

SALARES LITHIUM INC.
(Formerly P2P Health Systems Inc.)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JULY 31, 2009 AND 2008

AUDITORS' REPORT

**TO THE SHAREHOLDERS OF SALARES LITHIUM INC.
(Formerly P2P Health Systems Inc.)**

We have audited the balance sheets of Salares Lithium Inc. (Formerly P2P Health Systems Inc.) as at July 31, 2009 and 2008 and the statements of loss, 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 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 statements present fairly, in all material respects, the financial position of the Company as at July 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
November 17, 2009, except as to notes 14 (b), (c) and (d)
which are as of November 26, 2009.

SALARES LITHIUM INC.
(Formerly P2P Health Systems Inc.)
BALANCE SHEETS

	July 31, 2009	July 31, 2008
ASSETS		
Current		
Cash	\$ 47,553	\$ 285,989
Receivables	30,635	19,903
Prepaid expenses	9,434	9,383
	87,622	315,275
Equipment (Note 3)	-	80,778
Deferred acquisition cost (Note 10)	55,938	-
	\$ 143,560	\$ 396,053

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

Current		
Accounts payable and accrued liabilities	\$ 224,734	\$ 207,193
Shareholders' equity (deficiency)		
Capital stock (Note 4)	5,212,174	4,600,009
Subscriptions receivable (Note 4)	-	(2,000)
Contributed surplus (Note 6)	1,741,475	1,613,763
Deficit	(7,034,823)	(6,022,912)
	(81,174)	188,860
	\$ 143,560	\$ 396,053

Nature and continuance of operations (Note 1)

Commitment (Note 13)

Subsequent events (Note 14)

On behalf of the Board:

Signed: "Todd Hilditch"

Director

Todd Hilditch

Signed: "David Shaw"

Director

David Shaw

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

SALARES LITHIUM INC.

(Formerly P2P Health Systems Inc.)

STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

	Year Ended July 31, 2009	Year Ended July 31, 2008
GENERAL AND ADMINISTRATIVE EXPENSES		
Management fees	\$ 396,900	\$ 126,000
Stock-based compensation (Note 6)	145,911	236,023
Research and due diligence, net of recoveries	116,234	(5,733)
Professional fees	89,745	61,622
Office	76,679	80,691
Travel	65,456	17,060
Administration	30,573	122,906
Filing and transfer agent fees	19,285	19,711
Interest on long-term debt	-	27,743
Sales and marketing	-	17,395
Salaries and wages	-	13,039
Amortization	16,329	11,701
Loss Before Other Items and Future Income Tax Recovery		
	(957,112)	(728,158)
Other Items		
Loss on settlement of debt (Note 7)	-	(296,998)
Interest income	-	1,008
Loss on sale and write-off of equipment (Note 3)	(54,799)	(2,805)
Loss Before Future Income Tax Recovery		
	(1,011,911)	(1,026,953)
Future Income Tax Recovery (Note 12)	-	774,337
Net Loss and Comprehensive Loss for Year		
	(1,011,911)	(252,616)
Deficit, Beginning of Year		
	(6,022,912)	(5,770,296)
Deficit, End of Year		
	\$ (7,034,823)	\$ (6,022,912)
Basic and Diluted Loss Per Share		
	\$ (0.05)	\$ (0.02)
Basic and Diluted Weighted Average Number of Common Shares Outstanding		
	19,460,487	14,349,075

