3,212,067) | \$ 5,405,393 |
| For cash | | | | | | |
| for private placement - at \$0.45 each | 2,181,655 | 982,045 | - | - | - | 982,045 |
| Less: share issue costs | - | (58,200) | - | - | - | (58,200) |
| Exercise of options - at \$0.20 each | 190,000 | 38,000 | - | - | - | 38,000 |
| - at \$0.30 each | 690,000 | 207,000 | - | - | - | 207,000 |
| Exercise of warrants - at \$0.35 each | 697,000 | 244,125 | (14,000) | - | - | 230,125 |
| - at \$0.40 each | 1,275,165 | 510,066 | - | - | - | 510,066 |
| - at \$0.50 each | 237,835 | 118,917 | (93,755) | - | - | 25,162 |
| - at \$0.75 each | 148,125 | 111,095 | - | - | - | 111,095 |
| Stock-based compensation plan | - | - | - | 986,160 | - | 986,160 |
| Transfer from contributed surplus on exercise of options | - | 207,100 | - | (207,100) | - | - |
| Net loss for the year ended December 31, 2007 | - | - | - | - | (1,547,717) | (1,547,717) |
| Balance, December 31, 2007 | 34,394,418 | 10,432,320 | - | 1,216,593 | (4,759,784) | 6,889,129 |
| For cash | | | | | | |
| for private placement - at \$0.40 each | 1,000,000 | 400,000 | - | - | - | 400,000 |
| Less: share issue costs | - | (32,000) | - | - | - | (32,000) |
| Stock-based compensation plan | - | - | - | 44,396 | - | 44,396 |
| Share subscriptions | - | - | 14,000 | - | - | 14,000 |
| Net loss for the year ended December 31, 2008 | - | - | - | - | (2,020,004) | (2,020,004) |
| Balance, December 31, 2008 | <u>35,394,418</u> | <u>\$ 10,800,320</u> | <u>\$ 14,000</u> | <u>\$ 1,260,989</u> | <u>\$ (6,779,788)</u> | <u>\$ 5,295,521</u> |

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SEE ACCOMPANYING NOTES

MARIFIL MINES LIMITED
INTERIM CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
for the nine month period ended September 30, 2009 and 2008
(Unaudited – Prepared by Management)

| | <u>Number</u> | <u>Amount</u> | <u>Subscriptions Received</u> | <u>Contributed Surplus</u> | <u>Deficit</u> | <u>Balance</u> |
|---|-------------------|----------------------|-----------------------------------|--------------------------------|-----------------------|---------------------|
| Balance, December 31, 2008 | 35,394,418 | \$ 10,800,320 | \$ 14,000 | \$ 1,260,989 | \$ (6,779,788) | \$ 5,295,521 |
| For cash | | | | | | |
| for private placement - at \$0.05 each | 5,376,585 | 268,829 | (9,000) | - | - | 259,829 |
| Less: share issue costs | - | (10,230) | - | - | - | (10,230) |
| For debt settlement - at \$0.075 each | 1,580,346 | 118,526 | - | - | - | 118,526 |
| Net loss for the period ended March 31, 2009 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(11,643)</u> | <u>(11,643)</u> |
| Balance, March 31, 2009 | 42,351,349 | 11,177,445 | 5,000 | 1,260,989 | (6,791,431) | 5,652,003 |
| Net loss for the period ended June 30, 2009 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(74,511)</u> | <u>(74,511)</u> |
| Balance, June 30, 2009 | 42,351,349 | 11,177,445 | 5,000 | 1,260,989 | (6,865,942) | 5,577,492 |
| For cash | | | | | | |
| for private placement - at \$0.05 each | 6,276,000 | 313,800 | - | - | - | 313,800 |
| Less: share issue costs | - | (26,175) | - | - | - | (26,175) |
| Net income for the period ended Sept 30, 2009 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>159,436</u> | <u>159,436</u> |
| Balance, September 30, 2009 | <u>48,627,349</u> | <u>\$ 11,465,070</u> | <u>\$ 5,000</u> | <u>\$ 1,260,989</u> | <u>\$ (6,706,506)</u> | <u>\$ 6,024,553</u> |

SEE ACCOMPANYING NOTES

MARIFIL MINES LIMITED
CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES
September 30, 2009
(Unaudited – Prepared by Management)

| | Las Aguilas, San Luis <u>Province</u> | Amarillo, San Juan <u>Province</u> | Davicino Properties, Rio Negro <u>Province</u> | Tembrao (Davicino) - Pailemen, Rio Negro <u>Province</u> | Toruel (Davicino), Rio Negro <u>Province</u> | San Roque, Rio Negro <u>Province</u> | Other <u>Properties</u> | <u>Total</u> |
|---|---|--|---|--|---|--|----------------------------|---------------------|
| Balance, December 31, 2008 | \$ - | \$ - | \$ - | \$ - | \$ 1,645,617 | \$ 2,496,722 | \$ 851,325 | \$ 4,993,664 |
| Acquisition | - | - | - | - | - | - | - | - |
| Property payments | 14,721 | - | - | - | 9,430 | - | 35,798 | 59,949 |
| General exploration | 19,046 | - | - | - | 29,110 | 7,431 | 94,476 | 150,063 |
| Administrative and general – Note 7 | 3,150 | - | - | - | 10,695 | 2,883 | 39,031 | 55,759 |
| Contract and consultants | 54 | - | - | - | 1,517 | 2,004 | 23,305 | 26,880 |
| Drilling | - | - | - | - | - | - | - | - |
| Geophysics | - | - | - | - | - | - | - | - |
| Geochemical | - | - | - | - | - | - | 103 | 103 |
| Field support | - | - | - | - | 3,479 | 850 | 6,043 | 10,372 |
| Travel and accommodation | - | - | - | - | 189 | 1,989 | 695 | 2,873 |
| Land environment | - | - | - | - | 2,021 | - | - | 2,021 |
| Miscellaneous | - | - | - | - | - | - | - | - |
| Deduct: option payments received | - | - | - | - | - | - | (25,283) | (25,283) |
| Deduct: shares received (option payments) | (36,971) | - | - | - | - | - | - | (36,971) |
| Deduct: write-off | - | - | - | - | - | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>56,441</u> | <u>15,157</u> | <u>174,168</u> | <u>245,766</u> |
| Balance before IVA paid, September 30, 2009 | \$ - | \$ - | \$ - | \$ - | \$ 1,702,058 | \$ 2,511,879 | \$ 1,025,493 | 5,239,430 |
| Accumulated IVA paid, net of recoveries | | | | | | | | <u>518,267</u> |
| Balance after IVA paid, September 30, 2009 | | | | | | | | <u>\$ 5,757,697</u> |

