

# **Plexmar Resources Inc.**

(an exploration company)

Consolidated Financial Statements  
**December 31, 2008 and 2007**

## Auditors' Report

### To the Shareholders of Plexmar Resources Inc.

We have audited the consolidated balance sheets of **Plexmar Resources Inc.** (an exploration company) as at December 31, 2008 and 2007 and the consolidated statements of earnings and comprehensive loss, deficit, contributed surplus and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP<sup>1</sup>*

Québec, Quebec, Canada  
April 29, 2009

<sup>1</sup> Chartered accountant auditor permit No. 7451

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# Plexmar Resources Inc.

(an exploration company)

Consolidated Balance Sheets

As at December 31, 2008 and 2007

	2008 \$	2007 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	13,913	167,576
Amounts receivable (note 4)	225,941	145,468
Amount receivable from Escondoro Resources Ltd., a company managed by the president of the Company, non-interest bearing (note 12g)	-	624,369
Prepaid expenses	7,472	32,374
	<u>247,326</u>	<u>969,787</u>
<b>Amount receivable from Escondoro Resources Ltd.</b> , a company managed by the president of the Company, bearing interest at 6% (note 12g)	-	250,000
<b>Loan to an officer</b> , bearing interest at prime rate, maturing in May 2009	5,573	12,500
<b>Security deposit on a lease agreement</b> (note 15)	57,436	57,436
<b>Commodity taxes receivable</b>	-	216,937
<b>Mining properties</b> (note 5)	6,217,425	9,017,110
<b>Property, plant and equipment</b> (note 6)	114,650	135,746
<b>Intangible assets</b> (net of accumulated amortization of \$8,086)	12,130	20,216
<b>Deposit on the purchase of mining properties</b>	-	294,450
<b>Property, plant and equipment held for sale</b> (note 7)	-	144,000
<b>Investment in a joint venture</b> (note 7)	144,000	-
	<u>6,798,540</u>	<u>11,118,182</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	609,134	591,980
Current portion of long-term debt	9,553	8,699
	<u>618,687</u>	<u>600,679</u>
<b>Long-term debt</b> (note 8)	6,000	15,551
	<u>624,687</u>	<u>616,230</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (notes 9, 10 and 11)	27,473,439	26,903,758
<b>Warrants</b> (note 11)	147,402	636,582
<b>Stock options</b> (note 10)	1,521,072	1,635,987
<b>Contributed surplus</b>	3,171,454	1,866,053
<b>Deficit</b>	(26,139,514)	(20,540,428)
	<u>6,173,853</u>	<u>10,501,952</u>
	<u>6,798,540</u>	<u>11,118,182</u>
<b>Incorporation, nature of activities and going concern</b> (note 1)		
<b>Agreements</b> (note 12)		
<b>Commitments</b> (note 15)		
<b>Subsequent events</b> (note 20)		

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

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Approved by the Board of Directors

(signed) GUY BÉDARD \_\_\_\_\_ Director

(signed) KENNETH B. CREMA \_\_\_\_\_ Director

# Plexmar Resources Inc.

(an exploration company)

Consolidated Statements of Deficit

For the years ended December 31, 2008 and 2007

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	2008 \$	2007 \$
<b>Balance – Beginning of year</b>	20,540,428	17,561,717
Loss for the year	5,538,034	2,942,014
Share issue expenses	61,052	36,697
<b>Balance – End of year</b>	<u>26,139,514</u>	<u>20,540,428</u>

## Consolidated Statements of Contributed Surplus

For the years ended December 31, 2008 and 2007

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	2008 \$	2007 \$
<b>Balance – Beginning of year</b>	1,866,053	1,499,894
Warrants matured or cancelled during the year (note 11)	594,195	587
Stock options matured or cancelled during the year (note 10)	711,206	365,572
<b>Balance – End of year</b>	<u>3,171,454</u>	<u>1,866,053</u>

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

# Plexmar Resources Inc.

(an exploration company)

Consolidated Statements of Earnings and Comprehensive Loss

For the years ended December 31, 2008 and 2007

	2008 \$	2007 \$
<b>Revenues</b>		
Interest	266	2,555
Other	-	839
	<hr/> 266	<hr/> 3,394
<b>Expenses</b>		
Professional and maintenance fees	157,560	519,276
Management fees	197,722	180,826
Stock-based compensation costs (including fringe benefits of nil in 2008; \$2,545 in 2007)	620,091	1,244,282
General and administrative expenses	314,885	441,888
Travelling	25,353	136,388
Depreciation of property, plant and equipment	30,173	12,390
Impairment of property, plant and equipment held for sale	-	30,000
Amortization of intangible assets	8,086	4,043
Cost of mining properties abandoned or written off (note 12h)	3,355,033	308,866
Gain on writeoff of accounts payable and accrued liabilities (note 12h)	(648,062)	-
Writeoff of deposit on mining properties	294,450	-
Allowance for doubtful accounts on amounts receivable from Escondoro Resources Ltd. (note 12)	1,045,754	-
Writeoff of commodity taxes receivable	216,937	-
Foreign exchange loss (gain)	(79,682)	67,449
	<hr/> 5,538,300	<hr/> 2,945,408
<b>Loss and comprehensive loss for the year</b>	<hr/> <b>5,538,034</b>	<hr/> <b>2,942,014</b>
<b>Basic and diluted loss per share</b> (note 18)	<hr/> <b>0.04</b>	<hr/> <b>0.02</b>

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

# Plexmar Resources Inc.

(an exploration company)

