

# SOLTORO LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

## CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009**

## **Management's Responsibility for Financial Reporting**

The accompanying unaudited interim financial statements of Soltoro Ltd. were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the unaudited interim financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim financial statements and (ii) the unaudited interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

### **Notice to Reader**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

## **SOLTORO LTD.**

### **Consolidated Balance Sheets**

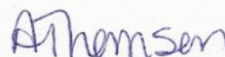
(Unaudited & expressed in Canadian dollars)

|   | September 30,<br>2009 | December 31,<br>2008 |
|---|-----------------------|----------------------|
|   | \$                    | \$                   |
| <b>ASSETS</b>   |                       |                      |
| Current   |                       |                      |
| Cash and short term investments                                   | 950,384               | 803,689              |
| Financial instruments available-for-sale (note 7)                 | 20,000                | 10,000               |
| Accounts receivable and prepaid expenses                          | 82,852                | 84,724               |
|   | <b>1,053,236</b>      | 898,413              |
| Equipment (note 8)  | 29,594                | 43,290               |
| Mineral properties and deferred exploration expenditures (note 9) | 3,053,045             | 2,469,584            |
|   | <b>4,135,875</b>      | 3,411,287            |
| <b>LIABILITIES</b>  |                       |                      |
| Current   |                       |                      |
| Accounts payable and accrued liabilities (note 10)                | 61,690                | 378,380              |
|   | <b>61,690</b>         | 378,380              |
| Basis of Presentation and Going Concern (note 1)                  |                       |                      |
| <b>SHAREHOLDERS' EQUITY</b>                                       |                       |                      |
| Capital stock (note 11)   | 5,895,147             | 4,698,203            |
| Warrants (note 12)  | 110,747               | 108,004              |
| Contributed surplus (note 14)                                     | 595,540               | 381,287              |
| Deficit   | (2,527,249)           | (2,154,587)          |
|   | <b>4,074,185</b>      | 3,032,907            |
|   | <b>4,135,875</b>      | 3,411,287            |

On behalf of the Board of Directors:



Douglas Reeson  
Director



Andrew Thomson  
Director

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

**SOLTORO LTD.****Consolidated Statements of Operations,  
Comprehensive Loss and Deficit****For the three and nine months ended September 30, 2009 and 2008**

(Unaudited &amp; expressed in Canadian dollars)

|   | Three months ended |            | Nine months ended |            |
|---|--------------------|------------|-------------------|------------|
|   | September 30,      |            | September 30,     |            |
|   | 2009               | 2008       | 2009              | 2008       |
|   | \$                 | \$         | \$                | \$         |
| Salaries and management fees (note 10)                  | <b>46,693</b>      | 53,394     | <b>137,024</b>    | 135,341    |
| Legal and audit   | <b>5,000</b>       | 5,801      | <b>20,822</b>     | 65,387     |
| Investor relations                                      | <b>20,564</b>      | 17,826     | <b>36,729</b>     | 81,477     |
| Regulatory fees   | <b>74</b>          | -          | <b>8,983</b>      | 10,213     |
| Transfer agent  | <b>2,299</b>       | 1,698      | <b>10,164</b>     | 6,903      |
| Office expenses   | <b>4,419</b>       | 3,515      | <b>13,136</b>     | 16,854     |
| Rent  | <b>10,154</b>      | 9,975      | <b>33,935</b>     | 25,813     |
| Communications  | <b>2,383</b>       | 2,949      | <b>8,134</b>      | 8,980      |
| Travel  | <b>4,948</b>       | 3,378      | <b>13,807</b>     | 13,835     |
| Property investigation costs                            | -                  | 7,328      | -                 | 7,328      |
| Foreign exchange (gain)/loss                            | <b>(7,214)</b>     | (10,832)   | <b>(17,891)</b>   | (25,772)   |
| Amortization  | <b>1,140</b>       | 310        | <b>3,489</b>      | 4,699      |
| Stock-based compensation (note 13)                      | <b>131,701</b>     | 4,919      | <b>131,701</b>    | 87,736     |
| <b>Total administrative expenses</b>                    | <b>222,161</b>     | 100,261    | <b>400,033</b>    | 438,794    |
| <b>Other Income</b>                                     |                    |            |                   |            |
| Property payment  | -                  | -          | <b>(24,645)</b>   | -          |
| Interest (income)                                       | <b>49</b>          | (8,963)    | <b>(225)</b>      | (25,658)   |
| <b>Net loss</b>   | <b>222,112</b>     | 91,298     | <b>375,163</b>    | 413,136    |
| Unrealised loss (gain) on available-for-sale securities | -                  | 16,250     | <b>(2,500)</b>    | 30,250     |
| <b>Comprehensive loss</b>                               | <b>222,112</b>     | 107,548    | <b>372,663</b>    | 443,386    |
| <b>Loss per share - basic and diluted</b>               | <b>0.00</b>        | 0.01       | <b>0.01</b>       | 0.02       |
| Weighted average number of common shares                | <b>27,153,195</b>  | 20,215,000 | <b>27,209,631</b> | 20,215,000 |

**Interim statement of Deficit****For the three months ended September 30, 2009 and 2008**

(Unaudited &amp; expressed in Canadian dollars)

|                                   | 2009               | 2008        |
|-----------------------------------|--------------------|-------------|
|                                   | \$                 | \$          |
| Deficit, beginning of period      | <b>(2,305,137)</b> | (1,421,445) |
| Comprehensive loss for the period | <b>(222,112)</b>   | (107,548)   |
| Deficit, end of period            | <b>(2,527,249)</b> | (1,528,993) |

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

**SOLTORO LTD.****Consolidated Statements of Cash Flows****For the three and nine months ended September 30, 2009 and 2008**