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

SALARES LITHIUM INC.
(Formerly P2P Health Systems Inc.)
STATEMENTS OF CASH FLOWS

	Year Ended July 31, 2009	Year Ended July 31, 2008
OPERATING ACTIVITIES		
Loss for year	\$ (1,011,911)	\$ (252,616)
Items not affecting cash:		
Amortization	16,329	11,701
Stock-based compensation	145,911	236,023
Loss on settlement of debt	-	296,998
Future income tax recovery	-	(774,337)
Loss on sale and write-off of equipment	54,799	2,805
Interest on long-term debt	-	27,743
	(794,872)	(451,683)
Changes in non-cash working capital items:		
Accounts receivables	4,268	2,734
Prepaid expenses	(51)	(5,074)
Accounts payable and accrued liabilities	17,541	(22,257)
	21,758	(24,597)
Net cash used in operating activities	(773,114)	(476,280)
INVESTING ACTIVITIES		
Payment of deferred acquisition costs	(55,938)	-
Acquisition of equipment	(5,350)	(77,920)
Net cash provided used in investing activities	(61,288)	(77,920)
FINANCING ACTIVITIES		
Issuance of capital stock, net of share issuance costs	595,966	426,113
Repayment of long-term debt	-	(100,000)
Net cash provided by financing activities	595,966	326,113
Decrease in Cash During Year	(238,436)	(228,087)
Cash, Beginning of Year	285,989	514,076
Cash, End of Year	\$ 47,553	\$ 285,989
Supplemental Cash Flow Information		
Accounts receivable on sale of equipment	\$ 15,000	\$ -
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -
Subscriptions received	\$ 2,000	\$ -

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

SALARES LITHIUM INC.
(Formerly P2P Health Systems Inc.)
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2009 and 2008

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company was incorporated under the laws of the Province of British Columbia and was listed as a capital pool corporation on the TSX Venture Exchange (“TSX.V”). On October 6, 2003, following the acquisition of Person to Person Health Systems Inc. the Company changed its name to P2P Health Systems Inc. and ceased to be a capital pool corporation. On November 26, 2009, the Company changes its name to Salares Lithium Inc. The Company was focused on the development and sale of peer-to-peer streaming technology and telehealth software for long distance medical diagnosis; during the year ended July 31, 2008 it abandoned these technologies. Currently, the Company is exploring mineral property opportunities (note 10). On December 1, 2008, the Company’s classification was changed from Tier 2 to NEX, and the Company resumed trading on the NEX Exchange under the trading symbol PTP.H. On February 11, 2009, pursuant to a debt settlement agreement with Atlantic Canada Opportunities Agency (“ACOA”), the Company’s wholly owned subsidiary, Person to Person Health Systems Inc. (“PPHS”), was dissolved and wound up.

These financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue as a going concern is in substantial doubt and is dependent on the Company’s ability to satisfy its liabilities as they come due, complete public equity financing, or generate profitable operations in the future. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company has incurred significant operating losses over the past several fiscal years, is currently unable to self-finance operations, has a working capital deficiency of \$137,112 (2008 working capital - \$108,082), an accumulated deficit of \$7,034,823 (2008 - \$6,022,912), limited assets, no source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration on its mineral property interests or to pay administrative costs. The Company does not have sufficient working capital to meet its current financial obligations, flow-through obligations, administrative overhead costs and to start exploration work on its potential mineral property interests in 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The Company’s functional currency is the Canadian dollar. All amounts are expressed in Canadian dollars unless otherwise specified.

(b) Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the determination of impairment of equipment and rates of amortization, accounts payable and accrued liabilities, the valuation allowance for future income tax assets and the determination of the variables used in the calculation of stock-based compensation. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances. The actual results experienced by the Company may differ materially and adversely from the Company’s estimates and could affect future results of operations and cash flows.

SALARES LITHIUM INC.
(Formerly P2P Health Systems Inc.)
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Amortization

Equipment is recorded at cost. Computer equipment and furniture and equipment are amortized using the declining balance method at annual rates of 30% and 20%, respectively. Leasehold improvements are amortized straight line over the remaining life of the lease. Amortization commences in the month of acquisition.

(d) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted 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 on future tax assets and liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

(e) Stock-Based Compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged to operations, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock. The Company does not incorporate an estimated forfeiture rate for options that will not vest but rather accounts for actual forfeiture as they occur.

