# Karmin Exploration Inc.
(an exploration company)

Consolidated Financial Statements
**April 30, 2010 and 2009**
(expressed in Canadian dollars)

PRICEWATERHOUSECOOPERS

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## Auditors' Report

**To the Shareholders of**
**Karmin Exploration Inc.**

We have audited the consolidated balance sheets of **Karmin Exploration Inc.** (an exploration company) as at April 30, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit 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 April 30, 2010 and 2009 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[1]

Québec, Quebec, Canada
September 10, 2010

[1] Chartered accountant auditor permit No. 16114

# Karmin Exploration Inc.

(an exploration company)
Consolidated Balance Sheets
**As at April 30,**

(expressed in Canadian dollars)

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| **Current** | | |
| Cash and cash equivalents | **21,113** | 43,717 |
| Accounts receivable | **21,057** | 800 |
| Investment in a public company (note 4) | **3,441** | 3,441 |
| | **45,611** | 47,958 |
| **Property, plant and equipment** (note 5) | **89,171** | 93,230 |
| **Mining property** (note 6) | **884,301** | 884,301 |
| | **1,019,083** | 1,025,489 |
| **Liabilities** | | |
| **Current** | | |
| Accounts payable and accrued liabilities (note 7) | **971,486** | 462,190 |
| Due to a shareholder, bearing interest at 9% | **413,066** | - |
| | **1,384,552** | 462,190 |
| **Due to a shareholder,** bearing interest at 9%, total principal and interest due on May 1, 2010 | - | 205,373 |
| | **1,384,552** | 667,563 |
| **Shareholders' Equity** | | |
| **Share capital** (note 8) | **16,159,295** | 16,159,295 |
| **Stock options** (note 9) | **502,795** | 485,222 |
| **Contributed surplus** (note 9) | **160,252** | 61,993 |
| **Deficit** | **(17,187,811)** | (16,348,584) |
| | **(365,469)** | 357,926 |
| | **1,019,083** | 1,025,489 |

**Nature of business and going concern** (note 1)

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

**Approved by the Board of Directors**

____________________ Director        ____________________ Director

# Karmin Exploration Inc.

(an exploration company)

Consolidated Statements of Operations, Comprehensive Loss and Deficit

**For the years ended April 30, 2010 and 2009**

*(expressed in Canadian dollars)*

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| **Expenses** | | |
| Exploration and prospecting costs | **14,577** | 31,959 |
| General and administration (note 9) | **794,733** | 246,573 |
| Finance charges (note 7) | **25,893** | 11,813 |
| Depreciation of property, plant and equipment | **4,059** | 4,060 |
| | **839,262** | 294,405 |
| Interest income | **(35)** | (470) |
| **Loss and comprehensive loss for the year** | **839,227** | 293,935 |
| **Deficit - Beginning of year** | **16,348,584** | 16,054,649 |
| **Deficit - End of year** | **17,187,811** | 16,348,584 |
| **Basic and diluted loss per share** (note 13) | **0.0218** | 0.0076 |

**Nature of business and going concern** (note 1)

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

**Karmin Exploration Inc.**
(an exploration company)
Consolidated Statements of Cash Flows
**For the years ended April 30, 2010 and 2009**

*(expressed in Canadian dollars)*

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| **Cash flows from operating activities** | | |
| Loss for the year | **(839,227)** | (293,935) |
| Items not affecting cash and cash equivalents | | |
| Depreciation of property, plant and equipment | **4,059** | 4,060 |
| Stock-based compensation costs | **115, 832** | - |
| Interest capitalized on due to a shareholder | **25,893** | 11,813 |
| | **(693,443)** | (278,062) |
| Net change in non-cash working capital items: | | |
| Accounts receivable | **(20,257)** | 2,092 |
| Accounts payable and accrued liabilities | **509,296** | 124,769 |
| | **489,039** | 126,861 |
| | **(204,404)** | (151,201) |
| **Cash flows from financing activities** | | |
| Increase in due to a shareholder | **181,800** | 93,560 |
| **Decrease in cash and cash equivalents** | **(22,604)** | (57,641) |
| **Cash and cash equivalents - Beginning of year** | **43,717** | 101,358 |
| **Cash and cash equivalents - End of year** | **21,113** | 43,717 |

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

*(expressed in Canadian dollars)*

**1 Nature of business and going concern**

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 August 15, 1999, the company changed its name from Ambrex Mining Corporation (Ambrex) to Karmin Exploration Inc. (Karmin). Effective September 15, 1999, the company also 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" (formerly YKA).