SEE ACCOMPANYING NOTES

MARIFIL MINES LIMITED
CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES
September 30, 2009
(Unaudited – Prepared by Management)

| | Las Aguilas, San Luis Province | Amarillo, San Juan Province | Davicino Properties, Rio Negro Province | Tembrao (Davicino) - Pailemen, Rio Negro Province | Toruel (Davicino), Rio Negro Province | San Roque, Rio Negro Province | Other Properties | Total |
|--|--------------------------------------|-----------------------------------|--|---|--|-------------------------------------|---------------------|---------------------|
| Balance, December 31, 2007 | \$ - | \$ 1,153,845 | \$ 339,132 | \$ 88,369 | \$ 1,531,681 | \$ 1,853,356 | \$ 836,937 | \$ 5,803,320 |
| Acquisition | - | - | - | - | - | - | - | - |
| Property payments | 1,819 | 5,706 | - | 6,817 | 57,231 | 39,086 | 111,636 | 222,295 |
| General exploration | 1,556 | 1,456 | - | 3,965 | 40,321 | 251,781 | 154,988 | 454,067 |
| Administrative and general – Note 7 | 273 | 351 | - | 773 | 11,079 | 53,056 | 44,926 | 110,458 |
| Contract and consultants | 1,267 | 3,201 | - | - | - | 116,545 | 121,876 | 242,889 |
| Drilling | - | - | - | - | - | (49,262)* | - | (49,262) |
| Geophysics | - | - | - | - | - | - | - | - |
| Geochemical | - | - | - | - | - | 4,121 | 16,285 | 20,406 |
| Field support | 34 | - | - | - | 4,849 | 116,795 | 41,406 | 163,084 |
| Travel and accommodation | - | - | - | - | 456 | 92,010 | 13,584 | 106,050 |
| Land environment | - | - | - | - | - | 19,234 | - | 19,234 |
| Miscellaneous | - | - | - | - | - | - | - | - |
| Deduct: option payments received | (4,949) | (1,078) | - | - | - | - | (213,555) | (219,582) |
| Deduct: shares received (option payments) | - | (1,381) | - | - | - | - | - | (1,381) |
| Deduct: write-off | - | (1,162,100) | (339,132) | (99,924) | - | - | (276,758) | (1,877,914) |
| | - | (1,153,845) | (339,132) | (88,369) | 113,936 | 643,366 | 14,388 | (809,656) |
| Balance before IVA paid, December 31, 2008 | \$ - | \$ - | \$ - | \$ - | \$ 1,645,617 | \$ 2,496,722 | \$ 851,325 | 4,993,664 |
| Accumulated IVA paid, net of recoveries | | | | | | | | 628,012 |
| Balance after IVA paid, December 31, 2008 | | | | | | | | <u>\$ 5,621,676</u> |

* Reversal of accrual

SEE ACCOMPANYING NOTES

MARIFIL MINES LIMITED
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(Unaudited – Prepared by Management)

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

Marifil Mines Limited (the “Company”) was incorporated on December 2, 2003 under the Yukon Business Corporation Act and is in the exploration stage. The Company is in the business of acquiring, exploring and evaluating mineral resource properties.

During the year ended December 31, 2005, the Company completed an initial public offering and obtained a listing on the TSX Venture Exchange. Also, in conjunction with the offering and listing, the Company acquired by the purchase of an Argentine company, Marifil SA, an interest in mineral properties located in Argentina.

These 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, had a working capital of \$260,054, and efforts to raise additional capital may not be sufficient to sustain operations over the foreseeable future 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.

Interim Reporting

While the information presented in the accompanying interim financial statements is unaudited, it includes all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. These interim financial statements follow the same accounting policies and methods in their application as the Company’s annual financial statements. It is suggested that these interim financial statements be read in conjunction with the Company's annual financial statements at December 31, 2008.

Note 2 Summary of Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada. 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 judgement. Actual results may vary from these estimates.

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

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

a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary and are prepared in Canadian dollars in accordance with generally accepted accounting principles in Canada. All significant inter-company transactions and balances have been eliminated upon consolidation.

b) Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments that are readily convertible to cash within 90 days when purchased.

c) Equipment

Equipment is recorded at cost and amortized over their useful lives using the declining balance method using the following annual rates:

| | |
|--------------------|------|
| Office equipment | 20% |
| Computer equipment | 30% |
| Software | 100% |

Additions during the year are amortized at one-half the annual rates.

d) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely than not that they can be realized.

e) Mineral Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

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

e) Mineral Properties – (cont'd)

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for the properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing. The properties in which the Company has committed to earn an interest are located in Argentina.

IVA taxes paid to the government of Argentina are recorded in the accounts when paid. Where there is reasonable assurance that the Company will be able to obtain a refund of IVA taxes, the amounts received by the Company will be credited to the cost of the properties.

f) Foreign Currency Translation

The Company and its wholly-owned subsidiary maintain accounting records in their functional currencies, Canadian dollars and Argentine pesos, respectively. The Company and its subsidiary translate foreign currency transactions into their respective functional currencies in the following manner: at the transaction date, each asset, liability, revenue and expense is translated into the functional currency by the use of the exchange rate in effect at that date; at the period-end, foreign currency monetary assets and liabilities are re-evaluated into the functional currency by using the exchange rate in effect at the balance sheet date. The resulting foreign exchange gains and losses are included in operations.