(f) Loss Per Share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share. Under this method, the dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(g) Related Party Transactions

All monetary transactions in the normal course of operations are measured at the exchange value, which is the amount of consideration established and agreed to by the related parties. Non-monetary transactions in the normal course of operations that have commercial substance and do not involve the exchange of property or product held for sale are also measured at the exchange value. The commercial substance requirement is met when the future cash flows associated with the transfer of property are expected to change significantly as a result of the transaction. All other related party transactions are valued at the carrying value.

SALARES LITHIUM INC.
(Formerly P2P Health Systems Inc.)
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Non-Monetary Transactions

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset received, whichever is more reliable, unless the transaction lacks commercial substance or the fair value cannot be reliably established. The commercial substance requirement is met when the future cash flows are expected to change significantly as a result of the transaction. When the fair value of a non-monetary transaction cannot be accurately measured, it is recorded at the carrying amount (after reduction, when appropriate, for impairment) of the asset given up adjusted by the fair value of any monetary consideration received or given.

(i) Research and development

Research costs are expensed as incurred. Development costs are also expensed unless, in management's view, they meet specific criteria related to technical, market and financial feasibility, in which case they are deferred and amortized. Amortization is then calculated on a straight-line basis over the expected period of recovery from related future revenues. These costs are reviewed on an annual basis, and if there is found to be an impairment in value, any unamortized balance will be written off as a charge to operations.

(j) Financial Instruments

All financial instruments are measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in operations.

Financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities (other than those classified as held-for-trading) are measured at amortized cost using the effective interest method.

Available-for-sale financial assets are measured at fair value, with unrealized gains and losses recognized in other comprehensive income or loss. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost. Market value of available for sale investments is measured at quoted market prices.

Transaction costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are added to the fair value of the financial asset or financial liability on initial recognition.

Comprehensive income (loss) is defined as the change in equity from transactions and other events from non-owner sources. It is made up of net income (loss) and other comprehensive income (loss). Other comprehensive income refers to items recognized in comprehensive income that are excluded from operations. Comprehensive loss is equal to net loss for the years ended July 31, 2009 and 2008.

SALARES LITHIUM INC.
(Formerly P2P Health Systems Inc.)
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company adopted the following CICA guidelines effective August 1, 2008:

(k) General Standards of Financial Statement Presentation

The CICA amended Section 1400, assessing an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The application of this new standard had no impact on the Company's operating results or financial position.

(l) Capital Disclosures

The CICA issued section 1535, which specifies the disclosure of information that enables users of an entity's financial statements to evaluate management's objectives, policies and procedures for managing capital including qualitative information about its objectives, policies and procedures for managing capital, summary quantitative data about what the entity manages as capital, whether it has complied with any capital requirements and, if it has not complied, the consequences of non-compliance. The adoption of this standard resulted in additional disclosure included in Note 11.

(m) Financial Instruments

Effective July 1, 2008, the Company adopted CICA Handbook Section 3862, "Financial Instruments – Disclosures" and CICA Handbook Section 3863, "Financial Instruments – Presentation". These sections require entities to disclose quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. Disclosures required by these standards are included in note 8.

Recent accounting pronouncements issued by the CICA, which have not yet been adopted by the Company, are as follows:

(n) Transition to International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") ratified a strategic plan that will result in the convergence of Canadian GAAP, as used by public companies, with IFRS over a transitional period. The AcSB has developed and published a detailed implementation plan, with a changeover date for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the future impact of the initiative on its financial statements.

(o) Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

SALARES LITHIUM INC.
(Formerly P2P Health Systems Inc.)
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Business Combinations

In January 2009, the CICA issued Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”. These sections replace the former Section 1581, “Business Combinations”, and Section 1600, “Consolidated Financial Statements”, and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

3. EQUIPMENT

	2008		
	Cost	Accumulated Amortization	Net
Computer hardware	\$ 33,400	\$ 9,315	\$ 24,085
Furniture and fixtures	13,570	1,993	11,577
Computer software	1,959	802	1,157
Leasehold improvements	47,028	3,069	43,959
	\$ 95,957	\$ 15,179	\$ 80,778

During July 2009, with the change of management, the Company sold equipment with a book value of \$33,260 for \$15,000. Concurrently, leasehold improvements with a net book value of \$36,539 as at June 30, 2009 were written-off. The Company recognized a loss during the year of \$54,799, based on the above transactions.

