# ETHOS CAPITAL CORP.
**(A Capital Pool Corporation)**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2008 AND AUDITORS' REPORT**

**(Expressed in Canadian dollars)**

HAY & WATSON | Chartered Accountants
1822 West 2nd Avenue, Vancouver, BC, Canada V6J 1H9
P 604 732 1466 F 604 732 3133 E info@hay-watson.bc.ca

# AUDITORS' REPORT

**To the Shareholders of**
**Ethos Capital Corp.**

We have audited the balance sheets of Ethos Capital Corp. as at December 31, 2008 and 2007 and the statements of loss and deficit and of cash flows for the year ended December 31, 2008 and for the period from inception, March 12, 2007 to December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statement presents fairly, in all material respects, the financial positions of the company as at December 31, 2008 and 2007 and the results of its operations and of its cash flow for the periods then ended in accordance with Canadian generally accepted accounting principles.

Hay + Watson

Chartered Accountants
Vancouver, B.C.
February 13,2009

# ETHOS CAPITAL CORP.

**Balance Sheets**

| | | December 31 2008 | | December 31 2007 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents (note 2 (c)) | $ | 1,830,976 | $ | 1,902,875 |
| Amounts receivable | | 1,232 | | 4,083 |
| Prepaid expenses | | - | | 4,814 |
| | | 1,832,208 | | 1,911,772 |
| Mineral property interests (notes 7 and 8) | | 138,143 | | - |
| | $ | 1,970,351 | $ | 1,911,772 |
| **Liabilities and Shareholders' Equity** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | $ | 142,612 | $ | 15,286 |
| Due to related party (note 6) | | 8,457 | | - |
| | | 151,069 | | 15,286 |
| **Shareholders' Equity** | | | | |
| Share capital (note 4) | | 1,913,727 | | 1,913,727 |
| Contributed surplus | | 354,746 | | 354,746 |
| Deficit | | (449,191) | | (371,987) |
| | | 1,819,282 | | 1,896,486 |
| | $ | 1,970,351 | $ | 1,911,772 |

**APPROVED ON BEHALF OF THE BOARD:**

**"Chris Theodoropoulos" Director**

**"Peter Wong" Director**

# ETHOS CAPITAL CORP.

**Statements of Loss and Deficit**
**For the fiscal year ended December 31, 2008 and from inception, March 12, 2007 to December 31, 2007**

| | | 2008 | | From Inception, March 12, 2007 to December 31 2007 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Bank charges | $ | 119 | $ | 92 |
| Business investigative costs | | 39,695 | | - |
| Listing and filing fees | | 23,597 | | 17,837 |
| Office and administrative | | 17,457 | | 12,167 |
| Professional fees | | 40,121 | | 41,936 |
| Rent (note 6) | | 8,050 | | - |
| Stock-based compensation (note 4(c) | | - | | 315,350 |
| Loss before the undernoted | | (129,039) | | (387,382) |
| Interest income | | 47,593 | | 16,866 |
| Foreign exchange gain (loss) | | 4,242 | | (1,471) |
| **Net loss for the year** | | (77,204) | | (371,987) |
| **Deficit, beginning of year** | | (371,987) | | - |
| **Deficit, end of year** | $ | (449,191) | $ | (371,987) |
| **Net loss per share** | $ | 0.01 | $ | 0.09 |
| **Weighted average number of shares outstanding** | | 10,930,000 | | 4,221,973 |

# ETHOS CAPITAL CORP.

**Statements of Cash Flows**

**For the fiscal year ended December 31, 2008 and from inception, March 12, 2007 to December 31, 2007**

| | 2008 | From Inception, March 12, 2007 to December 31, 2007 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net loss for the year | $ (77,204) | $ (371,987) |
| Item not affecting cash: | | |
| Stock-based compensation | - | 315,350 |
| | (77,204) | (56,637) |
| Changes in non-cash working capital components | | |
| Amounts receivable | 2,851 | (4,083) |
| Prepaid expense | 4,814 | (4,814) |
| Accounts payable and accrued liabilities | 127,326 | 15,286 |
| Due to related party | 8,457 | - |
| | 66,244 | (50,248) |
| **Investing activities** | | |
| Mineral property expenditures | (138,143) | - |
| **Financing activities** | | |
| Common shares issued for cash | - | 2,006,000 |
| Share issue costs | - | (52,877) |
| | - | 1,953,123 |
| **(Decrease) increase in cash** | (71,899) | 1,902,875 |
| **Cash and Cash Equivalents, beginning of year** | 1,902,875 | - |
| **Cash and Cash Equivalents, end of year** | $ 1,830,976 | $ 1,902,875 |
| **Cash and Cash Equivalents, end of year, consisted of** | | |
| **Cash on deposit with a Canadian Senior Bank** | $36,672 | $286,128 |
| **Term deposits and Guaranteed investment certificates issued by a Canadian Senior Bank** | $1,793,304 | $1,616,747 |

