Karmin Exploration Inc.

(an exploration company)

Consolidated Financial Statements

April 30, 2011 and 2010

(expressed in Canadian dollars)

PricewaterhouseCoopers
LLP/s.r.l./s.e.n.c.r.l.
Chartered Accountants
Place de la Cité, Tour Cominar
2640 Laurier Boulevard, Suite 1700
Québec, Quebec
Canada G1V 5C2
Telephone +1 418 522 7001
Facsimile +1 418 522 5663

July 29, 2011

Independent Auditor's Report

To the Shareholders of
Karmin Exploration Inc.

We have audited the accompanying consolidated financial statements of Karmin Exploration Inc. (an exploration company), which comprise the consolidated balance sheets as at April 30, 2011 and 2010 and the consolidated statements of operations, comprehensive loss and deficit and consolidated statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Karmin Exploration Inc. (an exploration company) as at April 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the corporation's ability to continue as a going concern.

PricewaterhouseCoopers LLP[1]

[1] Chartered accountant auditor permit No. 16114

Karmin Exploration Inc.

(an exploration company)

Consolidated Balance Sheets

As at April 30, 2011 and 2010

(expressed in Canadian dollars)

	2011 $	2010 $
Assets		
Current		
Cash and cash equivalents	8,662	21,113
Accounts receivable	4,042	21,057
Investment in a public company (note 4)	3,441	3,441
	16,145	45,611
Property, plant and equipment (note 5)	85,112	89,171
Mining property (note 6)	884,301	884,301
	985,558	1,019,083
Liabilities		
Current		
Accounts payable and accrued liabilities (note 7)	496,071	971,486
Due to a shareholder, bearing interest at 9%	1,157,144	413,066
	1,653,215	1,384,552
Shareholders' Deficiency		
Share capital (note 8)	16,159,295	16,159,295
Stock options (note 9)	584,057	502,795
Contributed surplus (note 9)	160,252	160,252
Deficit	(17,571,261)	(17,187,811)
	(667,657)	(365,469)
	985,558	1,019,083

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, 2011 and 2010

(expressed in Canadian dollars)

	2011 $	2010 $
Expenses		
Exploration and prospecting costs	4,313	14,577
General and administrative (notes 7 and 9)	304,028	794,733
Finance charges (note 7)	71,078	25,893
Depreciation of property, plant and equipment	4,059	4,059
	383,478	839,262
Interest income	(28)	(35)
Loss and comprehensive loss for the year	383,450	839,227
Deficit – Beginning of year	17,187,811	16,348,584
Deficit – End of year	17,571,261	17,187,811
Basic and diluted loss per share (note 13)	0.0100	0.0218

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, 2011 and 2010

(expressed in Canadian dollars)

	2011 $	2010 $
Cash flows from operating activities		
Loss and comprehensive loss for the year	(383,450)	(839,227)
Items not affecting cash and cash equivalents		
Depreciation of property, plant and equipment	4,059	4,059
Stock-based compensation costs	81,262	115,832
Interest capitalized on due to a shareholder	71,078	25,893
	(227,051)	(693,443)
Net change in non-cash working capital items:		
Accounts receivable	17,015	(20,257)
Accounts payable and accrued liabilities	(475,415)	509,296
	(458,400)	489,039
	(685,451)	(204,404)
Cash flows from financing activities		
Increase in due to a shareholder	673,000	181,800
Decrease in cash and cash equivalents	(12,451)	(22,604)
Cash and cash equivalents – Beginning of year	21,113	43,717
Cash and cash equivalents – End of year	8,662	21,113

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, 2011 and for the year then ended, the company reported a loss of $383,450 and an accumulated deficit of $17,571,261. The cash position as at April 30, 2011 of $8,662 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.

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 revenues 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.

(expressed in Canadian dollars)

- **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.