SALARES LITHIUM INC.
(Formerly P2P Health Systems Inc.)
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2009 and 2008

4. CAPITAL STOCK

Authorized
Unlimited number of common shares without par value

	Number of Shares	Amount
Issued:		
As at July 31, 2007	16,382,330	\$ 5,171,742
For cash – private placement	4,000,000	400,000
For cash – exercise of share purchase warrants	10,000	2,000
For cash – exercise of stock options	145,000	29,000
Reclassification of contributed surplus on exercise of stock options	-	28,512
Escrow shares returned to treasury and cancelled	(3,257,493)	(1,028,358)
Share issue costs	-	(2,887)
As at July 31, 2008	17,279,837	4,600,009
For cash – private placement	3,585,000	358,500
Share issue costs	-	(34,534)
For cash – exercise of share purchase warrants	1,250,000	250,000
For cash – exercise of stock options	100,000	20,000
Reclassification of contributed surplus on exercise of options	-	18,199
As at July 31, 2009	22,214,837	\$ 5,212,174

Pursuant to shareholder approval received on November 10, 2009, the shares of the Company were consolidated on a basis of one share for every two shares issued and outstanding. All outstanding share purchase warrants and options to purchase stock were consolidated on the same basis. The capital stock disclosure has been amended to reflect the post consolidation share structure.

During the year ended July 31, 2009, the Company completed a non-brokered private placement of 3,585,000 units for gross proceeds of \$358,500. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$0.20 per share for a period of one year from closing. The Company paid finder's fees totalling \$17,500 and legal fees of \$17,034 in connection with the private placement.

During the year ended July 31, 2008, the Company completed a non-brokered private placement of 4,000,000 units at \$0.10 per unit. Each unit consists of one common share and one-half of one share purchase warrant. Each whole share purchase warrant is exercisable at \$0.20 per share until May 23, 2009. The Company incurred share issuance costs of \$2,887.

On September 20, 2007, the Company cancelled 3,257,493 escrow shares and returned them to treasury. Capital stock was reduced by \$1,028,358 based on the book value of capital stock immediately prior to the cancellation, with a corresponding amount credited to contributed surplus.

SALARES LITHIUM INC.
(Formerly P2P Health Systems Inc.)
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2009 and 2008

4. CAPITAL STOCK (continued)

Share subscriptions receivable

Balance, July 31, 2007	\$ -
Share proceeds receivable	2,000
Balance, July 31, 2008	2,000
Share proceeds received	(2,000)
Balance, July 31, 2009	\$ -

During the year ended July 31, 2008, 145,000 options were exercised for proceeds of \$29,000. Of this amount, \$2,000 was receivable at July 31, 2008 and was collected during 2009.

5. WARRANTS

The following warrants were outstanding at July 31, 2009 and 2008:

Expiry Date	Exercise Price	Number of Warrants	
		2009	2008
January 9, 2010	\$ 0.20	1,775,000	-
January 23, 2010	\$ 0.20	1,810,000	-
November 23, 2008	\$ 0.20	-	1,269,000
April 9, 2009	\$ 0.80	-	1,798,000
May 23, 2009	\$ 0.20	-	2,000,000
		3,585,000	5,067,000

Share purchase warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at July 31, 2007	3,257,000	\$ 0.61
Issued	2,000,000	\$ 0.20
Exercised	(10,000)	\$ 0.20
Expired	(180,000)	\$ 1.60
Outstanding at July 31, 2008	5,067,000	\$ 0.41
Issued	3,585,000	\$ 0.20
Exercised	(1,250,000)	\$ 0.20
Expired	(3,817,000)	\$ 0.48
Outstanding at July 31, 2009	3,585,000	\$ 0.20

During the year ended July 31, 2009, 1,250,000 share purchase warrants were exercised at \$0.20 per warrant and 3,817,000 share purchase warrants expired unexercised.