## 1. OPERATIONS

Ethos Capital Corp. (the "Company") was incorporated on March 12, 2007 under the Business Corporations Act (British Columbia). On December 12, 2007, the Company completed an initial public offering (IPO) and on December 14, 2007, the Company was publicly listed as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the Exchange).

The Company's principal business activity is to identify and evaluate opportunities for the acquisition of interests in assets or businesses that will meet the definition of a Qualifying Transaction as defined in Policy 2.4 of the Exchange.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation.

The Company's continuing operations as intended are dependent upon its ability to identify, evaluate and negotiate the acquisition of an interest in assets or businesses which is considered a Qualifying Transaction. Such an acquisition will be subject to regulatory approval and may be subject to shareholder approval. Should the Company be unable to complete such a transaction, its ability to raise sufficient financing to maintain operations may be impaired and accordingly the Company may be unable to realize on the carrying value of its nets assets. During 2008, the Company announced a proposed Qualifying Transaction. See Note 7. The Company intends to complete the proposed Qualifying Transaction during 2009.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which include the following significant policies:

(a) Basis of Presentation

These financial statements have been prepared on the basis of Canadian generally accepted accounting principles, which include the following accounting policies:

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets, liabilities, and commitments at the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. A significant item subject to such management estimates and assumptions includes the determination of the fair value of stock-based compensation. Actual results could differ from the estimates and assumptions made in the preparation of these financial statements.

(c) Cash and Cash Equivalents

Cash and Cash Equivalents consist of deposits in banks, redeemable term deposits and redeemable guaranteed investment certificates with a senior Canadian bank.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates on future tax assets and liabilities is recognized in operations in the year in which the change occurs. A future income tax asset is recorded when the probability of the realization is more likely than not.

(e) Stock-based Compensation

The Company uses the fair value method of accounting for options granted under its stock-based compensation plan (see note 4). Stock options are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable and are charged to operations over the vesting period if applicable. The offset is credited to contributed surplus. Cash received on the exercise of stock options is recorded in share capital and the related compensation included in contributed surplus is transferred to share capital to recognize the total consideration for the shares issued.

(f) Loss per share

Basic loss per share is calculated by dividing the net loss for the period by the weighted average number of common shares of the Company that was outstanding in the period. Diluted loss per share includes the potential dilution from common share equivalents, such as stock options and warrants. The treasury stock method is used to calculate potential dilution, whereby any expected proceeds from the exercise of options or other dilutive instruments are assumed to be used for the repurchase of common shares at the average market price during the reporting period.

For the period ended December 31, 2008, diluted loss per share is the same as basic loss per share as the effect of all outstanding options and warrants would be anti-dilutive.

(g) Mineral Property Interests

The Company accounts for its mineral property interests whereby costs relative to the acquisition of, exploration for and development of these interests are capitalized by property. All sales and option proceeds received are first credited against the costs of the related interest, with any excess credited to operations. No gains or losses are recognized on the partial sale or disposition of interests except in circumstances which result in significant dispositions of reserves. Once commercial production has commenced, these net costs are charged to future operations using the unit-of-production method based on estimated recoverable reserves by property. The net costs related to abandoned properties and interests are charged to operations.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(h) Adoption of new accounting standards

Effective January 1, 2008, the Company adopted three new Canadian Institute of Chartered Accountants (CICA) accounting standards: (*i*) Handbook Section 1535, *Capital Disclosures*; (*ii*) Handbook Section 3862, *Financial Instruments - Disclosures*; (*iii*) Handbook Section 3863, *Financial Instruments - Presentation*. The main requirements of these new standards and the resulting financial statement impact are described below.