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

	2008 \$	2007 \$
<b>Cash flows from operating activities</b>		
Loss for the year	(5,538,034)	(2,942,014)
Items not affecting cash		
Depreciation of property, plant and equipment	30,173	12,390
Impairment of property, plant and equipment held for sale	-	30,000
Amortization of intangible assets	8,086	4,043
Cost of mining properties abandoned or written off	3,355,033	308,866
Gain on writeoff of accounts payable and accrued liabilities	(648,062)	-
Writeoff of deposit on mining properties	294,450	-
Allowance for doubtful accounts on amounts receivable from Escondoro Resources Ltd.	1,045,754	-
Writeoff of commodity taxes receivable	216,937	-
Net stock-based compensation costs	620,091	1,241,737
	<u>(615,572)</u>	<u>(1,344,978)</u>
Change in non-cash working capital items		
Amounts receivable	(251,858)	(55,445)
Prepaid expenses	24,902	11,108
Accounts payable and accrued liabilities	816,385	17,830
	<u>589,429</u>	<u>(26,507)</u>
	<u>(26,143)</u>	<u>(1,371,485)</u>
<b>Cash flows from financing activities</b>		
Long-term debt contracted	-	27,643
Payments on long-term debt	(8,697)	(3,393)
Issuance of share capital and warrants	622,324	854,049
Share issue expenses	(34,440)	(24,866)
	<u>579,187</u>	<u>853,433</u>
<b>Cash flows from investing activities</b>		
Variation in a loan to an officer	6,927	(12,500)
Security deposit on a lease agreement	-	(57,436)
Variation in commodity taxes receivable	-	(30,084)
Purchase of mining properties and exploration costs	(703,443)	(3,157,279)
Option on mining properties	-	510,453
Additions to property, plant and equipment	(10,191)	(140,484)
Additions to intangible assets	-	(24,259)
Deposit on the purchase of mining properties	-	(118,980)
	<u>(706,707)</u>	<u>(3,030,569)</u>
<b>Decrease in cash</b>	<u>(153,663)</u>	<u>(3,548,621)</u>
<b>Cash – Beginning of year</b>	<u>167,576</u>	<u>3,716,197</u>
<b>Cash – End of year</b>	<u>13,913</u>	<u>167,576</u>
<b>Additional information</b>		
Items not affecting cash related to financing and investing activities		
Acquisition of mining properties in consideration of the issuance of shares and warrants	-	2,200,000
Finder's fee for the purchase of mining properties settled through the issuance of shares	-	67,500
Options and warrants transferred to share capital upon exercise	52,643	112,567
Issuance of warrants included in share issue expenses	28,572	9,870
Depreciation of property, plant and equipment capitalized in mining properties	1,114	937
Share issue expenses included in accounts payable and accrued liabilities	-	1,960
Acquisition of mining properties included in accounts payable and accrued liabilities	(76,051)	225,260
Disposal of property, plant and equipment held for sale in consideration of an investment in a joint venture	144,000	-
Interest cashed	266	(2,555)

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

# **Plexmar Resources Inc.**

(an exploration company)

Notes to Consolidated Financial Statements

**December 31, 2008 and 2007**

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## **1 Incorporation, nature of activities and going concern**

The Company, incorporated under the Canada Business Corporations Act, is in the business of acquiring and exploring mining properties. It has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mining properties is dependent upon the existence of economically recoverable reserves, the ability to obtain necessary financing to complete exploration and development of the Company's properties, and upon future profitable production or proceeds from the disposal of properties.

For the year ended December 31, 2008, the Company recorded a loss of \$5,538,034. In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its existing commitments for exploration and development programs and for general and administration costs.

Management is periodically seeking additional forms of financing through the issuance of new equity instruments, the exercise of existing warrants for the purchase of common shares and the exercise of stock options to continue its activities as a going concern, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Without new funding being available, the Company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these financial statements.

Although management has taken steps to verify title to mining properties in which the Company has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliant with regulatory requirements.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. The application of generally accepted accounting principles on a going concern basis may be inappropriate, since there is a significant doubt as to the validity of the going concern assumption.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported amounts of revenues and expenses and the classification of balance sheet items, were the going concern assumption inappropriate, and these adjustments could be material. Management did not take these adjustments into account as it believes in the validity of the going concern assumption.

# **Plexmar Resources Inc.**

(an exploration company)

Notes to Consolidated Financial Statements

**December 31, 2008 and 2007**

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## **2 Changes in accounting policies**

### **Adopted in 2008**

On January 1, 2008, the Company adopted the following sections of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

- (a) Section 3862, "Financial Instruments – Disclosures". This section describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks (note 17).
- (b) Section 3863, "Financial Instruments – Presentation". This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation" (note 17).
- (c) Section 1535, "Capital Disclosures". This section 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 as well as summary quantitative data on the elements included in the management of capital. The section seeks to determine if the entity has complied with capital requirements and if not, the consequences of such non-compliance (note 16).
- (d) Section 1400, "General Standards of Financial Statement Presentation". This section includes requirements to assess and disclose an entity's ability to continue as a going concern (going concern assumption).

The adoption of these standards had no impact on the Company's consolidated financial statements, except for additional disclosures mentioned in notes 16 and 17.

### **Future accounting changes**

The CICA issued Section 3064, "Goodwill and Intangible Assets", which will apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement and disclosure applicable to intangible assets. It replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". Upon consideration of this new standard, the Company has concluded that it will not impact significantly its financial position and results of operations. On January 1, 2009, the Company adopted Section 3064 of the CICA Handbook.

# **Plexmar Resources Inc.**

(an exploration company)

Notes to Consolidated Financial Statements

**December 31, 2008 and 2007**

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In January 2009, the CICA published the following sections of the CICA Handbook that apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011:

- (a) Section 1582, "Business Combinations", which replaces the former Section 1581 with the same title, establishes accounting standards for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, "Business Combinations".
- (b) Section 1601, "Consolidated Financial Statements", which replaces the former Section 1600 with the same title, establishes standards for the preparation of consolidated financial statements.
- (c) Section 1602, "Non-Controlling Interests". This new section establishes standards on accounting for non-controlling interests in a subsidiary in consolidated financial statements prepared subsequent to a business combination. It is equivalent to the corresponding provisions of International Accounting Standard IAS 27, "Consolidated and Separate Financial Statements".

The Company is currently evaluating the impact of these new standards on its consolidated financial statements.

In January 2009, the CICA's Emerging Issue Committee ("EIC") issued Abstract EIC-173, "Credit Risk and the Fair Value of Financial Assets and Liabilities", which requires entities to take both counterparty credit risk and their own credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. EIC-173 will be effective for interim and annual periods beginning on or after January 1, 2009. The Company does not expect that adoption of this guidance will have a significant impact on its consolidated financial statements.

On February 13, 2008, the Accounting Standards Board confirmed the date of changeover from Canadian GAAP to International Financial Reporting Standards ("IFRS"). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

On March 27, 2009, the EIC issued Abstract EIC-174, "Mining Exploration Costs", to provide additional guidance for mining exploration enterprises on when an impairment test is required. This Abstract should be applied to financial statements issued after March 27, 2009. The adoption of this Abstract had no impact on the consolidated financial statements of the Company.

# **Plexmar Resources Inc.**

(an exploration company)

Notes to Consolidated Financial Statements

**December 31, 2008 and 2007**

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## **3 Summary of significant accounting policies**

### **Basis of consolidation**

These consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiaries, Minera San Miguelito S.A.C., located in Peru, and Plexmar Ecuador S.A., located in Ecuador. The Peruvian subsidiary, incorporated on December 12, 2003, has been created in order to enable the Company to manage its exploration activities on the properties located in Peru. The Ecuadorian subsidiary, incorporated on September 25, 2006, has been created in order to enable the Company to manage its exploration activities on the properties located in Ecuador.