In preparing consolidated financial statements, the Company translates the monetary assets and liabilities of its subsidiary into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the exchange rate prevailing at the respective translation dates. Revenue and expenses are translated into Canadian dollars at the average exchange rate for the applicable period except for amortization, which is translated at historical exchange rates. Translation gains or losses are included in operations.

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

g) Basic and Diluted Loss per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Common shares issuable on exercise of stock options and warrants totalling 11,674,293 (December 31, 2008: 3,590,000) were not included in the computation of diluted loss per share because the effect would have been anti-dilutive.

h) Stock-based compensation

The Company accounts for all grants of options to employees, non-employees and directors in accordance with the fair value method for accounting for stock-based compensation. The fair value of stock options granted to non-employees is re-measured on each balance sheet date. Compensation expense for employees is generally amortized using the straight line method over the period from the grant date to the date the options vest. Compensation expense for non-employees is recognized immediately for past services and pro-rata for future services over the service provision period. Compensation for non-employees is re-measured at each balance sheet date until the earlier of the vesting date or the date of completion of the service. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

i) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets are recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset. At September 30, 2009, the Company cannot reasonably estimate the fair value of the resource properties' site restoration costs, if any.

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

j) Comprehensive Income

Effective January 1, 2007, the Company adopted Section 1530, *Comprehensive Income*. This Section establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Adoption of this standard did not result in any restatement of prior periods.

k) Financial Instruments

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3251, *Equity*, CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges*. 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.

CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, sets out criteria for the recognition and measurement of financial instruments for fiscal years beginning on or after October 1, 2006.

Under these new standards, 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 financial assets or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held to maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and transaction costs are amortized into operations, using the effective interest method.
- Available for sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income until the asset is realized, at which time they will be recorded in net earnings.
- Held for trading financial instruments are measured at fair value. All gains and losses resulting from changes in their fair value are included in the statement of operations in the period in which they arise.
- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses resulting from changes in their fair value are included in the statement of operations in the period in which they arise.

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

k) Financial Instruments – (cont'd)

In accordance with this new standard, the Company has classified its financial instruments as follows:

- Cash and cash equivalents and marketable securities are classified as held for trading.
- Advances receivable are classified as loans and receivables.
- Investments are classified as held for trading
- Accounts payable and accrued liabilities are classified as other liabilities

CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, sets out standards which address the presentation of financial instruments and non-financial derivatives, and identifies the related information that should be disclosed. These standards also revise the requirements for entities to provide accounting policy disclosures, including disclosure of the criteria for designating as held-for-trading those financial assets or liabilities that are not required to be classified as held-for-trading; whether categories of normal purchases and sales of financial assets are accounted for at trade date or settlement date; the accounting policy for transaction costs on financial assets and financial liabilities classified as other than held-for-trading; and provides several new requirements for disclosure about fair value.

The Company has chosen to recognize all transaction costs to the statement of net loss on all financial liabilities that have been designated as other than held for trading.

CICA Handbook Section 3865, *Hedging*, specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not hold any financial instruments designated for hedge accounting.

l) Change in Accounting Policies

The CICA has issued the following new Handbook sections which the Company adopted as at January 1, 2008:

- i) Section 3862 – “Financial Instruments — Disclosures”, describes the required disclosure for the assessment of the significance of financial instruments for an entity’s financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. The Company has included disclosures recommended by this section in Note 9 to these consolidated financial statements.
- ii) Section 3863 – “Financial Instruments — Presentation”, establishes standards for presentation of financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861 “Financial Instruments — Disclosure and Presentation”.

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

l) Changes in Accounting Policies – (cont'd)

iii) Section 1535 – “Capital Disclosures”, establishes standards for disclosing information about an entity’s capital and how it is managed. It describes the disclosure of the entity’s objectives, policies and processes for managing capital, the quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and, if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by this section in Note 10 to these consolidated financial statements.

m) Future Accounting Policies

i) In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company’s reporting no later than in the first quarter of 2011, with restatement of comparative information presented.

ii) In February 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets”, which establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Concurrent with the introduction of this standard, the CICA withdrew EIC-27, “Revenues and Expenses During the Pre-operating Period”. As a result of the withdrawal of EIC-27, companies will no longer be able to defer costs and revenues incurred prior to commercial production at new mine operations. The changes are effective for interim and annual financial statements beginning January 1, 2009. The Company is in the process of evaluating the impact of this new standard for adoption on January 1, 2009.

Note 3 Marketable Securities

| | <u>September 30, 2009</u> | | <u>December 31, 2008</u> | |
|----------------------------|---------------------------|-------------------|--------------------------|-------------------|
| | <u>Market</u> | <u>Cost*</u> | <u>Market</u> | <u>Cost*</u> |
| Allana Resources Inc. | \$ - | \$ - | \$ 24,000 | \$ 228,000 |
| Castillian Resources Corp. | <u>243,775</u> | <u>243,775</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 243,775</u> | <u>\$ 243,775</u> | <u>\$ 24,000</u> | <u>\$ 228,000</u> |

* Cost is the fair value recorded when the securities were received.

During the six month period ended June 30, 2009, the Company received 1,838,235 shares (2008: nil) of Castillian Resources Corp., a publicly traded Company on TSXV. The Company had received shares in Castillian Resources Corp. as partial consideration under an option agreement. The Company recorded \$76,431 (2008: \$nil) being the fair value of shares received based on trading price of these shares on the issuance date as a reduction to Las Aguilas resource property cost. During the three month period ending June 30, 2009, the Company sold 1,556,000 shares (2008: nil) of Castillian Resources Corp. for net proceeds of \$78,840, which resulted in the recognition of a gain on sale of \$16,600.