(*i*) Capital Disclosures (Section 1535):

Section 1535 specifies the disclosure of: (*i*) an entity's objectives, policies and processes for managing capital; (*ii*) quantitative data about what the entity regards as capital; (*iii*) whether the entity has complied with any external capital requirements; and, (*iv*) if it has not complied, the consequences of such non-compliance.

As a result of the adoption of this standard, additional disclosure on the Company's capital management strategy have been included in Note 3 to the financial statements.

(*ii*) Financial Instruments - Disclosures (Section 3862) and Financial Instruments – Presentation (Section 3863):

Section 3862 and 3863 replace Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, revising its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3862 specifies disclosures that enable users to evaluate: *(i)* the significance of financial instruments for the entity's financial position and performance; *(ii)* the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

As a result of the adoption of this standard, additional disclosures on the risks of certain financial statements have been included in Note 3 to the financial statements.

Section 3863 establishes standards for the presentation and classification of financial instruments and non-financial derivatives. The adoption of this standard did not have any impact on the classification or presentation of the Company's financial instruments.

**3. FINANCIAL INSTRUMENTS**

Financial assets of the Company include cash and cash equivalents and amounts receivable. Financial liabilities include accounts payable and due to related party.

(a) Fair values of financial instruments:

The carrying values of cash and cash equivalents, amounts receivable and accounts payable approximate their fair values due to the relatively short period to maturity of the instruments. These financial instruments are accounted for on a held to maturity basis.

## 3. FINANCIAL INSTRUMENTS (continued):

(b) Financial risk management:

The Company's Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. Currently, the Company has limited human and financial resources and no current interest in operating assets or businesses. When appropriate and relevant, management of the Company will establish risk management policies to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Currently, the Company has no material exposure to credit, liquidity and market risks from its financial instruments.

**Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises mainly from its cash and cash equivalent instruments. The Company limits its exposure to credit risk arising from its cash and cash equivalents by only investing in short term deposits with a major Canadian financial institution.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet obligations associated with financial liabilities and commitments as they become due. As a capital pool corporation, the Company does not have material financial obligations. The Company's overall liquidity risk has not changed significantly from December 31, 2007.

**Currency risk**

Currency risk is the risk that changes in foreign exchange rates will affect the fair value or future cash flows of the Company's financial instruments. The Company's financial instruments are not materially exposed to changes in foreign exchange rates. The Company's overall currency risk has not changed from December 31, 2007.

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will affect the fair value or future cash flows of the Company's financial instruments. The Company is not materially exposed to interest rate risk with its limited cash and cash equivalents.

(c) Capital Structure and Management

The Company's capital structure is comprised of shareholders' equity. The Company's objectives when managing its capital structure are to minimize dilution to existing equity shareholders of the Company and maintain financial flexibility so as to preserve the Company's access to capital markets and its ability to maintain its financial obligations.

The Company manages its capital structure and makes adjustments according to market conditions to maintain flexibility while achieving the objectives stated above. The Company's capital management objectives have not changed from December 31, 2007 and there are no externally imposed restrictions on its capital.

## 4. SHARE CAPITAL

(a) Authorized
Unlimited number of common shares without par value
Unlimited number of preferred shares without par value

(b) Common shares - Issued and outstanding

| | Number of Shares | Amount |
|---|---|---|
| **Balance, March 12, 2007** | - | - |
| Issued for cash pursuant to private placements and IPO | 10,930,000 | 2,006,000 |
| Share issue costs paid in cash | - | (52,877) |
| Fair value of Agent options granted pursuant to IPO | - | (49,245) |
| Transfer of fair value of Agent options exercised | - | 9,849 |
| **Balance, December 31, 2007 and 2008** | **10,930,000** | **$ 1,913,727** |

During the year ended December 31, 2007, the Company completed two private placements, issuing 1,800,000 common shares at $0.10 per share and 7,600,000 common shares at $0.20 per share. The Company, through its agent PI Financial Corp. (the "Agent"), then completed an initial Public Offering (IPO) and issued 1,500,000 common shares at $0.20 per common share for gross cash proceeds of $300,000. The Company paid the Agent $30,000 (10% of gross proceeds) and issued to the Agent an option to purchase 150,000 common shares at $0.20 per share until December 14, 2009. The fair value of these Agent options was $0.3285 per share and has been charged to share issue costs. The related credit had been included in contributed surplus.