SALARES LITHIUM INC.
(Formerly P2P Health Systems Inc.)
NOTES TO THE FINANCIAL STATEMENTS
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6. STOCK OPTIONS AND STOCK-BASED COMPENSATION

Stock Options

The Company, in accordance with its shareholder approved stock option plan and the policies of the TSX.V, is authorized to grant options to directors, employees and consultants, to acquire common shares. The exercise price of each option equals the closing price of the Company's shares on the day preceding the award date, less any discount permitted by the TSX.V, or such other price as may be required by the TSX.V. The options can be granted for a maximum term of five years and are subject to vesting provisions as determined by the board of directors.

Outstanding incentive stock options as at July 31, 2009 are:

	2008 Number of Shares	Weighted Average Remaining Contractual Life (in Years)	2009 Number of Shares	Exercise Price	Expiry Date
Options	642,500	-	-	\$0.20	January 12, 2012
Options	367,500	2.68	62,500	\$0.60	April 4, 2012
Options	50,000	2.95	50,000	\$1.26	July 12, 2012
Options	1,225,000	3.82	475,000	\$0.20	May 26, 2013
Total options outstanding	2,285,000	3.15	587,500	\$0.30	
Total options exercisable	1,645,903	3.15	468,750		

Incentive stock option transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at July 31, 2007	1,630,000	\$ 0.40
Granted	1,225,000	\$ 0.20
Exercised	(145,000)	\$ 0.20
Forfeited	(425,000)	\$ 0.20
Outstanding at July 31, 2008	2,285,000	\$ 0.28
Exercised	(100,000)	\$ 0.20
Forfeited	(1,597,500)	\$ 0.28
Outstanding at July 31, 2009	587,500	\$ 0.30

SALARES LITHIUM INC.
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NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2009 and 2008

6. STOCK OPTIONS AND STOCK-BASED COMPENSATION (continued)

During the year ended July 31, 2009, 100,000 (2008 - 145,000) stock options were exercised at \$0.20 per share and 1,597,500 (2008 - 425,000) stock options were forfeited unexercised.

Stock-Based Compensation

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its stock options granted. Accordingly, for the year ended July 31, 2009, stock-based compensation expense of \$145,911 (2008 - \$236,023) was recognized for the 2008 options which vested in the current year. No options were granted during the 2009 fiscal year.

The following assumptions were used for the Black-Scholes valuation of stock options granted during the year ended July 31, 2008:

	2008
Expected life (years)	5
Interest rate	3.32%
Volatility	101%
Dividend yield	0.0%

The Company recognizes stock-based compensation expense associated with the options based on vesting terms. During the year ended July 31, 2009, the Company granted nil options (2008 - 1,225,000), which resulted in total compensation expense of \$nil (2008 - \$297,252). During the year ended July 31, 2009, 1,597,500 stock options (2008 - 425,000) fair valued at \$548,855 (2008 - \$221,783) were forfeited prior to vesting. Stock-based compensation is recognized over the vesting period or when the counterparty performance is complete. Stock-based compensation expense related to options yet to vest will be recognized as follows:

2010	28,815
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Contributed surplus

Balance, July 31, 2007	377,894
Stock options exercised, transferred to capital stock	(28,512)
Cancellation of escrow shares	1,028,358
Stock-based compensation	236,023
Balance, July 31, 2008	1,613,763
Stock options exercised, transferred to capital stock	(18,199)
Stock-based compensation	145,911
Balance, July 31, 2009	1,741,475

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7. LONG-TERM DEBT

On April 8, 2008, the Company entered into an agreement with Atlantic Canada Opportunities Agency (“ACOA”) to settle its long-term debt with a face value of \$549,596 plus accrued interest of \$27,743 owed by PPHS for a payment of \$100,000 (paid May 22, 2008) plus the commitment to waive any income tax benefits available to PPHS of all but \$476,816 in non-capital loss carry-forwards of PPHS. The forfeited loss carry-forwards totaled \$2,360,784 and were valued at \$774,337 based on the Company’s statutory tax rate for 2008 (note 12).