Note 3 Marketable Securities – (cont'd)

During the three month period ending September 30, 2009, the Company sold 282,235 shares of Castillian Resources Corp. for net proceeds of \$17,108, which resulted in the recognition of a gain on sale of \$174. During the three month period ended September 30, 2009, the Company received a further 3,482,500 shares of Castillian Resources Corp. The Company recorded \$243,775 being the fair value of the shares received based on trading price of these shares on the issuance date as a reduction to Las Aquilas resource property cost.

At June 30, 2009, the Company owned 27,000 (December 31, 2008: 600,000) shares of Allana Resources Inc., a publicly traded Company on TSXV. The Company had initially received 600,000 shares in Allana Resources Inc. as consideration under an option agreement on August 11, 2008. The Company recorded \$228,000 being the fair value of shares received based on trading price of these shares on the issuance date as a reduction to resource property cost. During the three month period ending March 31, 2009, the Company sold 301,000 shares (2008: nil) of Allana Resources Inc. for net proceeds of \$37,749, which resulted in the recognition of a gain on sale of \$25,709, and during the three month period ending June 30, 2009, the Company sold 272,000 shares for net proceeds of \$46,001, which resulted in the recognition of a gain on sale of \$16,081. During the three month period ending September 30, 2009, the Company sold 27,000 shares of Allana Resources Inc. for net proceeds of \$4,645, which resulted in the recognition of a gain on sale of \$55

The shares are classified as held for trading and accrued gains and losses are included in income to reflect the value at each period end.

The quoted market price of the shares of Castillian Resources Corp. at September 30, 2009 is \$0.07 per share.

Note 4 Equipment

| | <u>September 30, 2009</u> | | |
|--------------------|---------------------------|-------------------------------------|------------------|
| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net</u> |
| Office equipment | \$ 17,332 | \$ 13,619 | \$ 3,713 |
| Computer equipment | 5,762 | 2,673 | 3,089 |
| Software | <u>5,074</u> | <u>5,074</u> | <u>-</u> |
| | <u>\$ 28,168</u> | <u>\$ 21,366</u> | <u>\$ 6,802</u> |
| | <u>December 31, 2008</u> | | |
| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net</u> |
| Office equipment | \$ 22,158 | \$ 15,648 | \$ 6,510 |
| Computer equipment | 5,762 | 1,627 | 4,135 |
| Software | <u>5,074</u> | <u>5,074</u> | <u>-</u> |
| | <u>\$ 32,994</u> | <u>\$ 22,349</u> | <u>\$ 10,645</u> |

Note 5 Resource Properties

Las Aguilas, San Luis Province

The Company has a 100% interest in mining rights covering approximately 225 square kilometres located in San Luis province Argentina.

December, 2006 Agreement

By an agreement dated December 13, 2006, the Company entered into an agreement to grant an option on 50% of certain of the Las Aguilas mining rights located in San Luis province with a predecessor of Castillian Resources Ltd (“Castillian”). The agreement provides for the following consideration and expenditures:

Cash:

- a) US\$100,000 before February 11, 2007 (received);
- b) US\$125,000 before December 13, 2007 (received);
- c) US\$125,000 before December 13, 2008 (US\$62,500 received; common shares valued at US\$62,500 received subsequent to year end); and
- d) US\$125,000 before December 13, 2009.

Exploration:

- a) US\$400,000 before December 13, 2007 (incurred);
- b) US\$600,000 before December 13, 2008 (incurred);
- c) US\$1,000,000 before December 13, 2009 (incurred); and
- d) US\$1,000,000 before December 13, 2010.

Castillian has the right to increase their interest to 60% if it increases expenditures by a further US\$2,000,000 by December 11, 2012 and by paying to the Company an additional US\$100,000 on or before December 11, 2010 and December 11, 2011 and US\$100,000 each year until the commencement of commercial production and by providing a bankable feasibility study before December 13, 2012.

Castillian can earn a further 5% interest by arranging for total project financing and by paying the Company US\$150,000 per year until the project commences commercial production.

San Luis Property

By a further agreement dated April 19, 2007, the Company signed an agreement with Castillian wherein Castillian will acquire exploration properties surrounding the San Luis property, located in the San Luis Province. This is a separate agreement with Castillian. Under the terms of the agreement, Castillian has the right to earn a 50% interest in the property for the following consideration and expenditures:

Note 5 Resource Properties – (cont'd)

Las Aguilas, San Luis Province – (cont'd)

San Luis Property – (cont'd)

Cash:

- a) US\$10,000 on execution of the agreement (received);
- b) US\$40,000 on or before May 19, 2007 (received);
- c) US\$100,000 on or before April 19, 2008 (received);
- d) US\$115,000 on or before April 19, 2009 (received);
- e) US\$135,000 on or before April 19, 2010;
- f) US\$200,000 on or before April 19, 2011.

Exploration:

- a) US\$200,000 to be spent on or before April 19, 2008 (incurred);
- b) US\$300,000 to be spent on or before April 19, 2009 (incurred);
- c) US\$400,000 to be spent on or before April 19, 2010;
- d) US\$600,000 to be spent on or before April 19, 2011; and
- e) US\$1,500,000 to be spent on or before April 19, 2012.

If Castillian makes all of the commitments and payments listed above then Castillian will have the right to earn a further 10% interest by;

- a) Spending US\$2,000,000 per year for each of the next two years in work obligations; and
- b) Paying the Company US\$165,000 before the end of each year and continuing each year until Castillian produces a “bankable” feasibility study.

Castillian can earn a further 5% interest by arranging for total project financing and by paying the Company US\$150,000 per year until the project commences commercial production.