(Unaudited &amp; expressed in Canadian dollars)

|  | Three months ended<br>September 30, |                  | Nine months ended<br>September 30, |                  |
|--|-------------------------------------|------------------|------------------------------------|------------------|
|  | 2009                                | 2008             | 2009                               | 2008             |
|  | \$                                  | \$               | \$                                 | \$               |
| <b>Operating activities</b>  |                                     |                  |                                    |                  |
| Net loss   | (222,112)                           | (91,298)         | (375,163)                          | (413,136)        |
| Amortization charged to operations                                 | 1,140                               | 612              | 3,489                              | 5,001            |
| Stock- based compensation  | 131,701                             | 4,919            | 131,701                            | 87,735           |
| Property option payment settlement (note 9(c))                     | -                                   | -                | (24,645)                           | -                |
| Mineral properties write-offs                                      | -                                   | -                | -                                  | -                |
| (Increase) decrease in accounts receivable<br>and prepaid expenses | (1,686)                             | 23,201           | 1,872                              | 164,013          |
| Increase (decrease) in accounts payable and<br>accrued liabilities | (135,781)                           | 63,201           | (316,690)                          | 71,870           |
|  | (226,738)                           | 635              | (579,436)                          | (84,547)         |
| <b>Investing activities</b>  |                                     |                  |                                    |                  |
| Purchase of equipment  | -                                   | (825)            | -                                  | (2,361)          |
| Exploration expenditures   | (178,005)                           | (454,452)        | (556,110)                          | (840,102)        |
|  | (178,005)                           | (455,277)        | (556,110)                          | (842,473)        |
| <b>Financing activities</b>  |                                     |                  |                                    |                  |
| Issuance of share capital, net of costs                            | 418,418                             | -                | 1,171,492                          | -                |
| Issuance of warrants, net of costs                                 | 39,392                              | -                | 110,747                            | -                |
|  | 457,810                             | -                | 1,282,239                          | -                |
| <b>Change in cash</b>  | <b>53,067</b>                       | <b>(454,643)</b> | <b>146,695</b>                     | <b>(927,249)</b> |
| <b>Cash at beginning of period</b>                                 | <b>897,317</b>                      | <b>971,365</b>   | <b>803,689</b>                     | <b>1,443,971</b> |
| <b>Cash at end of period</b>                                       | <b>950,384</b>                      | <b>516,722</b>   | <b>950,384</b>                     | <b>516,722</b>   |
| <b>Supplemental Information</b>                                    |                                     |                  |                                    |                  |
| Interest paid  | -                                   | -                | -                                  | -                |
| Income tax paid  | -                                   | -                | -                                  | -                |
| Shares received for property payment                               | -                                   | -                | 7,500                              | -                |

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

**SOLTORO LTD.****Consolidated Statements of Changes in Shareholders' Equity**

(Unaudited &amp; expressed in Canadian dollars)

|   | September 30,<br>2009<br>\$ | December 31,<br>2008<br>\$ |
|---|-----------------------------|----------------------------|
| <b>Capital stock</b>                                      |                             |                            |
| Balance at beginning of fiscal year                       | 4,698,203                   | 4,689,203                  |
| Private placements (net of issue costs)                   | 1,126,492                   | -                          |
| Warrants exercised  | -                           | -                          |
| Fair value of warrants exercised                          | -                           | -                          |
| Options exercised   | -                           | -                          |
| Fair value of options exercised – cash value              | 45,000                      | -                          |
| Fair value of options exercised – Black Scholes valuation | 25,452                      | -                          |
|   | -                           | -                          |
| <b>Balance at end of period</b>                           | <b>5,895,147</b>            | 4,698,203                  |
| <b>Warrants</b>   |                             |                            |
| Balance at beginning of fiscal year                       | 108,004                     | 108,004                    |
| Fair value of warrants issued (net of issue costs)        | 110,747                     | -                          |
| Fair value of expired warrants                            | (108,004)                   | -                          |
|   | -                           | -                          |
| <b>Balance at end of period</b>                           | <b>110,747</b>              | 108,004                    |
| <b>Contributed surplus</b>                                |                             |                            |
| Balance at beginning of fiscal year                       | 381,287                     | 358,272                    |
| Stock-based compensation (Note 10)                        | 131,701                     | 23,015                     |
| Fair value of expired warrants                            | 108,004                     | -                          |
| Fair value of exercised stock options                     | (25,452)                    | -                          |
| <b>Balance at end of period</b>                           | <b>595,540</b>              | 381,287                    |
| <b>Deficit</b>  |                             |                            |
| Balance at beginning of year                              | (2,154,587)                 | (1,085,607)                |
| Net loss and comprehensive loss for the year              | (372,663)                   | (1,068,980)                |
| <b>Balance at end of period</b>                           | <b>(2,527,249)</b>          | <b>(2,154,587)</b>         |
| <b>Total</b>  | <b>4,074,185</b>            | 3,032,907                  |

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

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2009 and 2008**

**1. BASIS OF PRESENTATION AND GOING CONCERN**

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business.

Soltoro Ltd. (“Soltoro” or “the Company”) has no sources of revenue and is dependent on financings to fund its operations. In addition, the Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. The ability of the Company to continue as a going concern and the recoverability of amounts capitalized in respect of mineral properties and deferred exploration costs are dependent upon the continuing financial support of shareholders or other investors; obtaining new financing on commercial terms acceptable to the Company to enable it to complete exploration and development; establishing successfully the existence of economically recoverable reserves; confirmation of the Company’s interest in the underlying mineral concessions; the acquisition of required permits to mine; and upon attaining profitable production once any or all of its properties have commenced operations, all of which outcomes are uncertain and which, taken together, cast significant doubt over the ability of the Company to continue as a going concern.

These financial statements do not include any adjustments to the carrying values of the Company’s assets, liabilities, and expenses and the related balance sheet and income statement classifications that would be necessary if the going concern assumption were inappropriate. Such adjustments have not been quantified by management but could be material.