### **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 amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the years. Significant estimates include the carrying value of mining properties, the useful lives of property, plant and equipment, certain accrued liabilities and stock-based compensation. Actual results could differ from those estimates.

### **Foreign currency translation**

#### Foreign currency transactions

Transactions denominated in currencies other than Canadian dollars are translated into the functional currency as follows: monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the average exchange rate for the year. Non-monetary assets and liabilities are translated at historical rates. Exchange gains and losses arising from such translation are reflected in the statements of earnings.

#### Foreign subsidiaries

The foreign subsidiaries are considered to be integrated foreign operations. As a result, the foreign subsidiaries' accounts are remeasured into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are remeasured at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are remeasured at historical rates. Revenues and expenses are remeasured at the average rate for the year. Exchange gains and losses resulting from remeasurement are reflected in the statements of earnings.

# Plexmar Resources Inc.

(an exploration company)

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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## Financial instruments

### Financial assets and liabilities

Financial assets and liabilities are initially recognized at fair value and subsequently recognized according to their classification as described below. The classification depends on the intention with which the financial instruments were acquired and their characteristics and their designation by the Company. Unless in the presence of specific circumstances, the classification is not modified following the initial recognition.

Cash	Held for trading
Amounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

### Assets held for trading

Financial instruments classified as assets held for trading are recognized at fair value at each balance sheet date, and any change in the fair value is reflected in net earnings in the period during which these changes take place.

### Loans and receivables and other financial liabilities

Financial instruments classified as loans and receivables, and other financial liabilities are accounted for at amortized cost using the effective interest rate method. Interest income or expense is included in net earnings over the expected life of the financial instrument.

### Transaction costs

Transaction costs related to financial instruments that are not classified as held for trading are recognized on the balance sheet as an adjustment to the cost of the financial instrument upon initial recognition and amortized using the effective interest rate method.

### Mining properties

The Company records its interests in mining properties and areas of geological interest at cost less option payments and other recoveries. Exploration costs relating to these interests and projects are capitalized on the basis of specific claim blocks or areas of geological interest until the mining properties to which they relate are placed into production, sold or allowed to lapse. Management reviews the carrying values of mining properties on a regular basis to determine whether any writedowns are necessary. These costs will be amortized over the estimated useful life of mining properties following commencement of production or written off if the mining properties or projects are sold or allowed to lapse. General exploration expenditures not related to specific mining properties are expensed as incurred.

# **Plexmar Resources Inc.**

(an exploration company)

Notes to Consolidated Financial Statements

**December 31, 2008 and 2007**

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## **Property, plant and equipment**

Property, plant and equipment are recorded at cost and are depreciated using the straight-line method over the periods mentioned in note 6.

## **Intangible assets**

Intangible assets consist of software and are recorded at cost. Amortization is calculated using the straight-line method at an annual rate of 33%.

## **Investment in a joint venture**

The Company accounts for its investment in a joint venture over which it has significant influence using the equity basis of accounting whereby the investment is initially recorded at cost and subsequently adjusted to recognize the Company's share of earnings or losses of the joint venture and reduced by distribution received.

When there is an other-than-temporary decline in value of the investment, the carrying value of investment accounted for using the equity method is reduced to its estimated fair value, with such reduction being included in the consolidated statements of earnings and comprehensive loss.

## **Share capital**

Share issue expenses are allocated to the deficit.

## **Income taxes**

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the carrying amounts and tax bases of the assets and liabilities using enacted or substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

# Plexmar Resources Inc.

(an exploration company)

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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## Basic and diluted earnings per share

Basic earnings per share are determined using the weighted average number of participating shares outstanding during the year.

Diluted earnings per share are determined using the weighted average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the year. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive potential shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the Company at the average market value of the participating shares during the year.

## Stock-based compensation

The Company maintains a stock option plan, which is described in note 10. Any consideration received from plan participants upon the exercise of stock options is credited to share capital. The Company records compensation costs arising from all types of stock-based payments granted to employees and non-employees, including stock options, using a fair value-based method.

## 4 Amounts receivable

	2008	2007
	\$	\$
Commodity taxes receivable	3,367	33,556
Amount receivable from an officer	-	5,972
Other receivables	222,574	105,940
	<hr/>	<hr/>
	225,941	145,468
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# Plexmar Resources Inc.

(an exploration company)

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

## 5 Mining properties

December 31, 2008

	Undivided interest %	Balance as at January 1, 2008 \$	Costs incurred \$	Mining properties under option, abandoned or written off \$	Balance as at December 31, 2008 \$
Marilia I, II & III (Peru) (note 12a) Mining property	100	-	4,887	(4,887)	-
Lucma (Cascajal) (Peru) (note 12b) Mining property	100	70,947	916	(71,863)	-
Oro Del Norte I, II & III (Cascajal) (Peru) (note 12c) Mining property	100	374,165	4,425	(378,590)	-
Gran Chimu I & II (Cascajal) (Peru) Mining property	100	2,974	1,202	(4,176)	-
Almirante Miguel Grau (Peru) (note 12f) Mining property	100	1,398,075	-	-	1,398,075
Exploration costs		72,520	-	-	72,520
		<u>1,470,595</u>	<u>-</u>	<u>-</u>	<u>1,470,595</u>
Angolos (Bolsa Del Diablo) (Peru) (notes 12d, 12h and 20) Mining property	100	1,950,226	264,174	(982,573)	1,231,827
Exploration costs		2,062,810	279,744	-	2,342,554
		<u>4,013,036</u>	<u>543,918</u>	<u>(982,573)</u>	<u>3,574,381</u>
Ecuador (Escondida) (notes 12g and 20) Mining property	100	2,399,628	-	(1,487,769)	911,859
Exploration costs		685,765	-	(425,175)	260,590
		<u>3,085,393</u>	<u>-</u>	<u>(1,912,944)</u>	<u>1,172,449</u>
		<u>9,017,110</u>	<u>555,348</u>	<u>(3,355,033)</u>	<u>6,217,425</u>

# Plexmar Resources Inc.

(an exploration company)