The Company realized a loss on settlement of its long-term debt of \$296,998.

8. RELATED PARTY TRANSACTIONS

During the year ended July 31, 2009, the Company entered into transactions with related parties as follows:

- (a) paid management fees of \$376,900 (2008 - \$238,906) to former officers and a former director and to companies owned by a former officer of the Company. These amounts included a severance payment to the outgoing officers totalling \$80,000;
- (b) paid management fees of \$20,000 (2008 - \$nil) to officers and a director and to companies owned by an officer of the Company; and
- (c) paid a consulting fee of \$10,000 to a director of the Company classified in research and due diligence.

9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company’s financial instruments include cash, receivables, and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity.

The Company classified its financial instruments as follows:

	2009		2008	
	Carrying amounts	Fair value	Carrying amounts	Fair value
Financial assets				
Held-for-trading				
Cash	\$ 47,553	\$ 47,553	\$ 285,989	\$ 285,989
Loans and Receivables				
Receivables	\$ 30,635	\$ 30,635	\$ 19,903	\$ 19,903
Other financial liabilities				
Accounts payable and accrued liabilities	\$ 224,734	\$ 224,734	\$ 207,193	\$ 207,193

9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments.

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and procedures for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements. The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The board has implemented and monitors compliance with risk management policies.

(a) 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. The Company is exposed to credit risk with respect to its cash and receivables; however, risk on cash and cash equivalents is mitigated by placing it with major Canadian financial institutions. There is no credit risk with respect to receivables as the amount was due from a former director and collected by the Company subsequent to July 31, 2009.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual expenditure budgets, which are regularly monitored and updated as considered necessary. To facilitate its expenditure program, the Company raises funds through private equity placements. The Company anticipates it will have adequate liquidity to fund its financial liabilities through future equity contributions (note 14 (c)).

As at July 31, 2009, the Company's other financial liabilities were comprised of accounts payable and accrued liabilities of \$224,734, which have a maturity of less than 30 days.

(c) Market Risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits while maximizing returns.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company has not entered into any arrangements to hedge currency risk. Canadian dollars are exchanged when needed to meet foreign denominated liabilities and, as a result, there are no amounts denominated in foreign currencies. Therefore the Company is not exposed to currency risk at this time.

However, subsequent to July 31, 2009, the Company entered into a letter of agreement to acquire certain salares in Chile (note 10). The related property acquisition costs and expenditures thereon will be denominated in foreign currencies in the future.

9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(c) Market Risk (continued)

(ii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk. The Company is not exposed to significant other price risk on its financial instruments.

(iii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of cash is limited because of their short-term investment nature. A variable rate of interest is earned on cash; changes in market interest rates at the year-end would not have a material impact on the Company's financial statements.

10. DEFERRED ACQUISITION COST

On June 3, 2009, the Company announced that it entered into a letter of agreement (the "Agreement") with Salares Atacama SCM ("SALA"), a private Chilean company, and its individual shareholders. SALA has a 100% interest in seven salares (brine lakes) in Chile's Region III, collectively referred to as the "Concessions". Pursuant to the Agreement, the Company has the option to acquire an initial 50% ownership interest (the "First Option") in the outstanding share capital of SALA and indirectly the Concessions by incurring US\$2,500,000 expenditures on the Concessions and filing a technical report on or before the third anniversary of entering into the Agreement. An additional 20% ownership interest (the "Second Option") can be acquired upon completion, and at the Company's expense and delivery to SALA's board of directors, a bankable feasibility study on the Concessions within 24 months from the date the First Option is exercised. The Company has no obligation to exercise the Second Option, and SALA will retain the remaining 30% ownership interest. This transaction is subject, among other things, to regulatory and shareholder approval and will result in the Company's reactivation and graduation from the NEX board to the TSX Venture Exchange as a Tier 2 mining issuer.