**2. NATURE OF BUSINESS**

Soltoro was incorporated on September 12, 2005 under the Canada Business Corporations Act. Soltoro is a development stage company focused on one business segment being the exploration for economic mineral deposits, exclusively in Mexico, through its wholly owned subsidiary, Soltoro S.A. de C.V. (“Soltoro-Mexico”).

**3. BUSINESS COMBINATION**

The consolidated financial statements of Soltoro Ltd. (formerly Blue Fyre One Inc., reflect the reverse takeover by Soltoro Ltd. (“Private Soltoro”) of Blue Fyre One Inc. (“Blue Fyre”), a capital pool company, under the policies of the TSX Venture Exchange. The reverse takeover by Private Soltoro of Blue Fyre was approved by the shareholders of each company and was completed on August 31, 2006. The details of the transaction are outlined in the audited financial statements for year ended December 31, 2007.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of the Company have been prepared in Canadian Dollars and in accordance with Canadian generally accepted accounting principles. The consolidated

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**Notes to the Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2009 and 2008**

financial statements include the accounts of the Company and its wholly owned Mexican subsidiary, Soltoro S.A. de C.V.

**a) Mineral properties and deferred exploration expenditures**

The Company capitalizes the acquisition costs of mineral properties and all direct costs relating to exploration on its mineral properties. These costs will be amortized over the estimated productive lives of the properties upon commencement of production using the unit-of-production method. Option payments or sales of mineral properties are accounted for by applying the proceeds from such sales to the carrying costs of the property and reducing costs to zero prior to recognizing any gains. Costs related to abandoned projects are written off.

The amounts shown for mineral properties represent costs incurred to date and do not necessarily represent present or future values. Periodically, a determination will be made by management as to the status of each property. When the carrying value of a property is impaired, it will be written down to its fair value. Where a property shows no promise from prior exploration results and is dormant, the concessions may be allowed to lapse. At management's discretion, the claims will be written off or written down to a nominal value where an interest in the concession remains.

**b) Equipment**

Equipment is carried at cost less accumulated amortization. Amortization is calculated on a straight line basis at rates which range from 10% to 30%. Amortization on assets used for exploration activities is charged to deferred exploration expenditures.

**c) Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates are reviewed periodically and, as adjustments become necessary, they are made in the period in which they become known. Actual results could differ from those estimates. Accounts which require management to make material estimates in determining amounts recorded include fair value of assets, asset retirement obligations, future income taxes and stock-based compensation.

**d) Foreign exchange**

The financial statements of integrated foreign operations and transactions in foreign currencies entered into by the Company are translated using the temporal method. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the balance sheet date, and non-monetary items are translated at historical exchange rates. Revenue and expense items denominated in foreign currencies are translated at the exchange rates in effect on the dates of the transactions, except for amortization of equipment and mineral properties and deferred exploration costs which are translated at the same exchange rates as the assets to which they relate. Exchange gains and losses arising from these transactions are included in the determination of net income for the year.

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
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**e) Income taxes**

The Company accounts for income taxes using the asset and liability method. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying value of existing assets and liabilities and their respective income tax bases (temporary differences), and losses carried forward. 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. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

**f) Loss per share**

Basic loss per share is calculated by dividing the net loss for the period by the weighted average number of shares outstanding for the period. The impact of outstanding options and warrants is not considered if the impact is anti-dilutive.

**g) Stock-based compensation**

The Company has adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3870, “Stock-Based Compensation and Other Stock-Based Payments”. This section requires the use of a fair-value based method, determined by using the Black-Scholes option pricing model to calculate all stock-based compensation associated with granting stock options to employees and directors, and the inclusion of that expense in the statement of operations. Under this accounting policy, the Company measures stock-based compensation on the date of the grant and recognizes this cost over the vesting period of the options in results from operations. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase in capital stock.

**h) Impairment of long-lived assets**

The Company has adopted the CICA Handbook Section 3063, “Impairment of Long-Lived Assets”. This section requires the Company to assess the impairment of long-lived assets, which consist primarily of mineral property, plant and equipment and make adjustments, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used are measured by a comparison of the carrying value of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value.

**i) Asset retirement obligations**

The Company has adopted the CICA Handbook Section 3110, “Asset Retirement Obligations”. This section requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The estimate excludes the residual value of the related assets. The associated retirement costs are capitalized as part of the carrying amount of the long lived assets and amortized over the life of the asset. The amount of liability is subject to re-measurement at each reporting period. This differs from prior practice which involved accruing for the estimated retirement obligation

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**Notes to the Consolidated Financial Statements**  
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through annual changes to earnings over the estimated life of the property. At December 31, 2008, there are no asset retirement obligations associated with any of the Company's properties.

**j) Financial Instruments and Comprehensive Income (Loss)**

On January 1, 2007, the Company adopted prospectively the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments - Recognition and Measurement*; Section 3861, *Financial Instruments - Disclosure and Presentation*; and Section 3865, *Hedges*.

Section 1530 establishes standards for reporting and presenting comprehensive income. Comprehensive income, composed of net income and other comprehensive income, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income for the Company includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive income are disclosed in the consolidated statement of operations, comprehensive loss and deficit. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income ("AOCI") which is presented as a new category in shareholders' equity.

All financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

The Company has made the following classifications:

|  |   |                             |
|--|---|-----------------------------|
| Cash and cash equivalents                | - | Held-for-trading            |
| Marketable securities                    | - | Available-for-sale          |
| Accounts receivable                      | - | Loans and receivables       |
| Accounts payable and accrued liabilities | - | Other financial liabilities |

Transaction costs are expensed as incurred for all financial instruments.

Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. As at and during the nine months ended September 30, 2009, the Company had no hedges.