As at December 31, 2008 and December 31, 2007, there were 2,425,000 common shares issued and outstanding under escrow. Under the escrow agreement, 10% of the escrowed common shares will be released from escrow on the acceptance by Exchange of a Qualifying Transaction made by the Company. An additional 15% of the escrowed common shares will be released every 6 months following the acceptance of the Qualifying Transaction.

(c) Stock options

During 2007, the Company adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants of the Company, non transferrable options to purchase common shares of the Company, provided that the number of common shares reserved for issuance will not exceed 1,090,000, representing 10% of the issued and outstanding common shares of the Company at the closing of the IPO. Such options will be exercisable up to five years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any individual director, office or employee will not exceed 5% of the issued and outstanding common shares of the Company and the number of common shares reserved for issuance to any consultant will not exceed 2% of the issued and outstanding common shares of the Company. Options may be exercised no later than 90 days following the cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, employment or consulting arrangement was by reason of death, the option may be exercised within a

## 4. SHARE CAPITAL (continued)

(c) Stock options (continued)

maximum period of one year after such death, subject to the expiry date of such option. Any transaction, must be deposited in escrow and will be subject to escrow until the Final Exchange Bulletin is issued.

No options were granted, exercised or cancelled during the year ended December 31, 2008.

The following summarizes information on the number of stock options outstanding as at December 31, 2008:

| Grant date | Expiry date | Number outstanding | Weighted average exercise price | Weighted remaining contractual life (in years) |
|---|---|---|---|---|
| Dec 12, 2007 | Dec 12, 2012 | 850,000 | $0.20 | 3.95 |
| Dec 12, 2007 | Dec 12, 2009 | 120,000 | $0.20 | 0.95 |
| Total | | 970,000 | $0.20 | 3.58 |

## 5. FUTURE ACCOUNTING CHANGES

(a) International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, evolving and being converged with International Financial Reporting Standards ("IFRS") over a transitional period currently expected to be completed by 2011. The International Accounting Standards Board also has projects currently under way which should result in new pronouncements which will be included in the convergence process.

The Company intends to conduct a detailed assessment of the requirements of the transition to IFRS, with the intention of identifying the timing of the implementation of the transition, major differences in accounting policies and selecting the policies which are appropriate for the Company, identifying the appropriate disclosure in financial statements prepared under IFRS and developing an implementation plan.

## 6. RELATED PARTY TRANSACTION

During the year ended December 31, 2008, the Company paid or accrued $8,050 (2007 – Nil) for rent of shared office space to a publicly listed company with a common Chief Executive Officer.

## 7. PROPOSED QUALIFYING TRANSACTION

During 2008, the Company signed a Letter of Intent with Cardero Resource Corp. (Cardero) pursuant to which the Company was granted an option to earn a 70% working interest in three of Cardero's mineral prospects in Mexico. Subsequently during the same year, the Company and Cardero signed a Letter Agreement (the Amending Agreement) amending the terms of the Letter of Intent. The amended transaction is intended to constitute the Company's Qualifying Transaction, such that the Company will meet Tier 2 Mining Issuer requirements of the Exchange.

## 7. PROPOSED QUALIFYING TRANSACTION (continued)

During 2008, the Company signed a Letter of Intent with Cardero Resource Corp. (Cardero) pursuant to which the Company was granted an option to earn a 70% working interest in three of Cardero's mineral prospects in Mexico. Subsequently during the same year, the Company and Cardero signed a Letter Agreement (the Amending Agreement) amending the terms of the Letter of Intent. The amended transaction is intended to constitute the Company's Qualifying Transaction, such that the Company will meet Tier 2 Mining Issuer requirements of the Exchange.