The option proceeds received are in excess of costs incurred on the property and the excess proceeds of \$163,722 (2007: \$175,012) have been included in other income.

An amendment to the agreement was negotiated. Castillian paid property taxes and option payments outlined in cash d) above by issuing shares of Castillian to Marifil.

Note 5 Resource Properties – (cont'd)

Amarillo, San Juan Province

Pursuant to an agreement dated May 25, 2004 (the Closing Date) and amended June 7, 2005, the Company entered into an option agreement to acquire up to a 55% interest in the Amarillo properties located in San Juan province Argentina. In order to maintain the agreement in good standing, the Company was to incur minimum exploration expenses of US\$3,125,000 and pay US\$380,000 by April 14, 2012.

As there was a payment missed due to the lack of available funding, these properties were returned to the optionor and all costs incurred to date of \$1,162,100 were written off.

Davicino Gold Properties

In May, 2004, the Company entered into three option agreements to acquire a group of seven properties located in Rio Negro and Santa Cruz Provinces, Argentina (the “Davicino Gold Project”), being the Cerro Covadonga, El Mendiano, Dos Amigos, Tembrao, Pailiman, Rosita and Alianza properties.

i) Davicino Properties, Rio Negro Province

During the year ended December 31, 2008, the Company abandoned the Alianza property and accordingly wrote off the aggregate costs of \$339,132.

ii) Tembrao (Davicino) – Pailemen, Rio Negro Province

On May 8, 2004, the Company entered into an option agreement to acquire up to a 100% interest in the Davicino II Properties.

The Tembrao property is located in a conservatory area and no exploration work is permitted at this time. The property has been abandoned and returned to its owner and all costs incurred to date of \$99,924 have been written off.

iii) Toruel (Davicino), Rio Negro Province

The Toruel Project is covered by three separate agreements as follows:

a) M.I.M. Argentina Exploraciones

On January 31, 2006, the Company entered into an agreement to acquire up to a 100% interest in the Suerte property in Rio Negro Province Argentina. In consideration, the Company is obligated to spend US\$178,000 on exploration based on the following schedule:

Note 5 Resource Properties – (cont'd)

Davicino Gold Properties - (cont'd)

(iii) Toruel (Davicino), Rio Negro Province – (cont'd)

a) M.I.M. Argentina Exploraciones - (cont'd)

US\$20,000 before January 31, 2007 (incurred);
US\$30,000 before January 31, 2008 (incurred);
US\$35,000 before January 31, 2009 (incurred);
US\$43,000 before January 31, 2010; and
US\$50,000 before January 31, 2011.

The Company may purchase the property for US\$375,000 anytime within the term of the option. There are no royalty payments payable to the optionor.

b) Davicino

The agreement dated May 8, 2004 with Ruben Davicino was amended in November 2008 wherein the payments totalling US\$305,000 due as to US\$20,000 by November 8, 2007, US\$35,000 by May 8, 2008, US\$35,000 by November 8, 2008 and US\$230,000 on May 8, 2009 were amended to the following:

| <u>Payments</u> | <u>Due Dates</u> |
|-----------------|-------------------------|
| US \$20,000 | November 8, 2008 (paid) |
| US \$20,000 | May 8, 2010 |
| US \$35,000 | November 8, 2010 |
| US\$230,000 | May 8, 2010 |

The optionor retains a 2% net smelter return which may be purchased for US\$750,000.

c) Sonito

The third agreement dated April 8, 2005 is with Ana Benda and Veronica Alduvino for the Sonito claim. During the year ended December 31, 2008, the Company abandoned the Sonito claim.

San Roque, Rio Negro Province

On March 8, 2006 the Company signed an agreement to acquire the San Roque gold project in Rio Negro province, Argentina. The Company has committed to spending US\$50,000 annually in work on the property for four years (incurred). The Company has the right to purchase 100% of the property at any time by making a cash payment of US\$400,000.

Note 5 Resource Properties – (cont'd)

Other Properties

Except as noted below, other Argentine properties include the Valle Daza project, covering approximately 140 square kilometres located in La Pampa province, Argentina, the Maipu Project located in Santa Cruz province Argentina, the Somuncura Property which consists of fifteen properties located in the Rio Negro province of Argentina, and the Alto Rio Chubut Project, consisting of five staked properties in the Rio Negro province of Argentina. There are no remaining commitments on these projects.

The Company also owns a limestone property, an oil and gas property and several epithermal gold-silver prospects. The limestone property is subject to a significant finder's fee payable on any proceeds received in respect of the property. The other properties are 100% owned and have no commitments.

During the year ended December 31, 2008, the Company abandoned the Avestruces, JuJuy, Catamarca and Valle Daza projects and aggregate costs of \$248,806 (2007: \$20,143) were written off.

Lago Fontana (Ferrocarillera) Project

The Company acquired this property by staking and had optioned it to Silex Argentina ("Silex"), a wholly owned subsidiary of Apex Silver Mines Ltd. Under the terms of the agreement Silex made payments of US\$75,000.

Silex declared a force majeure due to inability to obtain permitting. The property has been returned. The Company believes the permitting problem will be solved this year; a new joint venture is being sought.

Araucana Property

The Company has entered into an agreement to option the Araucana Molybdenum Property located in Mendoza Province Argentina. Under the terms of the agreement, the Company must pay US\$490,000 by December 31, 2010.

A temporary ban on mining activity has been imposed by Mendoza Province. During the year ended December 31, 2007, management of the Company abandoned the property. Costs incurred of \$27,952 (2007: \$27,051) have been written off.

Note 5 Resource Properties – (cont'd)

Other Properties – (cont'd)

K-2 Potash Property

On September 19, 2008, the Company signed a Definitive Agreement (“the Agreement”) vending its K-2 potash property to Oxbow Holdings Corp., a private Canadian corporation (“Oxbow”). Pursuant to terms of the Agreement, the transaction is subject to approval by the Company’s Board of Directors. Approval was not received before year end and as a result has not been recorded at December 31, 2008. The agreement is being amended and the following represents a summary of the proposed terms of the agreement.