**k) New accounting policies**

***Goodwill and Intangible Assets***

Effective January 1, 2009, the Company adopted CICA Section 3064, "Goodwill and Intangible Assets" which replaces CICA Sections 3062, "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs", as well as EIC-27, "Revenues and Expenditures During the Pre-operating Period", and part of Accounting Guideline 11, "Enterprises in the development

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stage". Under previous Canadian standards, a greater number of items were recognized as assets than are recognized under International Financial Reporting Standards ("IFRS"). The provisions relating to the definition and initial recognition of intangible assets reduce the differences with IFRS in the accounting for intangible assets. The objectives of CICA 3064 are: 1) to reinforce the principle-based approach to the recognition of assets; 2) to establish the criteria for asset recognition; and 3) to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing assets items that do not meet the recognition criteria is eliminated. The standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets. The portions in the standard relating to goodwill remain unchanged.

The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at September 30, 2009.

**1) Future accounting changes**

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

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian generally accepted accounting principles with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of IFRS on its financial statements.

***(ii) Business combination; Consolidated financial statements and non-controlling interests***

The CICA issued three new accounting standards in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests". These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, "Business Combinations". Sections 1601 and 1602 together replace section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS-27, "Consolidated and Separate Financial Statements". The Company is in the process of evaluating the requirements of the new standards.

**5. CAPITAL MANAGEMENT**

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to achieve optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business. As at September 30, 2009 total shareholders' equity (managed capital) was \$4,074,185 (December 31, 2008 - \$3,032,907).

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**For the three and nine months ended September 30, 2009 and 2008**

The properties in which the Company currently has an interest are in the exploration stage. As such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the three and nine months ended September 30, 2009. The Company is not subject to externally imposed capital requirements.

**6. PROPERTY AND FINANCIAL RISK FACTORS**

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

*(i) Property risk*

The Company's major mineral properties are in the exploration stage (the "Properties"). Unless the Company acquires or develops additional material properties, the Company will be mainly dependent upon its existing Properties. If no additional major mineral properties are acquired by the Company, any adverse development affecting the Company's Properties would have a material adverse effect on the Company's financial condition and results of operations.

*(ii) Credit risk*

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and accounts receivable. Cash consists of cash on hand deposited with reputable financial institutions which is closely monitored by management. Financial instruments included in accounts receivable consist of sales tax receivable from government authorities in Canada and Mexico and deposits held with service providers. Management believes credit risk with respect to financial instruments included in cash and accounts receivable is minimal.

*(iii) Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2009, the Company had a cash balance of \$950,384; (December 31, 2008 - \$803,689) to settle current liabilities of \$61,690 (December 31, 2008 - \$378,380). The Company is seeking additional capital to increase liquidity.

*(iv) Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and the prices of commodities and equities.

*(v) Interest rate risk*

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by banks with which it keeps its bank accounts. The Company periodically monitors the investments it makes and is

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satisfied with the credit ratings of its investments. As of September 30, 2009, the Company had cash balance of \$950,384 (December 31, 2008 - \$803,689) which includes investment-grade short-term deposit certificates.

*(vi) Foreign currency risk*

The Company's exploration activities are conducted entirely in Mexico. Major purchases and exploration expenditures are transacted in Mexican Pesos and US dollars. Administrative expenditures and cash balances are primarily transacted in Canadian dollars. The Company has exposure to foreign currency risk.

*(vii) Price risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, particularly as they relate to gold, silver, copper, and zinc, individual equity movements, and the stock market in general to determine the appropriate course of action to be taken by the Company. The Company's investment in marketable securities is subject to fair value fluctuations arising from changes in the resource sector and equity markets.

**Sensitivity analysis**

The Company has, for accounting purposes, designated its marketable securities as held-for-trading, which is measured at fair value. Accounts receivable are classified for accounting purposes as loans and receivables, which are measured at amortized cost which equals fair value. Accounts payable and accrued liabilities are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which also equals fair market value.

As at September 30, 2009, both the carrying and fair value amounts of the Company's financial instruments related to cash, accounts receivable and accounts payable and accrued liabilities are approximately equivalent.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

- (i) Interest rate risk is limited to cash balances, primarily held in Canadian and US dollars in Canada.
- (ii) The Company holds balances in US dollars and Mexican pesos that give rise to foreign exchange risk. If the US dollar rose or fell in relation to the Canadian dollar by 3%, the effect on the financial statements as at September 30, 2009 would be a change in foreign exchange of +/- CDN \$6,106. If the Mexican Pesos rose or fell in relation to the Canadian dollar by 3%, the effect on the financial statements as at September 30, 2009 would be a change in foreign exchange of +/- CDN \$642.
- (iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of valuable minerals may

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be produced in the future, a profitable market will exist for them. As of September 30, 2009, the Company is not a producer of valuable minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

- (iv) The Company's marketable securities are denominated in Canadian dollars and are subject to fair value fluctuations. As at September 30, 2009, if the fair value of the Company's marketable securities had increased/decreased by 10% with all other variables held constant, accumulated other comprehensive loss for the three months ended September 30, 2009 would have been approximately \$2,000 lower/higher. Similarly, as at September 30, 2009, the Company's reported shareholders' equity would have been approximately \$2,000 lower/higher as a result of a 10% decrease/increase in marketable securities.

**7. MARKETABLE SECURITIES**

Marketable securities consist of common shares of Southern Silver Exploration Corp., a publicly held Canadian company focused on the acquisition, exploration and development of mineral properties in Mexico. The market value of the shares at September 30, 2009 was \$20,000 including the receipt of an additional 75,000 shares on February 7, 2009. (December 31, 2008 - \$10,000).

