



## **Management's Discussion and Analysis**

**For the year ended April 30, 2009 (compared April 30, 2008)**



## Management's Discussion and Analysis

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This Management's Discussion and Analysis ("MD&A") provides an analysis of the financial results of the Company for 2009 as compared to the prior year and has been prepared as of August 19, 2009. This MD&A should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the fiscal year ended April 30, 2009 as well as the annual audited consolidated financial statements and notes thereto for the fiscal year ended April 30, 2008 ("Annual Statements"), which are available at the SEDAR website, [www.sedar.com](http://www.sedar.com).

These audited annual financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). Except as disclosed further in this MD&A, the same and consistent accounting policies and methods are used in the preparation of the audited consolidated financial statements for the year ended April 30, 2009 and for the fiscal year ended April 30, 2008.

**The reporting currency is in Canadian dollars, unless specified as US\$.**

### **Description of Business**

Karmin Exploration Inc. ("Karmin" or the "Company") was incorporated on February 3, 1995 under the Business Corporation Act of Ontario to engage in mineral exploration and development of base metals and gold opportunities in Brazil.

Effective June 14, 1999 the Company was continued under the Business Corporations Act of Alberta. Effective September 15, 1999, the Company changed its name from Ambrex Mining Corporation (Ambrex) to Karmin Exploration Inc. (Karmin) and consolidated its common shares on the basis of one new share for every three common shares previously issued and outstanding. Karmin's common shares trade publicly on the TSX Venture exchange under the symbol "KAR".

Karmin directly and through an agreement as described below, is in the process of exploring its mining property and has not yet determined whether the property contains ore reserves that are economically recoverable. The recoverability of costs incurred on exploration and development is dependent upon the discovery of economically recoverable reserves, the securing and maintenance of the interests in the property, future production or proceeds from the disposition thereof, and the ability of the company to obtain the necessary financing to continue these operations.



## Management's Discussion and Analysis

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Exploration for mineral properties is inherently risky and the success of these strategies is subject to numerous risks. Management cannot guarantee that its strategy will find mineral deposits, or if discovered, that these deposits will be commercially viable. The stock market in general, and the market for mineral exploration companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating results or asset values of those companies. These broad market and industry factors may seriously impact the market price and trading volumes of Karmin's shares, regardless of the actual operating performance.

While the financial statements of the company have been prepared on the basis that the company will continue as a going concern, it is uncertain that the company will be able to realize its assets and discharge its liabilities in the normal course of business. Should it be determined that the company is no longer a going concern, the financial statements will need to include material adjustments that reflect a liquidation basis of preparation.

During 2000, the company signed a contract of association with a Brazilian subsidiary of a major mining company, Anglo American PLC ("Anglo American"). The agreement required the subsidiary of the major mining company to expend US\$3.25 million on exploration on or before December 31, 2003.

During the 2004 fiscal year, the contract of association was amended to allow for a major Brazilian mining company, Votorantim Metais S/A ("Votorantim") to earn into the property and project by expending US\$1.6 million on exploration on or before December 31, 2005.

Votorantim has reported to the Company that they had spent the following sums on the Aripuana project to date (C\$ = 1.71 Reais)

	Brazilian Real (millions)	C\$ (millions)
2004	2.75	1.6
2005	6.64	3.9
2006	7.81	4.6
2007	16.94	9.9
2008	8.04	4.7

In 2007, Karmin paid \$20,000 to Ste. Genevieve Resources to purchase their 1.5% interest in the Aripuana project, thus increasing ownership from 28.5% to 30%.