Karmin directly and through an agreement as described below, is in the process of exploring its mining properties and has not yet determined whether these properties contain 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 properties, future production or proceeds from the disposition thereof, and the ability of the company to obtain the necessary financing to continue these operations. As at April 30, 2010 and for the year then ended, the company reported a loss of $839,227 and an accumulated deficit of $17,187,811. The cash position as at April 30, 2010 of $21,113 is not sufficient to continue exploration of the mining property. This condition casts significant doubt as to the ability of the company to continue as a going concern and meet its obligations as they come due.

Management intends to secure new capital from related parties and to reduce expenses by joint venture in order to continue its operations. 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 such 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. (see note 14)

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-compliance with regulatory requirements.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, and do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenue and expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

*(expressed in Canadian dollars)*

## 2 Summary of significant accounting policies

### Basis of presentation and consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of Karmin, Karmin Holdings Ltda., a wholly owned Brazilian holding company, and its wholly owned subsidiary, Mineracao Rio Aripuana Ltda. All significant intercompany accounts and transactions have been eliminated.

The company primarily operates in one operating segment as all its property and equipment are located in Brazil, and may be subject to government regulations relating to mining, currency fluctuations, inflation and other economic and political risks, any of which may result in impairment of the company's net assets. The Company's corporate headquarters in Canada serve administrative functions and are not a reportable segment.

### Foreign currency translation

Foreign subsidiary

As the company considers all of its foreign operations to be fully integrated, all items denominated in foreign currencies have been translated using the temporal method. Under this method, monetary assets and liabilities and non-monetary items carried at market values are translated into Canadian dollars at exchange rates prevailing at the balance sheet dates. Other non-monetary assets and liabilities are translated at historical exchange rates applicable at the transaction date. Revenues and expenses are translated at the average exchange rate for the year.

Foreign currency exchange

Foreign exchange gains and losses on transactions during the year and on the year-end translation of the accounts are reflected in the statement of operations.

### 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 financial statement values and tax values of 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.

*(expressed in Canadian dollars)*

**Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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 year. Actual results could differ from those estimates.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and balances with banks and all highly liquid short-term investments with original maturities of three months or less at the acquisition date.

**Investment in a public company**

The investment in a public company is presented at fair value on a reported bid price basis.

**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.

- **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.

*(expressed in Canadian dollars)*

- **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.

**Property, plant and equipment and depreciation**

Property, plant and equipment are recorded at cost and depreciated on a straight-line basis over their estimated economic lives mentioned in note 5.

**Mining property**

Exploration and prospecting costs are expensed as incurred. When a property is determined to have development potential, development and exploration costs related to that property are capitalized. These assets will be amortized on a unit of production basis once the property is brought into production. The company assesses annually whether an impairment condition may exist.

All administrative costs that do not directly relate to and are not necessary for development activity are expensed as incurred.

**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.

**Share capital**

Share capital issued for non-monetary consideration is generally recorded at the quoted market price. Share issue expenses are applied against share capital.

**Stock-based compensation plan**

The company maintains a stock option plan, which is described in note 9. In accordance with Canadian generally accepted accounting principles, the company uses the fair value method to account for options granted to employees. Accordingly, all stock-based compensation awards are expensed in the financial statements. Any consideration received from plan participants upon the exercise of stock options is credited to share capital.

*(expressed in Canadian dollars)*

## 3 New accounting Standards and Pronouncements

### Section 3862, Financial Instruments – Disclosures

On May 1, 2009, the Company adopted amendments to Section 3862, "Financial Instruments – Disclosures" to include enhanced disclosures on liquidity risk of financial instruments and new disclosures on fair value measurements of financial instruments.