**8. EQUIPMENT**

|              | <b>September 30, 2009</b> |                                     | <b>December 31, 2008</b> |               |
|--------------|---------------------------|-------------------------------------|--------------------------|---------------|
|              | <b>Cost</b>               | <b>Accumulated<br/>amortization</b> | <b>Net</b>               | <b>Net</b>    |
|              | <b>\$</b>                 | <b>\$</b>                           | <b>\$</b>                | <b>\$</b>     |
| Equipment    | 30,056                    | 16,725                              | 13,331                   | 17,646        |
| Vehicles     | 58,692                    | 42,429                              | 16,263                   | 25,644        |
| <b>Total</b> | <b>88,748</b>             | <b>59,154</b>                       | <b>29,594</b>            | <b>43,290</b> |

During the period ended September 30, 2009, the Company charged amortization expense of \$3,260 (\$4,632 for period ended September 30, 2008) related to equipment used in exploration activities to deferred exploration expenditures.

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**9. MINERAL PROPERTIES AND DEFERRED DEVELOPMENT EXPENDITURES**

At September 30, 2009, cumulative acquisition and deferred exploration costs with respect to the Company's interests in mineral properties owned, leased or under option, consisted of the following:

|                                  | Balance<br>December 31, 2008 | Additions | Balance<br>September 30, 2009 |
|----------------------------------|------------------------------|-----------|-------------------------------|
|                                  | \$                           | \$        | \$                            |
| <b>El Rayo Concessions</b>       |                              |           |                               |
| Acquisition costs                | 162,114                      | 14,204    | 176,318                       |
| Deferred exploration costs       | 1,831,782                    | 145,848   | 1,977,630                     |
|                                  | 1,993,896                    | 160,052   | 2,153,948                     |
| <b>La Tortuga Concessions</b>    |                              |           |                               |
| Acquisition costs                | 127,673                      | 22,856    | 150,529                       |
| Deferred exploration costs       | 1,246,376                    | 245,612   | 1,491,988                     |
| JV partner funding               | (1,154,773)                  | -         | (1,154,773)                   |
|                                  | 219,276                      | 268,468   | 487,744                       |
| <b>Quila Concession</b>          |                              |           |                               |
| Acquisition costs                | 19,189                       | -         | 19,189                        |
| Deferred exploration costs       | 6,917                        | -         | 6,917                         |
| Property payment from JV partner | (43,250)                     | 17,145    | (26,105)                      |
|                                  | (17,144)                     | 17,145    | 1                             |
| <b>El Santuario Concession</b>   |                              |           |                               |
| Acquisition costs                | 12,609                       | 3,896     | 16,505                        |
| Deferred exploration costs       | 20,629                       | 18,588    | 39,217                        |
|                                  | 33,238                       | 22,484    | 55,722                        |
| <b>Chinipas Concession</b>       |                              |           |                               |
| Acquisition costs                | 4,922                        | 1,290     | 6,212                         |
| Deferred exploration costs       | 20,587                       | 40,430    | 61,017                        |
|                                  | 25,509                       | 41,720    | 67,229                        |
| <b>Coyote Concession</b>         |                              |           |                               |
| Acquisition costs                | 25,357                       | 7,687     | 33,044                        |
| Deferred exploration costs       | 38,197                       | 4,381     | 42,578                        |
|                                  | 63,554                       | 12,068    | 75,622                        |
| <b>Victoria Concession</b>       |                              |           |                               |
| Acquisition costs                | 15,931                       | 9,647     | 25,578                        |
| Deferred exploration costs       | 40,053                       | 26,693    | 66,746                        |
|                                  | 55,984                       | 36,340    | 92,324                        |
| <b>Gavilan Concession</b>        |                              |           |                               |
| Acquisition costs                | 10,427                       | 1,110     | 11,537                        |
| Deferred exploration costs       | 7,855                        | 2,191     | 10,046                        |
|                                  | 18,282                       | 3,301     | 21,583                        |
| <b>Peña Grande Concession</b>    |                              |           |                               |
| Acquisition costs                | 12,086                       | -         | 12,086                        |
| Deferred exploration costs       | 16,012                       | 9,861     | 25,873                        |
|                                  | 28,098                       | 9,861     | 37,959                        |

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|                             | Balance<br>December 31, 2008<br>\$ | Additions<br>\$ | Balance<br>September 30, 2009<br>\$ |
|-----------------------------|------------------------------------|-----------------|-------------------------------------|
| <b>Margarita Concession</b> |                                    |                 |                                     |
| Acquisition costs           | 3,824                              | 264             | 4,088                               |
| Deferred exploration costs  | 14,628                             | 146             | 14,774                              |
|                             | 18,452                             | 410             | 18,862                              |
| <b>Other</b>                | 30,439                             | 11,612          | 42,051                              |
|                             | 2,469,584                          | 583,461         | 3,053,045                           |

**Other Cumulative Expenditures since Inception**

|  | \$        | \$      | \$        |
|--|-----------|---------|-----------|
| <b>Opening Balance</b>                                       | 2,469,584 | 583,461 | 3,053,045 |
| <b>Discontinued Properties</b>                               |           |         |           |
| Bacanora Concession  | 597,003   | -       | 597,003   |
| Midas Concession   | 8,968     | -       | 8,968     |
|  | 605,971   | -       | 605,971   |
| <b>Total Cumulative Mineral Expenditures since Inception</b> | 3,075,555 | 583,461 | 3,659,016 |

**a) El Rayo Concessions**

Soltoro-Mexico holds 100% title interest to the “El Rayo” and “Guachinango 1” concessions. These two concessions make up the 10,036 hectare El Rayo project located adjacent to the town of Guachinango in the state of Jalisco, Mexico. On November 24, 2006 Soltoro acquired 100% interest of the “Guachinango 1” concession from Golden Predator Mines Inc. (formerly Fury Explorations Ltd.) for a total consideration of US\$5,000 and a 2% net smelter return royalty. The Company has the right to purchase 1.5% of this royalty for US\$1.5 million.