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**Selected Financial Information, For Years Ending April 30 (Cdn\$)**

	2009	2008	2007
Revenues – interest only	\$470	\$ 3,133	\$ 3,375
Loss and comprehensive loss for the year	\$293,935	\$ 292,931	\$ 619,626
Loss and comprehensive loss per share for the year	\$0.0076	\$ 0.0076	\$ 0.018
Total Assets	\$1,025,489	\$ 1,089,282	\$ 1,151,637
Working Deficiency	\$414,232	\$329,730	\$ 110,351
Shares Outstanding	38,453,591	38,453,591	38,453,591
Long Term Debt	205,373	nil	nil
Dividends	nil	nil	nil

**Results of Operations**

**Revenues and Expenses**

Revenues earned by the Company have been insignificant to date as the Company is still in the exploration stage and does not have any producing properties. Revenues were derived from minimal interest income on minor cash balances and for the year ended April 30, 2009 amounted to \$470 and decreased as compared to \$3,133 in the prior year. Interest rates received on cash balances have also decreased over the last few years.

Expenses for the year ending April 30, 2009 totaling \$294,405 were decreased slightly compared with total expenses of \$296,064 for fiscal 2008. In 2008, \$61,993 was expensed for the fair value of stock options granted during the year, whereas, due to no options being granted in 2009, no expense was incurred in the current year. Also, in 2008, \$45,118 was expensed to exploration and prospecting costs for the Aripuana technical report. There was no such expense incurred during 2009. In 2009, finance charges on note payable at 9% were incurred and accrued in the amount of \$11,813. Also accrued were C.E.O. management fees of \$83,333. These expenses were not incurred in 2008.



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The net result is that the Company recorded a consolidated loss for the year ending April 30, 2009 of \$293,935 (\$0.0076 per share) as compared with a loss of \$292,931 (or \$0.0076 per share) for the previous year 2008. The result in both years reflects the fact that the Company is incurring expenditures but not earning any revenues from operations, other than minimal interest income. This is a common result for mineral exploration companies in general and it is expected that this trend continue until the Company is able to generate meaningful operating revenues.

### **Summary of Quarterly Results**

The following table sets forth unaudited financial information prepared by management of the Company.

	Three Months Ended			
	Apr 30/09	Jan 31/09	Oct 31/08	July 31/08
<b><u>Earnings Information</u></b>				
Revenues	\$6	\$53	\$150	\$261
Expenses	\$159,385	\$36,171	\$32,135	\$66,714
Net loss for the period	\$159,379	\$36,118	\$31,985	\$66,453
Loss per share – basic	\$0.0041	\$0.0009	\$0.0008	\$0.0017
Loss per share – diluted	\$0.0041	\$0.0009	\$0.0008	\$0.0017
<b><u>Balance Sheet Information</u></b>				
Total assets	\$1,025,489	\$994,267	\$1,011,959	\$1,037,632
	Three Months Ended			
	Apr 30/08	Jan 31/08	Oct 31/07	July 31/07
<b><u>Earnings Information</u></b>				
Revenues	\$ 237	\$ 635	\$ 988	\$ 1,273
Expenses	\$ 136,560	\$ 66,482	\$ 45,075	\$ 47,947
Net loss for the period	\$ 136,323	\$ 65,847	\$ 44,087	\$ 46,674
Loss per share – basic	\$ 0.0035	\$ 0.002	\$ 0.001	\$ 0.001
Loss per share – diluted	\$ 0.0035	\$ 0.002	\$ 0.001	\$ 0.001
<b><u>Balance Sheet Information</u></b>				
Total assets	\$1,089,282	\$1,036,302	\$1,062,543	\$1,098,799



## Management's Discussion and Analysis

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Fluctuations in quarterly results for revenues are primarily affected by factors such as interest earned per quarter based on the cash and cash equivalent balances held by the company during the quarter and interest rates paid by the bank to the company on these cash and cash equivalent balances.

Expense fluctuations in quarterly results are due primarily to factors such as administrative expenses and exploration and prospecting costs.

Revenues earned by the Company during the fourth quarter ended April 30, 2009 of \$6 decreased as compared to \$237 in the prior year due mainly to a lower balance in cash and cash equivalents.

Expenses during the fourth quarter ended April 30, 2009 totaling \$159,385 increased compared with total expenses of \$136,560 for the corresponding quarter for fiscal 2008. This is due to the expense variations as discussed under "Results of Operations".