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

December 31, 2007

	Undivided interest %	Balance as at January 1, 2007 \$	Costs incurred \$	Mining properties under option, abandoned or written off \$	Balance as at December 31, 2007 \$
Marilia I, II & III (Peru) (note 12a)					
Mining property	100	150,598	-	(150,598)	-
Exploration costs		8,298	-	(8,298)	-
		158,896	-	(158,896)	-
Lucma (Cascajal) (Peru) (note 12b)					
Mining property	100	70,947	-	-	70,947
Oro Del Norte I, II & III (Cascajal) (Peru) (note 12c)					
Mining property	100	374,165	-	-	374,165
Gran Chimu I & II (Cascajal) (Peru)					
Mining property	100	2,974	-	-	2,974
Almirante Miguel Grau (Peru) (note 12f)					
Mining property	100	1,398,075	-	-	1,398,075
Exploration costs		35,971	36,549	-	72,520
		1,434,046	36,549	-	1,470,595
Angolos (Bolsa Del Diablo) (Peru) (note 12d and 12h)					
Mining property	100	976,184	1,124,012	(149,970)	1,950,226
Exploration costs		1,416,969	645,841	-	2,062,810
		2,393,153	1,769,853	(149,970)	4,013,036
Ecuador (Escondida) (note 12g)					
Mining property	100	541,225	3,243,225	(1,384,822)	2,399,628
Exploration costs		269,180	416,585	-	685,765
		810,405	3,659,810	(1,384,822)	3,085,393
		5,244,586	5,466,212	(1,693,688)	9,017,110

# Plexmar Resources Inc.

(an exploration company)

Notes to Consolidated Financial Statements

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Detailed analysis of deferred exploration costs and expenses

	<b>2008</b>	<b>2007</b>
	\$	\$
Balance – Beginning of year	9,017,110	5,244,586
Costs incurred during the year		
Cost of claims	275,604	4,367,236
Sampling and analyses	1,223	41,450
Geologists and other salaries	199,372	819,181
Community relations	38,491	140,399
Fuel and maintenance of vehicles	31,847	29,844
Maintenance of facilities	7,697	6,783
Equipment rental	-	60,382
Depreciation of property, plant and equipment	1,114	937
Mining properties under option	-	(1,384,822)
Mining properties abandoned or written off (note 12h)	(3,355,033)	(308,866)
	<u>6,217,425</u>	<u>9,017,110</u>
Balance – End of year	<u>6,217,425</u>	<u>9,017,110</u>

## 6 Property, plant and equipment

		<u>2008</u>		<u>2007</u>	
	<b>Depreciation periods (years)</b>	<b>Cost \$</b>	<b>Accumulated depreciation \$</b>	<b>Cost \$</b>	<b>Accumulated depreciation \$</b>
Leasehold improvements	5	77,359	20,292	77,359	4,333
Office furniture	5	52,258	15,457	47,397	5,148
Hardware	3 to 5	17,514	13,092	17,514	9,152
Camp	5	19,436	3,076	14,105	1,996
		<u>166,567</u>	<u>51,917</u>	156,375	<u>20,629</u>
Less: Accumulated depreciation		<u>51,917</u>		<u>20,629</u>	
Net amount		<u>114,650</u>		<u>135,746</u>	

An amount of \$1,114 (\$937 in 2007) related to depreciation of property, plant and equipment was capitalized to mining properties.

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Notes to Consolidated Financial Statements

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## 7 Investment in a joint venture

On September 29, 2008, the Company signed a five-year term joint venture agreement, called "Minera Juliaca", with a Peruvian resident (the "Owner") to jointly explore, produce and commercialize copper concentrates located on the Maria Gracia concession. The Maria Gracia concession is located near the town of Juliaca in the Puno department, province of Carabaya in southern Peru.

The Company disposed of a processor with a carrying value of \$144,000 in favour of the joint venture in consideration of an interest in such joint venture.

The Company will retain 15% of the profits generated from that project. As of December 31, 2008, production has not started.

## 8 Long-term debt

	<b>2008</b>	<b>2007</b>
	\$	\$
Loan bearing interest at 9.4%, payable in monthly payments of \$884, including principal and interest, maturing in July 2010 and secured by the Company's intangible assets	15,553	24,250
Less: Current portion	9,553	8,699
	<u>6,000</u>	<u>15,551</u>

The estimated payments over the next two years are \$9,553 in 2009 and \$6,000 in 2010.

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## 9 Share capital

Authorized

Unlimited number of common shares, without par value

Variation of issued share capital:

	2008		2007	
	Number	Stated value \$	Number	Stated value \$
Balance – Beginning of year	138,592,467	26,903,758	126,184,109	23,705,702
Private placements *	4,155,000	498,414	2,882,145	367,439
Purchase of mining properties	-	-	6,000,000	2,200,000
Issuance of shares in settlement of finder's fee	-	-	300,000	67,500
Exercise of warrants	111,600	22,467	2,397,047	374,727
Exercise of stock options	196,667	48,800	829,166	188,390
Balance – End of year	143,055,734	27,473,439	138,592,467	26,903,758

\* Private placements are presented net of the fair value of the related warrants totalling \$83,286 (\$36,061 in 2007), which has been determined using the Black-Scholes model (note 11).

### Issuance of shares and warrants upon private placements

On May 26, 2008, the Company completed a private placement by issuing 1,550,000 common shares of its share capital at a price of \$0.14 per share for a total of \$217,000 and 775,000 warrants entitling to subscribe for one common share of the Company for a period of 24 months following the closing of the placement, at a price of \$0.20 per share for the first 12 months and \$0.25 per share for the following 12 months.

On April 11, 2008, the Company completed a private placement by issuing 2,330,000 common shares of its share capital at a price of \$0.14 per share for a total of \$326,200 and 1,165,000 warrants entitling to subscribe for one common share of the Company for a period of 24 months following the closing of the placement, at a price of \$0.20 per share for the first 12 months and \$0.25 per share for the following 12 months.

On January 18, 2008, the Company issued 275,000 common shares of its share capital at a price of \$0.14 per share and 137,500 warrants entitling to subscribe for one common share of the Company at a price of \$0.20 over a 12-month period following the closing of the placement.

On December 21, 2007, the Company issued 2,882,145 common shares of its share capital at a price of \$0.14 per share and 1,441,073 warrants entitling to subscribe for one common share of the Company at a price of \$0.20 over a 12-month period following the closing of the placement.

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## 10 Stock option plan

In accordance with a stock option plan established by the Company, some managers, directors, key employees and consultants may be granted stock options for shares of the Company. A maximum of 18,370,408 stock options may be granted (maximum of 5% of the number of common shares outstanding in favour of one person for the managers, directors and key employees and 2% for the consultants).

Options granted expire after a maximum of five years following the date of grant. Options granted to consultants, managers, directors and key employees vest generally over an eighteen-month period at the rate of 1/6 for every three-month period or at the board of directors' discretion. These costs are amortized on a straight-line basis over their vesting period.

No stock options were granted in 2008.

On September 11, 2007, the Company granted 2,300,000 stock options at an exercise price of \$0.30 per share. These stock options will generate aggregate stock-based compensation costs of \$378,832.

On August 30, 2007, the Company granted 3,850,000 stock options at an exercise price of \$0.30 per share. These stock options will generate aggregate stock-based compensation costs of \$855,481.