**b) La Tortuga Concessions**

The La Tortuga Project comprises numerous contiguous titled concessions and a concession under application in the district of Atengo, Jalisco state, Mexico. Soltoro-Mexico holds a 100% interest in the titled concessions and is the sole applicant for the untitled concession. Titled concessions make up 14,331 hectares with 2,808 hectares under application. On August 20, 2007 Soltoro Ltd. signed a letter of intent with Sumitomo Metal Mining Exploration Ltd. (a subsidiary of Sumitomo Metal Mining Co. Ltd.) whereby Sumitomo may earn a 51% interest in the property by contributing a total of US\$4 million in expenditures over five years. In January of 2009, Soltoro Ltd. was advised by Sumitomo that it intended to terminate its option to earn an interest in the La Tortuga project. Final settling of accounts and termination of the option to earn-in was completed on April 8, 2009. Soltoro-Mexico retains 100% title interest to the La Tortuga concessions.

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**c) Quila Concession**

Soltoro-Mexico holds 100% title interest to the 22,428 hectare "Quila" concession located in the Quila district in the state of Jalisco, Mexico. On January 19, 2007, the Company entered into an earn-in agreement on the property with Southern Silver Exploration Corporation. Southern Silver may acquire a 51% interest in the property by issuing a total of 500,000 shares to Soltoro and spending US\$3 million on exploration over five years. Once Southern Silver has earned a 51% interest in the property, Southern Silver may earn an additional 19% interest by delivery of a definitive feasibility study. On July 5, 2007, Southern Silver's Mexican subsidiary acquired the "Altavista Del Ramos" 91 hectare concession, located within the Quila claim block. This concession is subject to the terms of the earn-in agreement. On February 7, 2009, Southern Silver entered its third year earn-in period and issued to the Company an additional 75,000 shares with a fair value of \$7,500. The Company now holds 200,000 shares in Southern Silver.

**d) El Santuario Concessions**

The El Santuario concessions are held by Soltoro-Mexico which owns 100% title interest to the "El Santuario" and "Sant" concessions. These two concessions cover a total area of 3,200 hectares and are located in the Cardonal mining district in the state of Hidalgo, Mexico.

**e) Chinipas Concessions**

The Chinipas concessions are held by Soltoro-Mexico which owns 100% title interest covering a total area of 1,471 hectares and are located in the state of Chihuahua, Mexico.

**f) Coyote Concessions**

Soltoro-Mexico holds 100% title interest to the 852 hectare "Xela" concession. Title was issued on January 25, 2008. On May 12, 2008 an option agreement was signed to acquire 3 internal concessions within the "Xela" concession totaling 200 hectares. These concessions along with the "Xela" concession are referred to as the "Coyote" concessions. Under the terms of the option agreement, US\$20,000 was paid on signing with a further cash payment of US\$20,000 to effect transfer of the internal concessions. On November 10, 2008, Soltoro and the vendor signed a ratification letter extending the due date for the US\$20,000 transfer payment for the internal concessions an additional 6 months to May 9, 2009. On May 12, 2009, Soltoro signed a second ratification letter agreement with the vendor extending the title transfer date to November 12, 2009. Soltoro made a partial payment of US\$5,000 to the vendor on signing with the balance of \$15,000 due on November 12, 2009. Soltoro is obliged to pay a further US\$200,000 in advance royalty payments over 4 years from the date of transfer to retain the concessions.

**g) Victoria Concession**

Soltoro-Mexico holds 100% title interest to the 10,985 hectare "Victoria" concession located in the state of Jalisco, Mexico.

**h) Gavilan Concession**

Soltoro-Mexico holds 100% title interest to the 780 hectare "Gavilan" concession located in the San Joaquin mining district on the eastern border of the state of Queretaro, Mexico.

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**i) Peña Grande Concession**

On December 7, 2006, Soltoro-Mexico applied for the 31,678 hectare “Peña Grande” concession in the state of San Luis Potosi. Title has not yet been issued.

**j) Margarita Concession**

The Margarita concessions are held by Soltoro-Mexico which owns 100% title interest covering a total area of 1,500 hectares and are located in the state of Michoacan, Mexico.

**10. RELATED PARTY TRANSACTIONS**

a) During the nine months ended September 30, 2009, the Company incurred management and geological consultancy fees of \$213,583 (September 30, 2008 - \$214,080) with respect to management services provided by officers and directors of the Company and its wholly owned subsidiary. These transactions were in the normal course of business and were measured at the exchange amount, which is the amount established and agreed to by the related parties. Of the total amount, \$108,000 (September 30, 2008, - \$109,500) was charged to operations for officers of the Company, and \$105,583 (September 30, 2008 - \$104,580) was capitalized as a component of the Company’s mineral properties and deferred exploration expenditures.

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**11. SHARE CAPITAL**

- a) Authorized:  
An unlimited number of common shares
- b) Issued and outstanding:

|   | Number<br>of Shares | Amount<br>\$     |
|---|---------------------|------------------|
| <b>Balance – December 31, 2006</b>  | <b>18,023,600</b>   | <b>3,629,527</b> |
| Issued for cash pursuant to private placement of 1,000,000 units, net of the amount attributable to warrants <sup>(i)</sup>   | 1,000,000           | 541,996          |
| Issued as consideration for a property acquisition  | 175,000             | 70,000           |
| Issued for cash upon exercise of warrants   | 716,400             | 298,200          |
| Transferred from warrants upon exercise   | -                   | 59,561           |
| Issued for cash upon exercise of stock options  | 200,000             | 26,000           |
| Transferred from contributed surplus  | -                   | 5,169            |
| Issued as consideration for a property acquisition  | 100,000             | 75,000           |
| Share issue costs   | -                   | (7,250)          |
| <b>Balance – December 31, 2007</b>  | <b>20,215,000</b>   | <b>4,698,203</b> |
| <b>Balance – December 31, 2008</b>  | <b>20,215,000</b>   | <b>4,698,203</b> |
| Issued for cash pursuant to private placement of 4,470,000 units, net of the amount attributable to warrants <sup>(ii)</sup>  | 4,470,000           | <b>809,070</b>   |
| Share issue costs   | -                   | (100,512)        |
| Agent Commission  | 154,700             | 30,940           |
| Finance fee   | 75,000              | 13,575           |
| <b>Balance – June 30, 2009</b>  | <b>24,914,700</b>   | <b>5,451,276</b> |
| Issued for cash pursuant to private placement of 2,280,000 units, net of the amount attributable to warrants <sup>(iii)</sup> | 2,280,000           | <b>412,680</b>   |
| Share issue costs   | -                   | (45,640)         |
| Agent Commission  | 12,250              | 2,450            |
| Finance fee   | 21,700              | 3,929            |
| Issued for cash upon exercise of stock options  | 180,000             | 45,000           |
| Transferred from contributed surplus  | -                   | 25,452           |
| <b>Balance – September 30, 2009</b>   | <b>27,408,650</b>   | <b>5,895,147</b> |