### Related party transactions

The Company entered into the following related party transactions:

Management fees of \$40,000 (2008 - \$40,000) was incurred and payable to a company controlled by a shareholder during the 2009 fiscal year. There was no office rent in 2009 or 2008.

The basis used to measure the related party transactions was the exchange amount based on the negotiated value between the parties.

### **Resource Expenditures**

Karmin is engaged in the discovery, exploration and development of mining properties for mineral resource deposits in Brazil. The Company has not yet determined whether its property contains 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 of the company to obtain necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposal of properties.



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Management reviews the carrying values of the mining property on a regular basis to determine whether any write-downs are necessary. These costs will be amortized over the estimated useful life of the mining property following commencement of production or written off if the mining property or projects are sold or allowed to lapse. General exploration expenditures not related to the mining property are expensed as incurred.

Under the terms of the joint venture, Karmin's 30% interest in the property is carried by and paid for by a Brazilian subsidiary of Anglo American PLC. Accordingly, Karmin incurred \$nil expenditures on the addition of mining properties during the year ended April 30, 2009.

The Company's property is in the exploration stage and there can be no assurance that any of them will reach the stage of production.

The company has expensed all exploration costs to date on this property.

### Exploration

The company has a single property in Brazil at Aripuana in the state of Mato Grosso, Brazil. Exploration for the years ended April 30, 2009 and 2008, on the mining property was carried out by the Company's joint venture partner on the Aripuana property. Karmin holds a 30% free carried interest until the completion of a bankable feasibility study for the unweathered, sulphide portion of the deposit, and holds 100% of the overlying oxide portion. The project operator, Votorantim, has reported that it has commenced a feasibility study on the sulphide part of the property.

### Karmin's 100% owned oxide resources

The oxide portion did not receive any exploration expenditures in 2009. In 2004, a report written by the then operator, Anglo American, outlined a non-compliant mineral resource of gold mineralization. Karmin is considering carrying out further work in the future on the oxide portion of the deposit. Since it is located between 0 and 50 metres from surface, it is easily accessible. Past exploration suggests that gold and possibly silver have been concentrated in this weathered layer, while base metals have been depleted. This would lead to potentially a different extraction method if a processing facility were to be located at Aripuana. Karmin is planning to more clearly define any gold/silver bearing oxide resource once Votorantim, the sulphide operator, issues the results to the Company of an advanced study outlining eventual sulphide production, and the Company will plan a phased program of exploration on the oxides based on the relevant elements of the advanced study. This would allow any development of oxide ores to take advantage of an infrastructure developed for the sulphide processing facilities.



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### Karmin's 30% owned sulphide resources at Aripuana

Votorantim is the operator for the underlying sulphides where potentially significant resources have been discovered below the oxidized layer. The main deposits within the project area are at Ambrex and Arex.

In October, 2007 Karmin received and filed on SEDAR, an independent National Instrument ("NI") 43-101 compliant technical report ("Technical Report") stating the mineral resource estimates for the Aripuanã massive sulphide district in Mato Grosso State, Brazil.

### **Sulphide Project Summary**

Aripuanã is a Noranda type Volcanogenic Massive Sulphide district located in Mato Grosso state in Brazil. Two main elongate basin shaped mineralized zones have been described and named "Arex" and "Ambrex" (the latter previously named the "Valley" deposit). Three mineralized styles have been identified, a basal copper/gold stringer zone, an upper banded, massive and disseminated zinc, lead and silver zone, with gold, and sulphides in quartz veins developed in a late shearing event. Up to five continuous mineralized horizons occur in the east and three in the west, with these mineralized horizons extending over a 9 kilometre total length and up to 1 kilometre in width. Zinc is considered the most important economic mineral, followed by lead with copper, gold and silver as significant by products.