Pursuant to the Original Letter of Intent and the Amending Agreement, the Company has an exclusive option (the Option) to earn an undivided seventy (70%) percent right, title and working interest in two of Cardero's mineral properties in Mexico, the Santa Teresa and Corrales properties (the Mineral Properties) respectively by:

(a) paying to Cardero the sum of $500,000, as follows:

  (i) $100,000 on or before the day (the Acceptance Date) which is five (5) days after the Letter of Intent and the Amending Agreement is accepted for filing by the Exchange;

  (ii) an additional $150,000 on or before the day which is one (1) year after the Acceptance Date; and

  (iii) an additional $250,000 on or before the day which is two (2) years after the Acceptance Date;

(b) delivering to Cardero 1,334,000 fully-paid and non-assessable common shares of the Company as follows:

  (i) 266,800 common shares of the Company on or before the day which is one (1) year after the Acceptance Date;

  (ii) an additional 466,900 common shares of the Company on or before the day which is two (2) years after the Acceptance Date; and

  (iii) an additional 600,300 common shares of the Company on or before the day which is three (3) years after the Acceptance Date;

(c) during the currency of the Option, assuming all of the liabilities, and performing, in a timely manner, all of the obligations pursuant to each of the third-party agreements to which Cardero or its subsidiaries hold their rights in and to the Mineral Properties; and

(d) otherwise complying with the terms and conditions of this Letter of Intent and Amending Agreement during the currency of the Option.

In consideration of Cardero entering into the Amending Agreement, the Company has agreed to issue 100,000 common shares of the Company on the Acceptance Date. In addition to the Option payments to Cardero, the Company has agreed to pay an individual arm's length finder 200,000 common shares of the Company as a finder's fee in consideration of that individual identifying and assisting with the acquisition of the Mineral Properties in the proposed Qualifying Transaction.

## 7. PROPOSED QUALIFYING TRANSACTION (continued)

The Letter of Intent and the Amending Agreement between the Company and Cardero, and the payment by the Company of the above-described finder's fee are subject to applicable regulatory approvals, including the acceptance of the Exchange. The Company and Cardero have agreed to settle on the terms of a more formal definitive option agreement to replace the Letter of Intent and the Amending Agreement.

The Company does not anticipate any changes to its current roster of directors and officers as a result of the above-described option transaction and financing.

The Qualifying Transaction is an arm's length Qualifying Transaction and to the Company's understanding will not be subject to shareholder approval.

Completion of the above-described transactions is subject to a number of conditions, including but not limited to, Exchange acceptance and requirements. There can be no assurance that the above transactions will be completed as proposed or at all or without amendment.

## 8. MINERAL PROPERTY INTERESTS

The Company reimbursed Cardero for the costs of an initial work program on the Mineral Properties to ensure they meet the terms of a Qualifying Transaction.

The breakdown of the mineral property costs as at December 31, 2008 was as follows:

| | Santa Teresa | Corrales | Total |
|---|---|---|---|
| **Drilling and Analysis** | **$ 81,579** | **$ 7,819** | **$ 89,398** |
| **Field costs** | **10,977** | **$6,761** | **17,738** |
| **Personnel costs** | **17,513** | **10,828** | **28,341** |
| **Travel costs** | **2,666** | **-** | **2,666** |
| **Total** | **$ 112,735** | **$ 25,408** | **$ 138,143** |

Management of the Company evaluated the carrying value of its mineral property interests as at December 31, 2008 for impairment. No adjustment was deemed necessary.

## 9. INCOME TAXES

The significant components of the Company's future income assets and liabilities at December 31, 2008 and 2007 are as follows:

| | | 2008 | | 2007 |
|---|---|---|---|---|
| **Future income tax assets:** | | | | |
| Exploration expenses | $ | 41,443 | $ | - |
| Losses carried forward | | 23,161 | | 19,325 |
| Valuation allowance | | (64,604) | | (19,325) |
| Total future income tax assets | $ | - | $ | - |

The reconciliation of the provision for income taxes is as follows:

| | | 2008 | | 2007 |
|---|---|---|---|---|
| Loss before income taxes | $ | 77,204 | $ | 56,637 |
| Statutory income tax rate | | 30.0% | | 34.12% |
| Income tax (recovery) based on statutory income tax rates | | 23,161 | | 19,325 |
| Adjustments: | | | | |
| Non-deductible amounts | | (16) | | |
| Current year loss not recognized | | (23,145) | | (19,325) |
| Income tax (recovery) expense | $ | - | $ | - |

At December 31, 2008, the Company had unrecognized non-capital losses for income tax purposes of $133,841 (2007 – 56,673) that may be used to offset future taxable income. These losses, if not utilized, will expire between 2027 and 2028.