On May 8, 2007, the Company granted 150,000 stock options at an exercise price of \$0.42 per share. These stock options will generate aggregate stock-based compensation costs of \$49,410.

The following tables present the stock option activity since January 1, 2007 and summarize information about stock options outstanding and exercisable as at December 31, 2008 and 2007:

	2008			2007		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding – Beginning of year	10,537,834	1,635,987	0.33	7,275,335	826,150	0.39
Granted	-	-	-	6,300,000	-	0.30
Exercised	(196,667)	(23,800)	0.13	(829,166)	(66,328)	0.15
Matured or cancelled	(2,203,333)	(711,206)	0.50	(2,208,335)	(365,572)	0.54
Net stock-based compensation costs	-	620,091	-	-	1,241,737	-
Outstanding – End of year	<u>8,137,834</u>	<u>1,521,072</u>	<u>0.26</u>	<u>10,537,834</u>	<u>1,635,987</u>	<u>0.33</u>
Exercisable – End of year	<u>7,112,832</u>		<u>0.26</u>	<u>4,479,494</u>		<u>0.33</u>

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		<u>Options outstanding</u>		
Exercise price		Number	Weighted average remaining contractual life (years)	Weighted average exercise price \$
\$0.11 to \$0.25	Directors and managers	1,271,167	1.82	0.13
\$0.30	Directors and managers	3,250,000	3.67	0.30
\$0.42 to \$0.51	Directors and managers	600,000	2.74	0.49
\$0.11 to \$0.15	Consultants	91,667	1.86	0.11
\$0.30	Consultants	<u>2,925,000</u>	0.75	0.30
		<u>8,137,834</u>		
		<u>Options currently exercisable</u>		
Exercise price		Number	Weighted average remaining contractual life (years)	Weighted average exercise price \$
\$0.11 to \$0.25	Directors and managers	1,271,167	1.82	0.13
\$0.30	Directors and managers	2,708,332	3.67	0.30
\$0.42 to \$0.51	Directors and managers	600,000	2.74	0.49
\$0.11 to \$0.15	Consultants	91,667	1.86	0.11
\$0.30	Consultants	<u>2,441,666</u>	0.75	0.30
		<u>7,112,832</u>		

The fair value of stock options granted for the year ended December 31, 2007 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Weighted average risk-free interest rate	4.25%
Expected volatility	103%
Dividend yield	Nil
Weighted average expected life	3.64 years
Weighted average fair value of options granted	\$0.20

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## 11 Warrants

The following tables present the warrant activity since January 1, 2007 and summarize information about warrants outstanding and exercisable as at December 31, 2008 and 2007:

	2008			2007		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable						
– Beginning of year	7,060,430	636,582	0.36	7,905,404	637,477	0.33
Granted	2,282,600	103,332	0.20	1,602,073	45,931	0.19
Exercised	(111,600)	(6,843)	0.14	(2,397,047)	(46,239)	0.14
Matured or cancelled	(5,507,757)	(594,195)	0.41	(50,000)	(587)	0.10
Extended	-	8,526	-	-	-	-
Outstanding and exercisable – End of year	3,723,673	147,402	0.21	7,060,430	636,582	0.36

	Warrants outstanding and exercisable	
Exercise price	Number	Weighted average remaining contractual life (years)
\$0.14	205,100	0.30
\$0.20	3,518,573	1.17
	<u>3,723,673</u>	

The fair value of warrants granted for the years ended December 31, 2008 and 2007 was estimated using the Black-Scholes warrant pricing model with the following weighted average assumptions:

	2008	2007
Weighted average risk-free interest rate	2.84%	3.99%
Expected volatility	96.7%	83.4%
Dividend yield	Nil	Nil
Weighted average expected life	1.85 year	1 year
Weighted average fair value of warrants granted	\$0.045	\$0.029

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## 12 Agreements

### (a) Marilia property

On February 16, 2004, the Company signed an agreement for the acquisition of all mining rights in the Marilia gold property located north of Peru in the Cajamarca area for a total cash consideration of US\$70,000. This amount was paid in two equal instalments of US\$35,000 on March 6, 2004 and February 7, 2005.

Furthermore, on March 30, 2004, the Company acquired mining rights in an adjacent piece of land with the view to extending the Marilia property. The Company paid the seller a cash consideration of US\$30,000. A 1.5% royalty on the net smelter return will be payable to the seller. This royalty is redeemable at any time for an amount of US\$1,500,000.

As at December 31, 2007, the Company had written off this property in whole for an amount of \$158,896. Costs incurred in 2008, amounting to \$4,887, have been written off.

### (b) Lucma property

Following the acquisition of the rights of ownership, the Company committed to paying a 2% royalty on net proceeds from future output sales.

As at December 31, 2008, the Company has written off this property for an amount of \$71,863 (see note 5).

### (c) Oro Del Norte I & II property

On March 29, 2004, the Company signed an agreement for the acquisition of mining rights in a piece of land adjacent to the Cascajal property (Oro Del Norte II). This agreement was amended on December 27, 2004. Pursuant to the amended agreement, a 1.5% royalty on the net smelter return will be payable to the seller.

On April 16, 2004, the Company signed an agreement for the acquisition of mining rights in a piece of land adjacent to the Cascajal property (Oro Del Norte I), which agreement was modified in October 2004, in December 2004 and on April 18, 2006. Pursuant to the amended agreement, all the rights will be acquired upon receipt of a last payment in the amount of US\$100,000, due on October 30, 2006, an amount of US\$100,000 having already been paid during fiscal 2004. As at December 31, 2005, a balance of purchase price payable has been accounted for in the amount of \$116,300 (US\$100,000). This amount was paid to the seller in 2006. Furthermore, the Company committed to paying a royalty of US\$3 per ounce of gold upon establishment of proven reserves.

As at December 31, 2008, the Company has written off this property for an amount of \$378,590 (see note 5).

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(d) Angolos property (Bolsa Del Diablo)

On March 14, 2005, the Company signed an agreement whereby it has the option to acquire all the mining rights in the Angolos gold property located north of Peru in the Piura area in consideration of regular cash payments amounting to US\$1,600,000. During fiscal 2008, under the original agreement, the Company was required to pay the vendors a total of US\$525,000 in 2008. At the beginning of 2009, the Company renegotiated the agreement and under the amended agreement, the Company will pay US\$825,000 as follows:

	US\$
October 15, 2009	50,000
April 15, 2010	75,000
October 15, 2010	150,000
April 15, 2011	200,000
October 15, 2011	200,000
April 15, 2012	150,000
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	825,000
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The Company will also issue 600,000 common shares to the vendors in March 2009 (note 20).

The Company can terminate this agreement at any time if a notice is given to the property owner. In the case of a termination, the Company shall pay the owner an amount corresponding to the number of days that have elapsed between two instalments dates multiplied by the next payable amount.