### **Technical Report**

A Technical Report was prepared for the Company by independent engineers AMEC International (Chile) S.A. ("AMEC"), a division of AMEC Americas Limited. AMEC was retained by Karmin to review, audit and provide accreditation for a mineral resource estimate for the Aripuanã Project. A report was issued by AMEC to the project operator, Votorantim, in July 2007 in a format non-compliant with Karmin's Canadian disclosure obligations under NI 43-101. Consequently, Karmin retained AMEC to update the report in accordance with the NI 43-101 Technical Report standard. The "Qualified Persons" responsible for the report, are Messrs. Rodrigo Marinho, P Geo., Dr. Armando Simon, R.P.Geo., and Pierre Lacombe P. Eng., all of AMEC. Mr. Marinho was responsible for review of drill core and geological modeling and resource estimation, Dr. Simon for Data review, implementation of the QA/QC program and geological reinterpretation, and Mr. Lacombe for the metallurgical review.



Management's Discussion and Analysis

**Estimated Mineral Resources**

**Aripuanã Mineral Resources**

Sulphide Mineral Resource - Tonnes and Grade						
	Tonnes	Zinc (%)	Lead (%)	Copper (%)	Gold (g/t)	Silver(g/t)
<b>Ambrex (Indicated)</b>	18,322,000	4.03	1.52	0.09	0.18	35.55
<b>Arex (Indicated)</b>	9,380,000	2.54	1	0.58	0.45	34.65
<b>Total Indicated</b>	<b>27,702,000</b>	<b>3.53</b>	<b>1.34</b>	<b>0.26</b>	<b>0.27</b>	<b>35.25</b>
<b>Inferred</b>	5,773,000	3.61	1.32	0.24	0.39	33.52
Sulphide Resource uses cut-off of \$20/t for Ambrex and 1.8% Zn Eq. for Arex						

**Mining Methods Considered for Cut-off Calculations**

Mineral resources reported by AMEC are considered to have a reasonable prospect of economic extraction potential to be mined, by open pit in the case of Arex and by underground methods for Ambrex. AMEC also observed that their interpretation leaves significant amounts of mineralized material outside of the interpreted deposits which might in the future become resources.

AMEC considered Net Smelter Return (“NSR”) calculations to value the blocks, run pit optimizations using Whittle® software and define underground stopes.

To establish a meaningful cut-off grade mining, processing, transport, off-site treatment and administration costs were considered. Significant work was done in terms of defining the parameters used for pit optimization and underground stope design. Allowance for mining recovery and waste dilution is included in the resource estimation procedure.

For the **Ambrex underground study** the following mining methods were considered to arrive at a cut-off cost in dollars:

- Mineralized zone width > 15 m – Transverse Longhole Stopping (Paste Fill)
- Mineralized zone width 5 to 15 m – Longitudinal Longhole Stopping (Paste Fill)
- Mineralized zone width < 5 m – Cut and Fill Stopping (Paste Fill)

For the **Arex open pit study**, base costs of \$1.224/t mining cost and 6.44/t processing costs were used, and a 42 degree pit slope was assumed.



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### **Metallurgical Recoveries**

There has been only preliminary metallurgical test work done on Aripuanã concentrates, and it is cautioned that the assumptions in this study are based on what might be considered reasonable for this project, rather than based on demonstrated locked cycle metallurgical tests. Votorantim has reported that a comprehensive metallurgical test program is underway as part of the Feasibility Study. The mineralogy is comparatively coarse grained; zinc will be recovered from sphalerite, copper from chalcopyrite and lead from galena. No deleterious minerals have been identified to date, so no penalties have been used in the cut-off calculations. The preliminary 1.2 million tonne per year plant design, representing over 15 years of mine life, is a conventional crushing, grinding and flotation milling circuits producing zinc, lead and copper concentrates to be sold to smelters for further smelting and refining. No gold or silver production has been considered unless as a credit in the concentrates.

Applying scoping level mining and plant design costing, conservative metal prices, reasonable plant recoveries and smelter charges, AMEC has calculated the potential NSR cut-off as \$20/t in the Ambrex deposit and 1.8% Zinc Equivalent in the Arex deposit.