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

International financial reporting standards

The Canadian Accounting Standards Board has announced that Canadian GAAP applicable to publicly accountable enterprises will be replaced by International Financial Reporting Standards (hereinafter also called "IFRS") in 2011. The company therefore initiated an IFRS conversion project in the summer of 2010. Since the company will adopt IFRS on May 1, 2011, the new Canadian GAAP coming into effect on or after May 1, 2011 will not be presented as future accounting changes because the company will no longer issue its financial statements under Canadian GAAP.

4 Financial instruments

Classification

The classification of financial instruments as at April 30, 2011 and 2010 is summarized as follows:

	As at April 30, 2011					
					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	8,662	-	-	-	8,662	8,662
Accounts receivable	-	-	4,042	-	4,042	4,042
Investment in a public company	3,441	-	-	-	3,441	3,441
Financial liabilities						
Accounts payable and accrued liabilities	-	-	-	496,071	496,071	496,071
Due to a shareholder	-	-	-	1,157,144	1,157,144	1,157,144

(expressed in Canadian dollars)

	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	413,066

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 risk

The company ensures to achieve a good diversification of its banking instruments. In addition, it attempts to minimize its credit risk 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, 2011, the company had cash and cash equivalents of $8,662 ($21,113 in 2010) to settle current liabilities of $1,653,215 ($1,384,552 in 2010) (see note 1).

(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, 2011 and 2010, 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 interest rates as at April 30, 2011 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 immaterial.

5 Property, plant and equipment

				2011	2010
	Depreciation period	Cost $	Accumulated depreciation $	Net $	Net $
Office equipment	10 years	14,674	8,921	5,753	6,692
Building	25 years	78,000	37,441	40,559	43,679
Land	-	38,800	-	38,800	38,800
		131,474	46,362	85,112	89,171

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

(expressed in Canadian dollars)

6 Mining property

	2011 $	2010 $
Aripuana property	884,301	884,301

The Aripuana property is located approximately 20 kilometres 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:

	2011 $	2010 $
Shareholder		
Interest on due to a shareholder	71,078	25,893
Company controlled by a shareholder		
Management fees	41,300	40,000

The amount payable to a company controlled by a shareholder, which is included in accounts payable and accrued liabilities, totalled $380,098 ($338,798 in 2010). The basis used to measure the related party transactions was the exchange amount based on the value negotiated 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

	2011		2010	
	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 2011 and 2010 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 favour 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:

	2011		2010	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding – Beginning of year	2,850,000	0.35	3,000,000	0.34
Granted	-	-	1,650,000	0.20
Expired *	-	-	(1,800,000)	0.20
Outstanding – End of year	2,850,000	0.35	2,850,000	0.35

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

(expressed in Canadian dollars)

	Options outstanding and exercisable					
	Number		Weighted average remaining contractual life (years)		Weighted average exercise price	
	Exercisable	Outstanding	Exercisable	Outstanding	Exercisable	Outstanding
Exercise prise $						
0.20	1,100,000	1,650,000	3.61	3.61	0.20	0.20
0.56	1,200,000	1,200,000	0.92	0.92	0.56	0.56
	2,300,000	2,850,000	2.21	2.48	0.39	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 was $219,439. The stock options granted will vest gradually over a period not exceeding two years. During the year ended April 30, 2011, no stock options were granted. An amount of $81,262 ($115,832 in 2010) is included in the statement of operations under "General and administrative" and in Shareholders' Deficiency under "Stock options". In addition, no amount ($98,259 in 2010) of stock options expired was transferred in Shareholders' Deficiency 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, 2011, 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	288,718
2029	270,438
2030	203,484
2031	298,157

The company has available tax losses for Brazilian income tax purposes of $1,327,638, which may be carried forward to reduce future year's taxable income and have no expiry dates.

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 mining 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' deficiency 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.

(expressed in Canadian dollars)

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.

13 Loss per share

	2011 $	2010 $
Basic and diluted weighted average number of shares outstanding	38,453,591	38,453,591

For the years ended April 30, 2011 and 2010, 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:

	2011	2010
Stock options	2,850,000	2,850,000