Under the terms of the Agreement, the Company will receive 13,500,000 shares of Oxbow, representing 67.5% of the total issued shares of Oxbow and will further receive 4,000,000 common share purchase warrants expiring August 8, 2012 to purchase one additional share for \$0.40 for each warrant held.

The Company will also receive anti-dilution rights enabling the Company to retain a minimum fifty percent (50%) equity interest in Oxbow by participating in any private equity offerings for 12 months following the Closing or for up to 24 months for any public offerings.

The Company will also receive \$455,000 in cash, in total, as follows:

| <u>Payment date</u> | <u>Payment Amount</u> | |
|--|-----------------------|------------|
| Within five days of signing the letter of intent | US \$50,000 | (received) |
| At signing of the Agreement | US \$95,000 | (received) |
| November 24, 2008 | US \$40,000 | (received) |
| On or before February 24, 2009 | US \$20,000 | (received) |
| On or before January 1, 2010 | <u>US\$250,000</u> | |
| | <u>US\$455,000</u> | |

The latter payment may be made in Oxbow common shares at the greater of \$0.10 per share or Oxbow’s last private placement issue price.

In addition to the \$455,000 payments described above, the Company will also receive further payments of \$250,000 annually, beginning on the second anniversary of the Closing and continuing until the first Milestone payment (see below) is made after which the annual payments will cease.

Note 5 Resource Properties – (cont'd)

Other Properties – (cont'd)

K-2 Potash Property – (cont'd)

On or before September 1, 2010, the Company will receive a \$750,000 Resource Milestone payment as follows: the first Milestone payment will be paid on completion of a NI 43-101 report showing an inferred, indicated, and measured potash resource of 200,000,000 tonnes of potash grading 13% K₂O, if the resource calculation comes after September 1, 2010 the payment increases to \$1,500,000; the second Milestone payment of \$1,500,000 is due following completion of a bankable feasibility report, or if a decision is made to proceed to production without producing a feasibility study, occurs on or before September 1, 2012.

If the feasibility study or construction begins after September 1, 2012 the payment increases to \$3,000,000. At the Company's election the second milestone payments may be made in either cash or stock. The Company will retain a sliding scale royalty on sales of potash from the property. The royalty shall start at 2% for sales at less than \$250 per tonne and increase to 4% for sales at \$400 per tonne; all sales FOB Vancouver.

Punta Colorado

On October 10, 2008, the Company entered into an agreement whereby the Company is granted exclusive exploration rights to the Punta Colorado property located in the Rio Negro Province of Argentina. Under the terms of the agreement, the Company is granted a six year term to carry out exploration. If the Company's exploration findings justify commercial exploitation, the Company shall have exploitation rights for a thirty year term. The project is subject to a 5% royalty on the mine mouth value of the mineral extracted.

Pederal

On October 10, 2008, the Company entered into an agreement regarding the Pederal located in the San Juan Province of Argentina. Under the terms of the agreement, the Company has an option earn a 100% interest subject to a 1.5% NSR.

This property was dropped during the second quarter.

Note 6 Share Capital

Shares

During the quarter ended September 30, 2009, the Company issued 6,276,000 common shares pursuant to a non-brokered private placement of units of \$0.05 per unit for total proceeds of \$313,800. 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 a period of two years at \$0.10 per share during the first year and at a price of \$0.15 per share during the second year. Finders' fees relating to this private placement was cash of \$18,800, which is recorded as share issue costs.

During the quarter ended March 31, 2009, the Company issued 5,376,585 common shares pursuant to a non-brokered private placement of units of \$0.05 per unit for total proceeds of \$268,829. Each unit consists of one common share and one half of one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for \$0.10 per share for a period of one year. Finders' fees relating to this private placement was cash of \$10,230, which were recorded as share issue costs.

On March 4, 2009, the Company issued 1,580,346 common shares at a deemed price of \$0.075 per share (equal to the quoted market price at date of transaction) to settle \$118,526 in debt, of which 569,253 common shares were issued to officers of the Company.

During the year ended December 31, 2008, the Company issued 1,000,000 common shares pursuant to a non-brokered private placement of units of \$0.40 per unit for total proceeds of \$400,000. Each unit consists of one common share and one-half of one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for \$0.65 per share for a period of one year. Finders' fees relating to this private placement was cash of \$32,000.

During the year ended December 31, 2007, the Company issued 2,181,655 common shares pursuant to a non-brokered private placement of units of \$0.45 per unit for total proceeds of \$982,045. Each unit consists of one common share and one-half of one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for \$0.75 per share for a period of one year. Finders' fees relating to this private placement was cash of \$58,200.

All proceeds from the above private placements were allocated to share capital with no amounts allocated to the attached warrants.

Stock Option Plan

The Company has an incentive stock option plan whereby share purchase options may be granted to directors, officers, employees and consultants of the Company and its subsidiaries. The total number of shares reserved under the plan may not exceed more than 10% of the outstanding shares at the time of granting the option. Options are granted at the market price at the date of the grant, less any discounts permitted by regulatory authorities. Unless otherwise stated options vest when granted.

Note 6 Share Capital – (cont'd)

Shares – (cont'd)

Stock-based Compensation

On February 5, 2008, the Company granted 200,000 options at \$0.42 per share. These options vest as to 25% on May 6, 2008 and 25% every three months thereafter. On May 5, 2008, the Company granted 65,000 options at \$0.45 per share. These options vest immediately.

On February 11, 2007, the Company granted options to purchase 100,000 shares at an exercise price of \$0.58 per share. On May 29, 2007 the Company granted options to purchase 1,610,000 shares at an exercise price of \$0.66 per share and on June 19, 2007, a further 150,000 shares at \$0.60 per share.