### **Further potential at Aripuanã**

The Aripuanã project is an emerging massive sulphide district. A number of massive sulphide bodies having been discovered by Karmin and its partners since the early 1990s. Mineralization remains open between the indicated and inferred resources reported today at Arex and Ambrex and both deposits are open at depth. Other massive sulphide targets at Babaçú, Massaranduba, Mocoto and Boroca present potential to add mineral resources in the future.

Karmin owns 100% of the oxide concessions of the complete Aripuanã District. These consist of a weathered oxidized zone from surface up to 40 metres thick covering the complete concession. Mineralization in the oxide zone is of three styles: firstly weathered massive sulphides, known as gossans, as found at "Expedito's Pit" overlying the Ambrex deposit, secondly gold in quartz veins developed in a late shearing event, as found at Cabeça Branca and Arex, and thirdly alluvial deposits which were exploited by artisanal miners up to the early 1990s. According to a report by Anglo American Corporation, a major mining corporation, who drilled for gold in the 1990s, the best grades to date have been 8 metres grading 9.55 g/t gold and 14 metres grading 4.73 g/t gold at the Cabeça Branca area, near Mocoto, and adjacent to the Arex resource where 25 metres grading 5.2 g/t gold was found.



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Logistically, in July 2007, a consortium including Electro-Norte, a Brazilian para-statal company commenced construction of a 261 megawatt (MW) Hydro-electric power station at the Dardanelos Falls, located 13 kilometres from the potential mine site. The project is being advanced with a construction team of over 1,000 people, and a budget exceeding US\$700 million, and is scheduled for completion in 2010. In addition, much of the existing gravel road to the state capital Cuiaba has been replaced by an asphalt road to within 230 kilometres of Aripuana, and the full connection is being considered in the future. Both the road and Hydro electric plant are considered positive attributes to the potential for mine development.

### Mining Property

<u>Property</u>	Capitalized Expenditures During 2009	Total Costs Capitalized at April 30, 2008	Type	%Owned
<b><u>Brazil:</u></b>				
Aripuana	nil	\$884,301	Zinc/Gold	30%

### **Liquidity and Capital Resources**

#### Working Capital

Karmin had a net working capital deficiency of \$414,232 at April 30, 2009 (compared to a net working capital deficiency of \$329,730 at the year ended April 30, 2008) consisting primarily of cash and receivables less accounts payable and accrued liabilities. The changes in working capital are directly attributable to the lower balance of cash and equivalents and the increases in accrued liabilities as noted in the preceding sections.

The Company finances its operations and investments primarily through the issuance of share capital and advances from shareholders. There can be no assurance that additional funds will be available at any given time in the future.

#### Operating Activities

Cash flows used in operating activities during the year ending April 30, 2009 were \$151,201 compared to cash flows used of \$159,279 for fiscal 2008.

For the fiscal year 2009, cash flows used by operating activities were primarily due to the use of cash from the loss recorded for the period of \$293,935 offset by items not affecting cash of \$15,873, and by non-cash working capital items of \$126,861.



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For the previous year 2008, cash flows used by operating activities were primarily due to the use of cash from the loss recorded for the period of \$292,931, offset by items not affecting cash of \$72,611, and by non-cash working capital items of \$61,041.

### Financing Activities

Cash flows provided from financing activities during the year ending April 30, 2009 were \$93,560 from an advance from a shareholder. In the prior year 2008, cash flows provided from financing activities were \$100,000, also from advances from a shareholder.

### Investing Activities

There were no cash flows in investing activities for the year ended April 30, 2009 or 2008.

## **Balance Sheet**

### Assets

The Company had consolidated assets totaling \$1,025,489 at April 30, 2009 as compared to \$1,089,282 at the prior year ending April 30, 2008.

The majority of the assets of the Company of \$884,301 were capitalized in Mining Property (as compared to \$884,301 at the prior year ending April 30, 2008).

The property is listed above by name, cost, type and location.

### Long term liabilities

The Company's long term liabilities consist of an amount due to a shareholder, bearing interest at 9% in the amount of \$205,373 which includes the principal amount of \$193,560 plus accrued interest of \$11,813.



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### Capitalization

The Company had 38,453,591 common shares outstanding as at the years ended April 30, 2009 and 2008.