A 2% royalty on the net smelter return will be payable to the owner.

(e) Molinetes property

On September 20, 2004, the Company signed a letter of intent in order to acquire an option on all mining rights of the Molinetes property in consideration of future cash payments amounting to US\$350,000.

(f) Almirante Miguel Grau property

On August 18, 2006, the Company signed an agreement for the acquisition of all mining rights in the Almirante Miguel Grau property in consideration of a cash payment of US\$50,000 and the issuance of 2,000,000 common shares of the Company.

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- (g) Escondida properties (Ecuador)

*Measurement uncertainty for mining properties in Ecuador*

On April 18, 2008, the Constitutional Assembly of Ecuador approved a Mining Mandate (the "Mandate"), which established a number of conditions and restrictions on metallic mining concessions previously issued by the Government of Ecuador. According to the Ministry of Mines and Petroleum (the "MMP"), the new Mining Law (note 20), enacted on January 29, 2009, establishes the new legal framework for mining activity. However, the Regulations underlying the Mining Law have yet to be developed, creating some uncertainty regarding the mining industry in Ecuador. To date, the Company's discussions with the MMP and legal counsel have not resulted in a determination of any material impairment in the carrying value of the Company's concessions as a result of the lack of defined Regulations or clear governmental confirmation that the Mandate is no longer in effect.

*Cost of mining properties abandoned*

However, independently of the outcome with the new Mining Law, the Company will not renew all its mining properties in Ecuador. The ones that the Company wants to keep represent 38% of the surface of all properties owned in Ecuador. Consequently, the Company has written off 62% of the value of the mining properties, representing an amount of \$1,912,944.

*Acquisition of properties and transaction with Escondoro Resources Ltd.*

On November 7, 2006, the Company signed an agreement whereby it has the option to acquire all the mining rights in the Escondida properties from Minera DMG S.A. (DMG) in consideration of regular cash payments amounting to US\$2,000,000 of which US\$850,000 were delegated to Escondoro Resources Ltd. (see Signing of an Option and Joint Venture Agreement).

Furthermore, in 2007, 6,000,000 common shares were issued in relation to this agreement.

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## *Signing of an Option and Joint Venture Agreement*

On September 14, 2007, the Company and its wholly-owned subsidiary Plexmar Ecuador S.A. ("Plexmar S.A.") entered into an Option and Joint Venture Agreement (the "Option Agreement") with Escondoro Resources Ltd. ("Escondoro"), a corporation managed by the president of the Company, and its wholly-owned subsidiary SADCOECUADOR S.A. ("Sadco"). Sadco was granted the sole and exclusive option (the "Option") to acquire up to an undivided 60% interest in properties held by Plexmar Ecuador (the "Escondida properties"), which is subject to the performance of the following terms and conditions:

1. the payment by Escondoro to the Company of an aggregate amount equal to the expenditures previously incurred by the Company on the Escondida properties amounting to \$1,384,822. As of December 31, 2008 the amount receivable from Escondoro was \$1,045,754. Since Escondoro's financial position has been impacted by uncertainty over the status of tenure to mining concessions in Ecuador, an allowance for doubtful accounts amounting to \$1,045,754 has been recorded as of December 31, 2008;
2. the issuance by Escondoro, on its initial public offering ("IPO"), of 3,000,000 common shares to the Company;
3. the undertaking by Escondoro to bear and pay all payments due by the Company or its subsidiary to Minera "DMG" S.A. ("DMG") as regards the acquisition of the mining rights in the Escondida properties as follows:

	US\$
November 7, 2007 (paid)	200,000
February 7, 2008 *	200,000
May 7, 2008 *	200,000
November 7, 2008 *	250,000

- \* Escondoro had made deposits on the purchase of mining properties for an amount exceeding the amount payable in 2008 (US\$650,000). These deposits could be applied against the payments for the Escondida properties if there was no acquisition of mining properties. Escondoro has elected to apply a portion of these deposits in settlement of the payments due for the Escondida properties. Consequently, all amounts payable for the acquisition of the mining rights in the Escondida properties have been paid as of December 31, 2008.

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4. Sadco will incur work expenditures aggregating US\$3,000,000 with respect to the exploration and development of the Escondida properties in accordance with the following schedule:
  - (i) US\$750,000 on or before one year after the listing date;
  - (ii) US\$1,000,000 on or before two years after the listing date;
  - (iii) US\$1,250,000 on or before three years after the listing date.
5. as long as the Company or Plexmar S.A. is a shareholder of Escondoro, undertaking by Escondoro to propose to its shareholders two Directors designated by the Company.

Upon Sadco having acquired a 60% interest in the Escondida properties, a joint venture will automatically be formed with Plexmar S.A. holding a 40% interest. Terms of the joint venture will include:

- Sadco will act as operator of the joint venture and will have the right (but not the obligation) to remain operator for as long as its participating interest is 50% or more; and
- a management committee will be formed for the direction and control of the affairs of the joint venture, with the operator having a preponderant vote on any matter to be determined by this committee;

Because Escondoro's and Sadco's interest in the Escondida properties is by way of an option agreement only,

1. Escondoro and Sadco do not own the Escondida properties; rather Sadco has the right to acquire an interest in the Escondida properties by incurring the expenditures and meeting the other obligations outlined in the Option Agreement;
2. if Sadco fails to incur the work expenditures as provided in the Option Agreement or if Escondoro does not issue the common shares to the Company, then the Option Agreement shall terminate.

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## *Signing of a Delegation Agreement*

On September 14, 2007, Escondoro and its subsidiary (Sadco) entered into a Delegation Agreement with the Company, Plexmar S.A. and DMG whereby, jointly and severally, Escondoro and Sadco undertake to bear and pay all payments due by the Company or Plexmar S.A. to DMG as described in (g)3. DMG agreed to such delegation and the grant of the Option pursuant to the Option Agreement, subject to the performance of the following terms and conditions:

- issuance by Escondoro to DMG on the listing date of:
  - (iv) 2,200,000 common shares of Escondoro; and
  - (v) 1,100,000 share purchase warrants of Escondoro.

DMG is entitled to receive a 2.5% net smelter return royalty from the operator if and when the properties are put into production.

## (h) Dorado del Norte and Virgen Del Carmen de Pataz

On July 24, 2007, the Company signed an agreement for the acquisition of all mining rights in two properties in Peru, adjacent to its Bolsa del Diablo project. These properties are Dorado Del Norte 1 and Virgen Del Carmen de Pataz (collectively "Dorado").

In 2007, the Company temporarily stopped payments under the Dorado agreement because of *Force Majeure*; in fact, the Company had not obtained the social license from the community entitling it to carry out exploration work.