As at April 30, 2010, cash and cash equivalents and the investment in a public company are classified as Level 1.

### 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.

### 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.

*(expressed in Canadian dollars)*

**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.

**Section 3064, Goodwill and Intangible Assets**

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 adoption of this new standard had no impact on the consolidated financial statements of the company.

**Future changes in accounting policies**

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".

*(expressed in Canadian dollars)*

d) Section 1625, "Comprehensive Revaluation of Assets and Liabilities", has been amended as a result of issuing Sections 1582, 1601, and 1602 described above. This Section is effective prospectively for comprehensive revaluations of assets and liabilities occurring in years beginning on/after January 1, 2011.

e) Section 3251, "Equity", has been amended as a result of issuing Section 1602. Amendments apply to entities that have adopted CICA 1602.

f) Section 3855, "Financial instruments - recognition and measurement", has been amended to clarify when an embedded prepayment option is separated from its host debt instrument for accounting purposes.

The company is in the process to determine the impact of the adoption of these new standards on the consolidated financial statements of the company.

## 4 Financial instruments

### Classification

The classification of financial instruments as at April 30, 2010 and 2009 is summarized as follows:

| | As at April 30, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | | | | | Carrying value | Fair value |
| | Held for trading $ | Available for sale $ | Loans and receivables $ | Other than held-for-trading liabilities $ | Total $ | Total $ |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 21,113 | - | - | - | 21,113 | 21,113 |
| Accounts receivable | - | - | 21,057 | - | 21,057 | 21,057 |
| Investment in a public company | 3,441 | - | - | - | 3,441 | 3,441 |
| **Financial liabilities** | | | | | | |
| Accounts payable and accrued liabilities | - | - | - | 971,486 | 971,486 | 971,486 |
| Due to a shareholder | - | - | - | 413,066 | 413,066 | |

*(expressed in Canadian dollars)*

**As at April 30, 2009**

| | Held for trading $ | Available for sale $ | Loans and receivables $ | Other than held-for-trading liabilities $ | Carrying value Total $ | Fair value Total $ |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 43,717 | - | - | - | 43,717 | 43,717 |
| Accounts receivable | - | - | 800 | - | 800 | 800 |
| Investment in a public company | 3,441 | - | - | - | 3,441 | 3,441 |
| **Financial liabilities** | | | | | | |
| Accounts payable and accrued liabilities | - | - | - | 462,190 | 462,190 | 462,190 |
| Due to a shareholder | - | - | - | 205,373 | 205,373 | |

Accounts receivable, accounts payable and accrued liabilities, and due to a shareholder are financial instruments whose carrying value approximates their fair value due to their short-term maturity. Cash and cash equivalents are valued at fair value.

The fair value of the held-for-trading investment in a public company is established using the bid price on the most beneficial active market for this instrument that is readily available to the company. When a bid price is not available, the company uses the closing price of the most recent transaction on such instrument.

**Financial risks**

The company has exposure to various financial risks, such as credit risk, liquidity risk and market risk from its use of financial instruments.

**Credit risks**

The company ensures to achieve a good diversification of its banking instruments. In addition, it attempts to minimize its risks by entering into agreements only with Canadian institutions and their subsidiaries.

**Liquidity risk**

Liquidity risk is the risk that the company may be unable to fulfill its financial obligations related to financial liabilities. The company's approach to managing liquidity risk is to ensure that it will have sufficient liquidities to meet liabilities when due. As at April 30, 2010 the company had cash and cash equivalents of $21,113 ($43,717 as at April 30, 2009) to settle current liabilities of $1,384,552 ($462,190 as at April 30, 2009). (see notes 1 and 14)

*(expressed in Canadian dollars)*

**Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, currency risk and other price risks.

**Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument fluctuate due to changes to market interest rates.

As at April 30, 2010 and 2009, the company's exposure to interest rate risk is summarized as follows:

| | |
|---|---|
| Cash and cash equivalents | Variable interest rate |
| Accounts receivable | Non-interest bearing |
| Investment in a public company | Variable yield |
| Accounts payable and accrued liabilities | Non-interest bearing |
| Due to a shareholder | Bearing interest at 9% |

The sensitivity to a ± 1% change in bank balance rates as at April 30, 2010 would have no material effect on the statement of operations.