As at April 30, 2009 the Company's fully diluted share capital were 41,453,591 (which compares to a fully diluted amount outstanding at April 30, 2008 of 41,678,591 common shares). The potential dilution comes from the 3,000,000 stock options issued to officers, directors and consultants at exercise prices of \$0.20 to \$0.56 per share.

### **Changes in accounting policies and new accounting pronouncements**

#### **New accounting standards**

##### Section 1400, General Standards of Financial Statement Presentation

On May 1, 2008, the company adopted Section 1400, "*General Standards of Financial Statement Presentation*". This Section has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern (going concern assumption). The adoption of this Section had no impact on the consolidated financial statements of the company.

##### Section 1535, Capital Disclosures

On May 1, 2008, the company adopted Section 1535, "*Capital Disclosures*". This Section establishes standards for disclosing information about an entity's capital. The information will enable users of its financial statements to evaluate its objectives, policies and processes for managing capital. An entity will also disclose whether it complies with capital requirements to which it is subject and if not, the consequences of such non-compliance. The required disclosures are contained in note 12.



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### Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation

On May 1, 2008, the company adopted Section 3862, “*Financial Instruments – Disclosures*”, and Section 3863 “*Financial Instruments – Presentation*”, which replace Section 3861, “*Financial Instruments – Disclosures and Presentation*”. These new sections require enhanced disclosures on financial asset and liability categories as well as a detailed analysis of the risks associated with the company’s financial instruments and how the entity manages those risks. Presentation requirements remain unchanged. The required disclosures are contained in note 4.

Effective July 1, 2008, the Canadian Accounting Standards Board approved amendments to Section 3855, “*Financial Instruments – Recognition and Measurement*”, and Section 3862 “*Financial Instruments – Disclosures*”, from the CICA Handbook. These amendments focus on the ability to reclassify, under rare circumstances, financial assets out of the held-for-trading category. The company has not reclassified any of its financial instruments.

### EIC-173, Credit Risk and Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee issued EIC- 173, “*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*”, which provides information on determining the fair value of financial assets and financial liabilities under Section 3855, “*Financial Instruments – Recognition and Measurement*”. This Abstract states that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This recommendation applies retrospectively without restatement of prior period financial statements to all financial assets and financial liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009, the date of issuance of the Abstract. The adoption of this Abstract had no impact on the consolidated financial statements of the company.

### EIC-174, Mining Exploration Costs

On March 27, 2009, the Emerging Issues Committee issued 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.



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### Impact of new accounting standard not yet adopted

The CICA issued new Section 3064 “*Goodwill and Intangible Assets*”, which replaces Section 3062, “*Goodwill and Other Intangible Assets*”, and Section 3450, “*Research and Development Costs*”, which applies to the company’s interim and annual financial statements for the fiscal year beginning on May 1, 2009. The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The company has not yet completed its assessment of the impact of the adoption of this new standard on its consolidated financial statements.

### **Critical Accounting Estimates**

Critical accounting estimates used in the preparation of the financial statements in conformity with Canadian generally accepted accounting principles include the Company’s estimate of the recoverable value of its resource property as well as the value of stock-based compensation. Management makes estimates that affect the amounts of assets and liabilities reported in the financial statements. Those estimates also affect the disclosure of contingencies at the date of the financial statements and the reported amount of revenues and expenses during the year. Those estimates could be significantly affected by factors that are out of the Company’s control and actual results could differ from those estimates.

Mineral property and equipment are all recorded at cost. All mineral property acquisition costs are recorded as an asset on the balance sheet under the heading “Mining Property”. These expenditures will be depleted over the estimated life of the property if and when they reach production or will be written down by management when it is determined that the net carrying amount will not be recovered.

There is no expense incurred for stock-based compensation during the year ending April 30, 2009 (as compared to \$61,993 in the 2008 fiscal year).

While the estimate of stock-based compensation can have a material impact on the operating results reported by the Company, they are a non-cash charge and as such have no impact on the Company’s financial condition.