- (i) On January 29, 2007, the Company completed a private placement of 1,000,000 units at a price of \$0.65 per unit, generating gross cash proceeds of \$650,000. Each unit consisted of one common share and one-half of one share purchase warrant, with each whole warrant exercisable into one common share at a price of \$0.75 per share until January 29, 2009. These warrants expired unexercised.
- (ii) On June 24, 2009, Soltoro Limited closed the first tranche of a \$1,350,000 brokered private placement. The first tranche consisted of 4,470,000 units at \$0.20 per Unit for gross proceeds of \$894,000. Each unit consisted of one common share and one half of one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.30 per share until December 24, 2010. The compensation to the broker was comprised of \$15,220 cash, 154,700 common shares and 288,500 agents' warrants (exercisable at \$0.30 for one common share for 18 months). An additional corporate finance fee was paid comprised of 75,000 Units and legal fees of \$8,000 cash. Issue costs pursuant to the first

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tranche amounted to \$127,629 consisting of \$69,572 of cash costs and \$58,057 of non-cash costs. The cost of issue was allocated: \$100,512 to common share capital and \$27,112 to warrants.

- (iii) On July 3, 2009, Soltoro Limited closed the second tranche of a \$1,350,000 brokered private placement. The second tranche consisted of 2,280,000 units at \$0.20 per Unit for gross proceeds of \$456,000. Each unit consisted of one common share and one half of one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.30 per share until January 3 2011. The compensation to the broker was comprised of \$28,750 cash, 12,250 common shares and 195,000 agents' warrants (exercisable at \$0.30 for one common share for 18 months). An additional corporate finance fee was paid comprised of 21,700 Units and legal fees of \$2,000 cash. Issue costs pursuant to the second tranche amounted to \$58,170 consisting of \$42,990 of cash costs and \$14,980 of non-cash costs. The cost of issue was allocated: \$45,640 to common share capital and \$12,530 to warrants.

**12. WARRANTS**

The following table reflects the continuity of warrants for the period ended September 30, 2009.

|   | Number of<br>Warrants | Amount<br>\$   |
|---|-----------------------|----------------|
| <b>Balance - December 31, 2006</b>                    | <b>716,400</b>        | <b>59,561</b>  |
| Issued pursuant to private placement <sup>(i)</sup>   | 500,000               | 108,004        |
| Exercised   | (716,400)             | (59,561)       |
| <b>Balance – December 31, 2008 and 2007</b>           | <b>500,000</b>        | <b>108,004</b> |
| Expired   | (500,000)             | (108,004)      |
| <b>Balance – March 31, 2009</b>                       | <b>-</b>              | <b>-</b>       |
| Issued pursuant to private placement <sup>(ii)</sup>  | 2,235,000             | 84,930         |
| Agent's warrants issued <sup>(iii)</sup>              | 288,500               | 12,117         |
| Finance fee warrants issued                           | 37,500                | 1,425          |
| Issue costs pursuant to private placement             |                       | (27,112)       |
| <b>Balance – June 30, 2009</b>                        | <b>2,561,000</b>      | <b>71,355</b>  |
| Issued pursuant to private placement <sup>(iii)</sup> | 1,140,000             | 43,320         |
| Agent's warrants issued <sup>(iii)</sup>              | 195,000               | 8,190          |
| Finance fee warrants issued                           | 10,850                | 412            |
| Issue costs pursuant to private placement             |                       | (12,530)       |
| <b>Balance – September 30, 2009</b>                   | <b>3,906,850</b>      | <b>110,747</b> |

- (i) The warrants issued on January 29, 2007, pursuant to the private placement of units described in note 11(b)(i), were not exercised by the expiry date of January 29, 2009. These warrants had a fair value of \$108,004 which was estimated using the Black-Scholes option pricing model and the following assumptions:

|                         |     |                     |           |
|-------------------------|-----|---------------------|-----------|
| Risk free interest rate | 4%  | Expected volatility | 85%       |
| Dividend yield          | nil | Expected life       | 1.5 years |

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- (ii) The unit warrants issued pursuant to the first tranche of the private placement on June 24, 2009, are described in note 11(b)(ii) above, and have a fair value of \$86,355 which was estimated using the Black-Scholes option pricing model and the following assumptions:

|                         |     |                     |           |
|-------------------------|-----|---------------------|-----------|
| Risk free interest rate | 2%  | Expected volatility | 85%       |
| Dividend yield          | nil | Expected life-Units | 1.2 years |

The agent's warrants issued pursuant to the first tranche of the private placement on June 24, 2009, are described in note 11(b)(ii) above, and have a fair value of \$12,117 which was estimated using the Black-Scholes option pricing model and the following assumptions:

|                         |     |                     |           |
|-------------------------|-----|---------------------|-----------|
| Risk free interest rate | 2%  | Expected volatility | 85%       |
| Dividend yield          | nil | Expected life       | 1.3 years |