**Currency risk**

The company is subject to a variety of currency risks, including the risks that currencies will not be convertible at satisfactory rates, that the official conversion rates between the different currencies in which the company operates may not accurately reflect the relative value of goods and services available or required in the foreign jurisdictions in which the company operates and that inflation will lead to the devaluation of the currencies in the foreign countries in which the company has operations. The company considers the currency risk to be not material.

## 5 Property, plant and equipment

| | | | | 2010 | 2009 |
|---|---|---|---|---|---|
| | **Depreciation period** | **Cost $** | **Accumulated amortization $** | **Net $** | **Net $** |
| Office equipment | 10 years | 14,674 | 7,982 | 6,692 | 7,631 |
| Building | 25 years | 78,000 | 34,321 | 43,679 | 46,799 |
| Land | - | 38,800 | - | 38,800 | 38,800 |
| | | 131,474 | 42,303 | 89,171 | 93,230 |

Office equipment is held in Canada. The building and land are located in Brazil.

*(expressed in Canadian dollars)*

## 6 Mining property

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Aripuana property | 884,301 | 884,301 |

The Aripuana property is located approximately 20 kilometers from the town of Aripuana in the State of Mato Grosso, Brazil.

In 1996, Karmin acquired the Aripuana 2000 hectare property. Initially focusing on gold, the company discovered a large volcanogenic massive sulphide (VMS) showing, called the Valley Deposit.

In 1999, Karmin formed a joint venture with UK-based mining company Anglo American PLC ("Anglo") and an unrelated third party to explore Karmin's property and Anglo's adjoining ground, where a similar VMS discovery had been made. Anglo was committed to spending US$3.25 million by December 31, 2003 to earn a 70% interest in the joint venture.

In 2004, Karmin and Anglo amended the agreement to allow a new partner, Votorantim S.A. to earn into the 70% position of the Aripuana property held by Anglo. Votorantim earned its position by spending over US$1.6 million by December 2005 and Karmin's 28.5% interest remained unchanged.

In 2006 and 2007, Votorantim spent over US$3.5 million per year for drilling and completion of an independent scoping study.

On March 30, 2007, Karmin paid an amount of $20,000 to Ste. Genevieve Resources to purchase a 1.5% interest in the Aripuana project, thus increasing ownership of the project from 28.5% to 30%.

## 7 Related party balances and transactions

The company entered into the following transactions with related parties:

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Shareholder | | |
| Interest on due to a shareholder | 25,893 | 11,813 |
| Company controlled by a shareholder | | |
| Management fees | 40,000 | 42,000 |

The amount payable to a company controlled by a shareholder which is included in accounts payable and accrued liabilities totaled $338,798 ($338,698 in 2009). The basis used to measure the related party transactions was the exchange amount based on the negotiated value between the parties.

*(expressed in Canadian dollars)*

## 8 Share capital

Authorized

The company's authorized share capital consists of an unlimited number of common shares.

Issued and outstanding

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Number of shares** | **Amount $** | **Number of shares** | **Amount $** |
| Balance – Beginning and End of year | 38,453,591 | 16,159,295 | 38,453,591 | 16,159,295 |

The weighted average number of common shares in 2010 and 2009 was 38,453,591.

## 9 Stock Options

The company established a stock option plan under which key employees, officers, directors and consultants of the company and its subsidiaries may be granted stock options for shares of the company. A maximum of 3,800,000 shares may be granted (maximum of 5% in favor of one person).

Options granted under the plan expire after the maximum period of ten years following the date of grant and vest over variable periods determined by the Board of Directors upon granting.

The following table presents the stock option activity:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Number** | **Weighted average exercise price $** | **Number** | **Weighted average exercise price $** |
| Outstanding – Beginning of year | **3,000,000** | **0.34** | 3,225,000 | 0.38 |
| Granted | **1,650,000** | **0.20** | - | - |
| Expired * | **(1,800,000)** | **0.20** | (225,000) | 0.85 |
| Outstanding – End of year | **2,850,000** | **0.35** | 3,000,000 | 0.34 |

*Expired stock options have been reflected in the contributed surplus.