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### **Risk and Uncertainties**

The mining industry is competitive and, in addition, the company is exposed to other risks including the following:

- Exploration risks that commercially viable minerals be discovered;
- Commodity risks of mineral prices in the world;
- Financing risks of future capital generation that may be required; and,
- Political and currency risks of the company doing business outside of Canada and in Brazil.

Mineral exploration involves a high degree of risk. Few properties that are explored are ultimately developed into production. The Company's property has no known body of commercial ore. Other risks facing the Company include: political stability in Brazil; changes in legislation in Brazil that could affect exploration and mining rights as well as taxation and royalties; fluctuations in mineral prices; ability to attract and retain qualified personnel; availability of additional capital; costs and availability of materials and services relevant to the mining industry; title risks; and integrity of exploration results.

### **Financial Instruments**

The standards require that financial assets and financial liabilities, including derivative financial instruments, be initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: held for trading, available for sale, loans and receivables or other than held-for-trading liabilities.

- **Held for trading** – Financial assets and financial liabilities required to be classified or designated as held for trading are measured at fair value, with gains, losses and transaction costs recorded in net earnings for the period in which they arise. Section 3855 allows an entity to designate any financial instrument as held for trading on initial recognition or adoption of the accounting standard if reliable fair values are available, even if that instrument would not otherwise satisfy the definition of a security held for trading. Transaction costs are recorded immediately in net earnings.



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- **Available for sale** – Financial assets classified as available for sale are measured at fair value. Unrealized gains and losses are recognized directly in other comprehensive loss, except for other than temporary impairment losses, which are recognized in net earnings. Upon derecognition of the financial asset, the accumulated gains or losses previously recognized in accumulated other comprehensive loss are reclassified to net earnings. Transaction costs are added to the carrying amount of the financial instrument. Available for sale securities are reviewed on a regular basis to determine whether there has been a decline in value that is other than temporary. For the purpose of measuring any decline in value, the company takes into account many facts proper to each investment as well as all the factors that encompass, without being inclusive, a significant or prolonged decline in fair value, important financial distress of the issuer, a breach of contract, an increasing risk of issuer's bankruptcy or restructuration , and disappearance of an active market for the financial asset concerned.
- **Loans and receivables** – Financial assets classified as loans and receivables are measured at amortized cost using the effective interest method, which corresponds to par value due to their short-term maturity.
- **Other than held-for-trading liabilities** – Financial liabilities classified as other than held for trading are measured at amortized cost using the effective interest method.

### **Contractual Obligations**

The company has no contractual obligations or off balance sheet arrangements as at April 30 , 2009.

### **Contingency**

The company has no contingent liabilities outstanding as at April 30, 2009.

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

The information in this annual financial report is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian general accepted accounting principles (GAAP) and in accordance with the accounting policies set out in notes to the consolidated financial statements.



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The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that reasonable care and judgment are applied in making such estimates and assumptions.

Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly, principally by submission of the financial statements, before and after their consolidation, to the Board of Directors for approval.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through ongoing discussion with management, who reviews the consolidated financial statements with independent auditors, PricewaterhouseCoopers LLP, prior to submission to the Board for approval.

The company's external auditors, PricewaterhouseCoopers LLP, have audited the financial statements for the year ended April 30, 2009 and 2008 and have expressed an opinion thereon.

### **Forward-Looking Statements**

Certain statements contained or incorporated in this management analysis and discussion of financial condition and results of operations constitute forward-looking statements. Such forward-looking statements are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in our forward-looking statements. Shareholders and prospective investors should not place undue reliance on forward-looking information and should bear in mind the risks and uncertainties outlined above under "Risks and Uncertainties".



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### **Additional Information**

Additional information relating to Karmin can be found elsewhere in the Annual Financial Statements, the Interim Statements and other public filings, all of which are available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).

August 19, 2009

*(Signed) William J. Fisher*

**William J. Fisher**

*Chief Executive Officer*

*(Signed) John A. Iannozzi*

**John A. Iannozzi, CA**

*Chief Financial Officer*