The fair value of stock options recognized totalling \$44,397 (2007: \$986,160) was recorded on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | <u>December 31,</u> <u>2008</u> | <u>December 31,</u> <u>2007</u> |
|---------------------------------|------------------------------------|------------------------------------|
| Expected dividend yield | 0% | 0% |
| Expected stock price volatility | 121% | 88.03% – 92.19% |
| Risk-free interest rate | 3.53% | 3.90% |
| Expected life of options | 2 - 5 years | 5 years |

The fair value will be booked at the dates of vesting.

As at September 30, 2009, options outstanding are as follows:

| <u>Number</u> | | <u>Vested</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|------------------|---|------------------|-----------------------|--------------------|
| 200,000 | Consultants | 200,000 | \$0.42 | February 5, 2010 |
| 900,000 | Directors | 900,000 | \$0.50 | March 16, 2010 |
| 100,000 | Employee | 100,000 | \$0.58 | February 10, 2012 |
| 1,200,000 | Directors | 1,200,000 | \$0.66 | May 28, 2012 |
| 150,000 | Officer | 150,000 | \$0.66 | May 28, 2012 |
| 100,000 | Consultants | 100,000 | \$0.66 | May 28, 2012 |
| <u>60,000</u> | Consultant and Officer of Marifil SA | <u>60,000</u> | \$0.66 | May 28, 2012 |
| <u>2,710,000</u> | | <u>2,710,000</u> | | |

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Note 6 Share Capital – (cont'd)

Shares – (cont'd)

Stock-based Compensation – (cont'd)

Stock Options Outstanding

A summary of the share purchase options is as follows:

| | <u>September 30, 2009</u> | | <u>December 31, 2008</u> | |
|----------------------------------|---------------------------|---|--------------------------|---|
| | <u>Shares</u> | Weighted Average Exercise <u>Price</u> | <u>Shares</u> | Weighted Average Exercise <u>Price</u> |
| Outstanding, beginning of period | 3,090,000 | \$0.60 | 2,825,000 | \$0.60 |
| Granted | - | - | 265,000 | \$0.43 |
| Cancelled | (230,000) | \$0.58 | - | - |
| Expired | <u>(150,000)</u> | \$0.60 | <u>-</u> | - |
| Outstanding, end of period | <u>2,710,000</u> | \$0.59 | <u>3,090,000</u> | \$0.59 |
| Exercisable, end of period | <u>2,710,000</u> | \$0.59 | <u>3,040,000</u> | \$0.59 |

Warrants Outstanding

As at September 30, 2009, the following share purchase warrants were outstanding:

| <u>Number</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|------------------|-----------------------|--------------------|
| 2,688,293 | \$0.10 | February 4, 2010 |
| <u>6,276,000</u> | \$0.10/\$0.15 | Sept 10, 2010/2011 |
| <u>8,964,293</u> | | |

A summary of the warrants outstanding is as follows:

| | <u>September 30, 2009</u> | | <u>December 31, 2008</u> | |
|------------------------------|---------------------------|---|--------------------------|---|
| | <u>Shares</u> | Weighted Average Exercise <u>Price</u> | <u>Shares</u> | Weighted Average Exercise <u>Price</u> |
| Balance, beginning of period | 500,000 | \$0.65 | 1,090,828 | \$0.75 |
| Issued | 8,964,293 | \$0.10 | 500,000 | \$0.65 |
| Expired | <u>(500,000)</u> | \$0.65 | <u>(1,090,828)</u> | \$0.75 |
| Balance, end of period | <u>8,964,293</u> | <u>\$0.10</u> | <u>500,000</u> | <u>\$0.65</u> |

Note 7 Related Party Transactions

The Company incurred charges with directors, an officer and companies with directors and officers in common as follows:

| | Nine month period ended September 30, | | Three month period ended September 30, | |
|---------------------------------------|--|-------------------|---|------------------|
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Schedule of Mineral Properties | | | | |
| Deferred resource properties costs | \$ <u>53,832</u> | \$ <u>65,318</u> | \$ <u>8,247</u> | \$ <u>22,348</u> |
| Administrative Expenses | | | | |
| Accounting fees | \$ 38,805 | \$ 35,955 | \$ 10,905 | \$ 11,580 |
| Consulting fees | 53,832 | 63,625 | 8,247 | 21,391 |
| Directors fees | <u>4,549</u> | <u>6,111</u> | <u>1,087</u> | <u>3,090</u> |
| | \$ <u>97,186</u> | \$ <u>105,691</u> | \$ <u>20,239</u> | \$ <u>36,061</u> |

These transactions were recorded at the exchange amount, which is the amount agreed to by the transacting parties.

At September 30, 2009 accounts payable included \$71,146 (2008 - \$42,069) owing to directors of the Company and a company with a common officer for unpaid fees and reimbursement of expenses.

During the quarter ended September 30, 2009, the Company's Argentinean subsidiary paid \$9,867 of invoices on behalf of Argentinean Company with common officers and a common director in error. This amount was promptly repaid on October 1, 2009 subsequent to the quarter end.