*(expressed in Canadian dollars)*

| | | | **Options outstanding and exercisable** | | | |
|---|---|---|---|---|---|---|
| **Exercise price** | **Number** | | **Weighted average remaining contractual life (years)** | | **Weighted average exercise price** | |
| **$** | **Exercisable** | **Outstanding** | **Exercisable** | **Outstanding** | **Exercisable** | **Outstanding** |
| 0.20 | 550,000 | 1,650,000 | 4.61 | 4.61 | 0.20 | 0.20 |
| 0.56 | 1,200,000 | 1,200,000 | 1.92 | 1.92 | 0.56 | 0.56 |
| | **1,750,000** | **2,850,000** | **2.77** | **3.48** | **0.45** | **0.35** |

**Accounting for the stock-based compensation plan**

The fair value of options granted for the year ended April 30, 2010 was estimated using the Black & Scholes options pricing model with the following weighted average assumptions:

| | |
|---|---|
| Risk-free interest rate | 2.47% |
| Expected volatility | 100% |
| Dividend yield | Nil |
| Weighted average expected life | 5 years |
| Weighted average fair value of options granted | $0.133 |

The fair value of stock options granted during the year ended April 30, 2010 is $219,439. The stock options granted will vest gradually over a period not exceeding two years. An amount of $115,832 is included in the statement of operations under "General and administrative" and in Shareholders' Equity under "Stock options". In addition, an amount of $98,259 of stock options expired was transferred in Shareholders' Equity from "Stock options" to "Contributed surplus".

The Black & Scholes option valuation method was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the stock options granted to officers and directors have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide an accurate single measure of the fair value of stock options granted to officers and directors.

*(expressed in Canadian dollars)*

## 10 Income taxes

As at April 30, 2010, the company has available tax losses for Canadian income tax purposes, which may be carried forward to reduce future years' taxable income. A summary of these losses is provided below.

| | $ |
|---|---|
| 2014 | 184,780 |
| 2015 | 311,821 |
| 2026 | 255,914 |
| 2027 | 617,921 |
| 2028 | 226,785 |
| 2029 | 270,438 |
| 2030 | 203,484 |

A full valuation allowance has been recorded against the potential tax benefits resulting from these non-capital losses.

## 11 Segmented Disclosures

### Operating segment

The Company has one reportable operating segment, being exploration of mineral properties in Brazil as described in note 1.

### Geographical information

The building, land and mining property are held in Brazil and the equipment is held in Canada, as disclosed in notes 5 and 6.

## 12 Capital management

The company considers the items included in shareholders' equity as capital components.

The company manages its capital structure and makes adjustments to it, based on the funds available to the company, in order to support the acquisition and exploration of mining properties. Since the company is in the mineral exploration business, the Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the company's management to sustain future development of the business.

The mining property in which the company currently has an interest is in the exploration stage. Since the company does not have sufficient cash and cash equivalents on hand to fund its activities, it is dependent on external financing to continue its operations. Consequently, the company must rely on its partnership agreements.

The company is not subject to any externally imposed capital requirements or other external requirements.

*(expressed in Canadian dollars)*

## 13 Loss per share

| | 2010 $ | 2009 $ |
|---|---|---|
| Basic and diluted weighted average number of shares outstanding | 38,453,591 | 38,453,591 |

For the years ended April 30, 2010 and 2009, the diluted loss per share was the same as the basic loss per share since the dilutive effect of stock options 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.

Items excluded from the calculation:

| | 2010 | 2009 |
|---|---|---|
| Stock options | 2,850,000 | 3,000,000 |

## 14 Proposed reverse takeover transaction with Ignite

On March 19, 2010 the company announced that it entered into an agreement for the acquisition of all the outstanding ordinary shares of Ignite Energy Resources Pty Ltd ("**Ignite**"), an Australian company which holds certain exploration rights to a lignite (brown coal) deposit in Gippsland in Eastern Victoria, Australia as well as certain proprietary technology for a catalytic hydrothermal reactor (Cat-HTR) that transforms low grade lignite into high grade oils and higher grade coal products.