The owner of the properties and the Company mutually agreed to terminate the agreement, resulting in a net loss on writeoff of these properties of \$334,551. This net loss consists of a writeoff of the mining properties totalling \$982,573, decreased by a gain on writeoff of accounts payable and accrued liabilities amounting to \$648,062.

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## 13 Related party transactions

The Company entered into the following transactions with:

	2008	2007
	\$	\$
Companies controlled by officers and directors		
Management fees	197,722	180,826
Professional fees	-	110,000
Rent – Offices	-	9,900
Escondoro Resources Ltd., a corporation managed by the president of the Company		
Rebilling of general and administrative expenses	-	37,911

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

In 2007, the Company and its subsidiary entered into an Option Agreement with Escondoro, as described in note 12(g). This transaction has been accounted for at its carrying value.

## 14 Income taxes

The income tax recovery differs from the amount that would have been calculated by applying the Canadian federal and provincial combined statutory tax rate of 30.90% (32.02% in 2007) as follows:

	2008	2007
	\$	\$
Income tax recovery at the Canadian combined statutory tax rate	(1,711,000)	(942,000)
Increase (decrease) resulting from:		
Share issue expenses not affecting earnings	(10,000)	(9,000)
Non-deductible expenses for income tax purposes	185,000	36,000
Stock-based compensation	192,000	398,000
Difference in statutory and future tax rates	140,000	318,000
Expiry of operating losses carried forward	286,000	53,000
Effect of the consolidation of the Peruvian subsidiary	(130,000)	122,000
Exchange rate variation on the Peruvian subsidiary's future income tax assets	(58,000)	-
Other	(1,000)	23,000
Change in valuation allowance	1,107,000	1,000
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The Company is entitled to the following tax benefits:

- As at December 31, 2008, the Company has accumulated, for federal and provincial income tax purposes, non-capital losses which can be applied against future years' taxable income and which will expire as follows:

	<b>Federal</b>	<b>Provincial</b>
	\$	\$
2009	335,000	335,000
2010	494,000	474,000
2011	765,000	706,000
2015	643,000	587,000
2016	1,146,000	964,000
2027	1,201,000	1,179,000
2028	682,000	682,000
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	5,266,000	4,927,000

- During the year, the Company has accumulated, for Peruvian income tax purposes, a non-capital loss totalling \$324,000 (877,000 new soles). This loss can be applied against taxable income according to the following method: the total loss can be applied against taxable income over the four-year period from the first year of taxable income.

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

	<b>2008</b>	<b>2007</b>
	\$	\$
Amount receivable from Escondoro Resources Ltd.	281,000	-
Mining properties	1,527,000	756,000
Property, plant and equipment	114,000	9,000
Tax losses carried forward	1,479,000	1,488,000
Share issue expenses	49,000	89,000
Others	2,000	3,000
Valuation allowance	(3,452,000)	(2,345,000)
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The Company recorded a valuation allowance corresponding to 100% of the potential tax benefits resulting from these items.

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## 15 Commitments

### Operating lease

The Company's minimum aggregate commitments under a lease for its office spaces, which expires on May 31, 2017, amounted to \$218,399. Minimum rental amounts for the next fiscal years are as follows: \$24,465 from 2009 to 2011, \$25,922 in 2012, \$26,962 from 2013 to 2016 and \$11,234 for 2017.

In order to secure the payment of the rent and compliance with the terms and conditions of the lease agreement for the premises, the Company paid the lessor an amount of \$57,436 as a security deposit.

## 16 Capital management

The Company defines capital as its Shareholders' Equity.

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern in order to provide an adequate return to shareholders and maintain a sufficient level of funds to finance its exploration activities, including acquisition of mining properties, general and administrative expenses and working capital.

To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets, all of which are subject to market conditions and the terms of the underlying third party agreements.

The Company is not subject to any capital requirements arising from regulatory authorities.

The total capital as at December 31, 2008 and 2007 is calculated as follows:

	<b>2008</b>	<b>2007</b>
	\$	\$
Share capital	27,473,439	26,903,758
Warrants	147,402	636,582
Stock options	1,521,072	1,635,987
Contributed surplus	3,171,454	1,866,053
Deficit	(26,139,514)	(20,540,428)
	<u>6,173,853</u>	<u>10,501,952</u>

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## 17 Financial instruments

### *Fair value*

The following table summarizes the fair value of financial instruments as of December 31, 2008.

	<b>Held for trading</b>	<b>Loans and receivables</b>	<b>Other financial liabilities</b>	<b>As at December 31, 2008</b>	
				<b>Carrying value</b>	<b>Fair value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>Total</b>	<b>Total</b>
Financial assets					
Cash	13,913	-	-	13,913	13,913
Amounts receivable	-	225,941	-	225,941	225,941
	<u>13,913</u>	<u>225,941</u>	<u>-</u>	<u>239,854</u>	<u>239,854</u>
Financial liabilities					
Accounts payable and accrued liabilities	-	-	609,134	609,134	609,134
Long-term debt, including current portion	-	-	15,553	15,553	15,553
	<u>-</u>	<u>-</u>	<u>624,687</u>	<u>624,687</u>	<u>624,687</u>

Cash is recorded at fair value. The fair value of other financial instruments approximates their carrying value due to their short-term maturity or to current market rates.

### *Financial risk*

The Company is exposed to various types of risks owing to the nature of the business activities it carries on, including those related to the use of financial instruments. The Company does not use any financial derivatives.

### *Market risk*

Market risk corresponds to the financial losses that the Company could incur because of unfavourable fluctuations in the value of financial instruments, following variations in the parameters underlying their evaluation, such as interest rates and exchange rates. The Company's exposure to interest rate fluctuations is described hereunder.

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## *Foreign exchange risk*

The Company operates internationally and a portion of its balance sheet and results items is denominated in Nuevo Soles (Peru). A significant change in the currency exchange rate between the Canadian dollar relative to the Nuevo Sol could not have a material effect on the Company's results of operations, financial position or cash flows since the monetary assets denominated in Nuevo Soles are immaterial.

## *Credit risk*

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and amounts receivable. Cash is maintained with high-credit quality financial institutions, and amounts receivable are individually immaterial. Credit risk is managed by assessing the credit quality of the third party, taking into account its financial position, past experience and other factors. Consequently, management considers the risk of non-performance related to cash and amounts receivable to be minimal.

## *Interest rate risk*

As at December 31, 2008, the Company's exposure to interest rate risk is summarized as follows:

Cash	Variable interest rate
Amounts receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	As described in note 8

## *Liquidity risk*

Liquidity risk represents the possibility that the Company may not be able to gather sufficient cash resources, when required and under reasonable conditions, to meet its financial obligations.