Note 8 Income Taxes

At December 31, 2008, the Company has accumulated non-capital losses of approximately \$1,928,000 in Canada and CDN\$1,953,000 in Argentina, which are available to carry forward and offset future years' taxable income. The non-capital losses expire as follows:

| | <u>Argentina</u> | <u>Canada</u> | <u>Total</u> |
|------|---------------------|---------------------|---------------------|
| 2009 | \$ 26,000 | \$ - | \$ 26,000 |
| 2010 | 19,000 | - | 19,000 |
| 2011 | 252,000 | 166,000 | 418,000 |
| 2012 | 1,095,000 | - | 1,095,000 |
| 2015 | 561,000 | 556,000 | 1,117,000 |
| 2026 | - | 476,000 | 476,000 |
| 2027 | - | 535,000 | 535,000 |
| 2028 | - | <u>195,000</u> | <u>195,000</u> |
| | <u>\$ 1,953,000</u> | <u>\$ 1,928,000</u> | <u>\$ 3,881,000</u> |

Note 8 Income Taxes – (cont'd)

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

| | <u>Dec 31,</u> <u>2008</u> | <u>Dec 31,</u> <u>2007</u> |
|--|-------------------------------|-------------------------------|
| Statutory tax rate | <u>31.00%</u> | <u>34.12%</u> |
| Loss before income taxes | <u>\$(2,020,004)</u> | <u>\$(1,547,717)</u> |
| Expected income tax recovery | 626,000 | 528,000 |
| Increase (decrease) in income tax recovery resulting from: | | |
| Change in statutory rates | (30,000) | (126,000) |
| Foreign income taxed at Argentine rate | 50,000 | 1,000 |
| Stock-based compensation | (14,000) | (336,000) |
| Other non-deductible items | (59,000) | (51,000) |
| Effective foreign exchange gain on future income tax assets | 268,000 | (130,000) |
| Change in the valuation allowance for future income tax assets | <u>(841,000)</u> | <u>114,000</u> |
| Income tax recovery | <u>\$ -</u> | <u>\$ -</u> |

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

| | <u>Dec 31,</u> <u>2008</u> | <u>Dec 31,</u> <u>2007</u> |
|---|-------------------------------|-------------------------------|
| Non-capital loss carry forward | \$ 1,185,000 | \$ 879,000 |
| Mineral properties and deferred exploration | 22,000 | (428,000) |
| Other | 160,000 | 75,000 |
| Less: valuation allowance | <u>(1,367,000)</u> | <u>(526,000)</u> |
| | <u>\$ -</u> | <u>\$ -</u> |

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

Note 9 Financial Instruments

Credit Risk

The Company does not engage in sales activities. The risk of loss due to credit risk is believed to be minimal.

Liquidity Risk

Liquidity risk is the risk that the Company may be unable to meet its financial obligations as they fall due or that it will be required to meet them at excessive cost. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. Currently the Company has a working capital deficit and therefore short-term liquidity risk is inherent.

To mitigate its liquidity risk, the Company expects some of its liabilities to be paid later than the earliest date on which the Company is required to pay and expects to raise capital through private placements in the 2009 fiscal year.

Interest Rate Risk

The Company is exposed to the risk that the value of financial instruments will change due to movements in market interest rates. The Company has no interest-bearing debt with long-term maturities and therefore does not believe that interest rate risk is significant. The Company does not use derivative instruments to reduce its interest rate risk as the Company's management believes that the likely financial impact of interest rate changes does not justify using derivatives.

Foreign Exchange Risk

The Company has a minimal exposure to the US\$ and Argentine pesos and is subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in this currency. The Company considers this risk to be limited and does not hedge its foreign exchange risk.

Market Risk

The Company has market risk attributable to its marketable securities held for trading. The investments consist of shares in Allana Resources Inc. and shares of Castillian Resources Corp., which were received as partial consideration in option agreements. The investments held for trading are carried on the balance sheet at the fair market value of the investments, with the change in fair value being recognized as fair market value adjustment on investments held for trading in the statement of loss and deficit. Based on management's knowledge and experience of the financial markets, the Company does not believe it is subject to significant market risk as a result of holding these marketable securities.

Note 10 Capital Disclosures

The capital structure of the Company consists of shareholders' equity, long-term debt and cash and cash equivalents as noted below:

| | <u>September 30,</u> <u>2009</u> | <u>Dec 31,</u> <u>2008</u> |
|------------------------|-------------------------------------|-------------------------------|
| Components of Capital: | | |
| Shareholders' equity | \$ 6,024,553 | \$ 5,295,521 |
| Less: cash | <u>(170,452)</u> | <u>(46,164)</u> |
| | <u>\$ 5,854,101</u> | <u>\$ 5,249,357</u> |

The Company's objectives when managing capital are:

- to manage capital in a manner which balances the interest of equity holders;
- to manage capital in a manner that will maintain compliance with its financial covenants, if any; and
- to maintain a capital base so as to maintain investor, creditor and market confidence and to sustain future development.

The Company manages its capital structure as determined by management and approved by the board of directors. The Company's policy is to make adjustments to its capital structure based on changes in economic conditions and planned requirements. The Company has the ability to adjust its capital structure by issuing new equity or debt, selling assets to reduce debt or balance equity, and making adjustments to its capital expenditures program. The Company is not subject to any externally imposed capital requirements.

There have been no changes to the Company's capital structure, objectives, policies and processes from the prior year.

Note 11 Subsequent Events

a) K-2 Potash Property

The transaction with Oxbow Holdings Corp. has closed.

b) Exercise of Warrants

Subsequent to September 30, 2009, the Company issued 300,000 common shares pursuant to the exercise of warrants as follows:

| <u>Warrants exercised</u> | <u>Price</u> | <u>Total proceeds received</u> |
|---------------------------|--------------|--------------------------------|
| <u>300,000</u> | \$0.10 | <u>\$ 30,000</u> |

Note 11 Subsequent Events (cont'd)

c) Rosada Lithium Property

Subsequent to September 30, 2009, the Company entered into an option agreement regarding the Rosada Lithium Property. This agreement provides for the following payments:

| <u>Payment date</u> | <u>Payment Amount</u> |
|-----------------------------|-----------------------|
| At signing of the Agreement | US \$7,500 |
| Year 1 | US \$12,500 |
| Year 2 | US \$20,000 |
| Year 3 | US \$40,000 |
| Year 4 | US \$60,000 |
| Year 5 | US \$200,000 |
| Year 6 | <u>US\$300,000</u> |
| | <u>US\$640,000</u> |

The option is subject to a 1.5% net smelter return, which may be purchased at any time for \$800,000 US\$.