Trading in the shares of Karmin has been halted in accordance with the policies of the TSX Venture Exchange ("**TSXV**") and will remain halted until such time as all required documentation has been filed with and accepted by the TSXV and permission to resume trading has been obtained from the TSXV.

Under the Agreement, Karmin will acquire all of the outstanding ordinary shares of Ignite in exchange for the issuance by Karmin of its common shares. Each Ignite ordinary share will be exchanged for one common share of Karmin. Additionally, Karmin will assume all of the issued and outstanding convertible securities of Ignite. There are approximately 38.5 million common shares of Karmin and approximately 168 million ordinary shares of Ignite currently outstanding. In connection with, and immediately prior to the share exchange and the completion of the Acquisition, Karmin will consolidate its current issued and outstanding common shares on a 6:1 basis. On the last day prior to entering into the Agreement, the closing price of the common shares of Karmin on the TSXV was $0.20 per common share. As a result of the share exchange Ignite will become a wholly-owned subsidiary of Karmin. The Acquisition will result in a reverse take-over ("**RTO**") of Karmin for the purposes of the policies of the TSXV and a new board of directors of Karmin will be elected.

Completion of the Acquisition is subject to the satisfaction or waiver of a number of conditions, including, approval of the TSXV, there not being a material adverse effect relating to Ignite or Karmin, completion of due diligence, receipt of all applicable regulatory approvals including Foreign Investment Review Board and Australian Securities and Investments Commission, approval by Ignite's shareholders holding at least 90% of Ignite ordinary shares at a meeting of such shareholders and approval by Karmin's shareholders of

*(expressed in Canadian dollars)*

the Acquisition and related matters by the shareholders of Karmin at a special meeting, at which a proposal is made to change Karmin's name to include "Ignite" in its name.

The parties have agreed to customary deal protection measures including mutual non-solicitation provisions. Also, each party has agreed to pay a $250,000 break fee to the other party, if, among other things, the Acquisition does not proceed as a result of the non-satisfaction of certain conditions by the party, the party's board of directors withdraws its support in relation to the Acquisition, or an acquisition proposal is made and the shareholders of the party do not approve the Acquisition and the acquisition proposal is consummated within six months from the date of such acquisition proposal.

A copy of the Agreement has been filed with the applicable Canadian provincial securities regulatory authorities and is available under Karmin's SEDAR profile at www.sedar.com. Karmin mailed a management information circular to its shareholders in May 2010 in connection with its special meeting, which took place in June 2010.

Currently with the Acquisition, Ignite expects to raise at least $30 million (unless other mutually agreed between the parties) in equity (the "Brokered Financing"). It is anticipated the Brokered Financing will be completed on a private placement basis by way of the sale of ordinary shares of Ignite, which is expected to close immediately prior to the share exchange in connection with the Acquisition. The net proceeds of the Brokered Financing are expected to be used to fund the combined company's business operations and for general corporate purposes.

Ignite and Karmin are currently in discussions with registered dealers concerning the Brokered Financing but there is no assurance that an agreement to undertake a financing will be reached or that such financing will be completed. Further details regarding any Brokered Financing will be made available upon Karmin and Ignite reaching an agreement to undertake such financing.

On June 14, 2010 the company announced that its shareholders have approved the reverse take-over transaction and related matters with Ignite previously announced on March 19, 2010 (the "Transaction"). The resolution approving the Transaction was approved by over 98% of the votes cast by Karmin shareholders at the Karmin special meeting, including over 79% of the votes cast by minority shareholders as required by applicable securities law.

Ignite has advised Karmin that approximately 99.3% of the issued and outstanding ordinary shares of Ignite have been tendered to Karmin's offer and, accordingly, Karmin has initiated the process of compulsorily acquiring the remaining ordinary shares of Ignite.

The closing of the Transaction is expected to occur immediately following the completion of a private placement of ordinary shares by Ignite, provided that all of the conditions of the Transaction, including the final acceptance of the TSXV are satisfied or waived. Karmin intends to update its shareholders when the closing of the private placement is determined.