The Company believes that, with the financial resources currently at its disposal, it has not sufficient cash to meet its contractual liabilities for the next 12 months. To meet all its contractual liabilities, the Company will need to raise additional funds in the near future and will seek additional forms of debt or equity financing, but cannot provide assurance that it will be successful in doing so. See Note 1 – *Going concern*.

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## 18 Earnings per share

The following table summarizes the reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding used in the diluted loss per share calculations:

	2008	2007
Basic weighted average number of shares outstanding	141,700,388	131,117,736
Stock options	227,628	1,653,797
Warrants	-	21,423
	<hr/>	<hr/>
Diluted weighted average (potentially dilutive) number of shares outstanding	141,928,016	132,792,956
	<hr/>	<hr/>
Items excluded from the calculation of the potentially dilutive number of shares because the exercise price was greater than the average market price of the common shares		
Stock options	6,954,167	2,500,000
Warrants	3,723,673	5,458,357

For the years ended December 31, 2008 and 2007, the diluted loss per share was the same as the basic loss per share since the dilutive effect of stock options and warrants was not included in the calculation; otherwise, the effect would have been anti-dilutive. Accordingly, the diluted loss per share for those years was calculated using the basic weighted average number of shares outstanding.

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## 19 Consolidated segment information by geographic region

The Company is organized under three geographic regions, which are Canada, Peru and Ecuador. The accounting policies used for these reportable segments are consistent with those described in the summary of significant accounting policies. The principal financial information for each of these segments is detailed as follows:

For the year ended December 31, 2008

	<b>Ecuador</b>	<b>Peru</b>	<b>Canada</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Interest income	-	-	(266)	(266)
Professional and maintenance fees	-	-	157,560	157,560
Management fees	-	-	197,722	197,722
Stock-based compensation costs	-	-	620,091	620,091
General and administrative expenses	-	161,699	153,186	314,885
Travelling	-	-	25,353	25,353
Depreciation of property, plant and equipment	-	1,453	28,720	30,173
Amortization of intangible assets	-	-	8,086	8,086
Cost of mining properties abandoned or written off	1,912,944	1,442,089	-	3,355,033
Gain on writeoff of accounts payable and accrued liabilities	-	(648,062)	-	(648,062)
Writeoff of deposit on mining properties	-	-	294,450	294,450
Allowance for doubtful accounts on amounts receivable from Escondoro Resources Ltd.	-	-	1,045,754	1,045,754
Writeoff of commodity taxes receivable	-	216,937	-	216,937
Foreign exchange loss (gain)	-	(79,923)	241	(79,682)
Loss for the year	<u>1,912,944</u>	<u>1,094,193</u>	<u>2,530,897</u>	<u>5,538,034</u>
Segment assets	<u>1,184,002</u>	<u>2,365,294</u>	<u>3,249,244</u>	<u>6,798,540</u>
Additions to mining properties	<u>-</u>	<u>555,348</u>	<u>-</u>	<u>-</u>

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For the year ended December 31, 2007

	Ecuador \$	Peru \$	Canada \$	Total \$
Interest income	-	-	(2,555)	(2,555)
Other revenues	-	(584)	(255)	(839)
Professional and maintenance fees	-	-	519,276	519,276
Management fees	-	-	180,826	180,826
Stock-based compensation costs	-	-	1,244,282	1,244,282
General and administrative expenses	-	159,726	282,162	441,888
Travelling	-	-	136,388	136,388
Depreciation of property, plant and equipment	-	1,244	11,146	12,390
Impairment of property, plant and equipment held for sale	-	30,000	-	30,000
Amortization of intangible assets	-	-	4,043	4,043
Cost of mining properties abandoned or written off	-	308,866	-	308,866
Foreign exchange loss	-	61,263	6,186	67,449
Loss for the year	-	560,515	2,381,499	2,942,014
Segment assets	3,391,394	6,432,597	1,294,191	11,118,182
Additions to mining properties	3,659,810	1,806,402	-	5,466,212
Mining properties under option	(1,384,822)	-	-	(1,384,822)

## 20 Subsequent events

### *Changes to the Mining law in Ecuador*

On January 29, 2009, a new Mining Law for Ecuador was enacted, which is expected to provide the new legal framework for mining. The Mining Law places no limits on the number of mining concessions held by a single company, with concession terms limited to 25 years but which are renewable. It also imposes a government royalty of not less than 5% on sales revenues, however, no specific details have yet been provided. Clear timelines are also established for concession exploration and exploitation (mining) phases. The Mining Law also mandates the creation of a National Mining Company, though no details have been provided regarding the nature and scope of its intended activities.

The new Mining Law contains provisions that are expected to be clarified by accompanying Regulations, which are to be developed by the MMP within 120 days from the Mining Law's enactment.

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## *Private placements*

On February 11, 2009, the Company completed the first tranche of a private placement by issuing units at a price of \$0.05 per unit for a total of \$343,000 consisting of 6,860,000 common shares of its share capital and 6,860,000 warrants entitling to subscribe for one common share of the Company at a price of \$0.10 over a 24-month period following the closing of the placement. The Company can trigger the exercise of the warrants if the closing price is at least 18 cents for 10 continuous days. A formal notice shall be sent to the holders following which they will have a period of 30 days to exercise the warrants.

On February 23, 2009, the Company completed the second tranche of a private placement by issuing units at a price of \$0.05 per unit for a total of \$489,000 consisting of 9,780,000 common shares of its share capital and 9,780,000 warrants entitling to subscribe for one common share of the Company at a price of \$0.10 over a 24-month period following the closing of the placement. The Company can trigger the exercise of the warrants if the closing price is at least 18 cents for 10 continuous days. A formal notice shall be sent to the holders following which they will have a period of 30 days to exercise the warrants.

## *Bolsa del Diablo project*

The Company has signed, through its subsidiary, contracts with Minera Ucucha SAC ("Ucucha"). Ucucha has been awarded the exclusive commercialization and production rights for the top 100 metres on all the concessions part of the Bolsa del Diablo project. In return, the Company receives a 10-per-cent royalty from all mineral extracted and commercialized from its concessions, and Ucucha obtains all necessary authorizations from the local communities to allow free and undisturbed exploration for the duration of the agreement.

According to the contract, Ucucha has a maximum of 60 days, from February 25, 2009, to obtain community approval to resume exploration and the Company has the option to extend this period by another 30 days, which option has been exercised.

The agreement has a 10-year duration and contains breakup provisions for both parties. This agreement is subject to the approval of the regulatory authorities.

## *Angolos property (Bolsa Del Diablo)*

On March 5, 2009, the Company issued 600,000 common shares to the vendors of the Angolos property.