- (iii) The unit warrants issued pursuant to the second tranche of the private placement on July 3, 2009, are described in note 11(b)(iii) above, and have a fair value of \$43,732 which was estimated using the Black-Scholes option pricing model and the following assumptions:

|                         |     |                     |           |
|-------------------------|-----|---------------------|-----------|
| Risk free interest rate | 2%  | Expected volatility | 85%       |
| Dividend yield          | nil | Expected life-Units | 1.2 years |

The agent's warrants issued pursuant to the second tranche of the private placement on July 3, 2009, are described in note 11(b)(iii) above, and have a fair value of \$8,190 which was estimated using the Black-Scholes option pricing model and the following assumptions:

|                         |     |                     |           |
|-------------------------|-----|---------------------|-----------|
| Risk free interest rate | 2%  | Expected volatility | 85%       |
| Dividend yield          | nil | Expected life       | 1.3 years |

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**13. STOCK OPTIONS**

The Company has a stock option plan (the “Plan”) under which the Company may grant options to directors, officers and consultants. The maximum number of common shares reserved for issue under the Plan at any point in time may not exceed 10% of the number of shares issued and outstanding.

The purpose of the Plan is to attract, retain and motivate directors, officers, and certain third party service providers by providing them with the opportunity to acquire a proprietary interest in the Company and benefit from its growth. Options granted under the Plan are non-assignable and vest over various terms up to eighteen months from the date of grant.

The continuity of outstanding stock options for the period ended September 30, 2009 as follows:

|   | Number of stock<br>options | Weighted average exercise<br>price per share<br>\$ |
|---|----------------------------|--|
| <b>Balance - December 31, 2006</b>      | <b>1,310,000</b>           | <b>0.25</b>  |
| Issued during the period                | 770,000                    | 0.56   |
| Exercised during the period             | (200,000)                  | 0.13   |
| <b>Balance – December 31, 2007</b>      | <b>1,880,000</b>           | <b>0.39</b>  |
| Cancelled during the period             | (225,000)                  | <b>0.58</b>  |
| <b>Balance – December 31, 2008</b>      | <b>1,655,000</b>           | <b>0.36</b>  |
| <b>Balance – June 30, 2009</b>          | <b>1,655,000</b>           | <b>0.36</b>  |
| Issued during the period <sup>(i)</sup> | 1,225,000                  | 0.42   |
| Exercised during the period             | (180,000)                  | 0.25   |
| <b>Balance – September 30, 2009</b>     | <b>2,700,000</b>           | <b>0.37</b>  |

<sup>(i)</sup> On September 8, 2009, the Company granted 1,225,000 stock options to directors, officers and consultants of the Company. The options are exercisable at \$0.42 and expire on September 8, 2013. The resulting fair value of \$243,775 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 85%; a risk-free interest rate of 2% and an expected average life of 2.1 years. The options have a vesting term of 50% at date of grant and 25% at 6 and 18 month intervals. For the period ending September 30, 2009, the impact on expenses was \$131,701 (September 30, 2008 - \$87,736) in stock-based compensation, which has been charged to operations.

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Options to purchase common shares carry exercise prices and terms to maturity as follows:

| Exercise price<br>\$ | Number of options |                  | Expiry<br>Date     | Remaining<br>Contractual<br>Life (years) |
|----------------------|-------------------|------------------|--------------------|--|
|                      | Outstanding       | Exercisable      |                    |  |
| 0.25                 | 410,000           | 410,000          | October 24, 2009   | 0.1                                      |
| 0.10                 | 220,000           | 220,000          | November 30, 2009  | 0.2                                      |
| 0.36                 | 440,000           | 440,000          | September 22, 2010 | 1.0                                      |
| 0.63                 | 295,000           | 295,000          | January 31, 2012   | 2.3                                      |
| 0.45                 | 290,000           | 290,000          | June 28, 2012      | 2.7                                      |
| 0.42                 | 1,225,000         | 612,500          | September 8, 2013  | 3.9                                      |
| <b>0.37</b>          | <b>2,700,000</b>  | <b>2,087,500</b> |                    | <b>1.7</b>                               |

**14. CONTRIBUTED SURPLUS**

The continuity of contributed surplus during the period ended September 30, 2009 as follows:

|                                     | \$             |
|-------------------------------------|----------------|
| <b>Balance - December 31, 2006</b>  | <b>112,707</b> |
| Stock-based compensation            | 250,734        |
| Transferred to share capital        | (5,169)        |
| <b>Balance - December 31, 2007</b>  | <b>358,272</b> |
| Stock-based compensation            | 23,015         |
| <b>Balance - December 31, 2008</b>  | <b>381,287</b> |
| Warrants expired                    | 108,004        |
| <b>Balance - June 30, 2009</b>      | <b>489,291</b> |
| Stock-based Compensation            | 131,701        |
| Transferred to share capital        | (25,452)       |
| <b>Balance - September 30, 2009</b> | <b>595,540</b> |

**15. COMMITMENTS AND CONTINGENCIES**

Under the terms of the Company's mining concessions, the Company must make periodic tax payments and perform minimum levels of exploration to maintain these concessions in good standing. The failure of the Company to meet these requirements would lead to the forfeiture of the Company's rights to these properties.

**16. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the current period basis of presentation.

**SOLTORO LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2009 and 2008**

**17. SUBSEQUENT EVENTS**

- 1) On November 12, 2009, Soltoro signed a third ratification letter agreement with the vendor of the Coyote concessions extending the title transfer date to May 12, 2010. Soltoro made a partial payment of US\$5,000 to the vendor on signing with the balance of US\$10,000 due on May 12, 2010. Soltoro is obliged to pay a further US\$200,000 in advance royalty payments over 4 years from the date of transfer to retain the concessions.