As the Company is still in the process of finalizing the agreement, all costs associated with the agreement have been deferred until the agreement is final.

11. CAPITAL MANAGEMENT

The Company considers its share capital, and if required and available, its debt as components of its capital management base. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going-concern in order to pursue business and investment opportunities and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. The Company is not subject to any externally imposed capital requirements.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

There has been no change from the prior year in the Company's capital management.

SALARES LITHIUM INC.
(Formerly P2P Health Systems Inc.)
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12. INCOME TAXES

During the year ended July 31, 2008, as a result of the long-term debt settlement with ACOA (note 5), the Company undertook not to claim or benefit from the utilization of \$2,360,784 in loss carry-forwards in PPHS, expiring from 2008 to 2027, the value of which was \$774,337, previously carried at \$nil due to a full valuation allowance taken against them.

The Company also has available non-capital losses of \$2,416,000 that may be carried forward to apply against future years' income for income tax purposes. The non-capital losses expire as follows:

Available to	Amount
2026	\$ 266,000
2027	805,000
2028	456,000
2029	889,000
	\$ 2,416,000

The components of future income tax assets are as follows:

	2009	2008
	26.00%	26.00%
Future income tax assets		
Non-capital loss carry-forwards	\$ 628,619	\$ 397,459
Excess of tax value over book value of equipment	-	5,988
Cumulative eligible capital	2,024	2,024
Share issuance costs	3,265	4,857
	633,908	410,328
Valuation allowance	(633,908)	(410,328)
Future income tax asset, net	\$ -	\$ -

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realized.

The reconciliation of income tax provision computed at statutory rates to the reported income tax recovery is as follows:

	2009	2008
Income tax benefit computed at statutory rates	\$ (307,789)	\$ (336,841)
Permanent differences		
Stock-based compensation	44,381	77,416
Loss on settlement of debt	-	97,415
Other permanent differences	1,848	9,792
Other temporary differences	-	2,560
Reduction in future income taxes due to statutory rate reduction	39,297	190,885
Change in unrecognized future income tax asset	222,263	(815,564)
Future income tax expense	\$ -	\$ (774,337)

13. COMMITMENT

The Company entered into a lease contract for the rental of office premises that expires February 28, 2010. Under the terms of the lease, the Company is committed to minimum rental payments of \$26,550 in fiscal 2010. The Company sub-leased the offices effective September 1, 2009.

14. SUBSEQUENT EVENTS

The following events took place subsequent to the year ended July 31, 2009:

- (a) The Company received conditional approval from the TSX-V and on November 10, 2009 received shareholder approval for its change of business into the mining sector, consolidation of shares (on a 2:1 basis) and name change from P2P Health Systems Inc. to Salares Lithium Inc., which were initially announced on June 3, 2009.
- (b) On November 26, 2009, the Company received approval from the TSX-V to change the name of the Company from P2P Health Systems Inc. to Salares Lithium Inc and approval for the consolidation of shares.
- (c) The Company announced the closing of its non-brokered private placement of 9,375,000 subscription receipts for gross proceeds of \$1,500,000. Each subscription receipt will entitle the holder to acquire, for no additional consideration, one unit of the Company. Each unit is comprised of one common share and one common share purchase warrant. Each warrant will entitle the holder to purchase an additional common share at \$0.32 per share for a period of 36 months from the deemed date of exercise of the subscription receipts. The gross proceeds will be held in escrow and will be released to the Company upon completion of the change of business into the mining sector. If this does not occur, the proceeds will be returned to purchasers and the subscription receipts will be cancelled. This transaction is received to regulatory approval on November 26, 2009.
- (d) On November 26, 2009, the Company graduated from the NEX to the TSX-V and began trading under the symbol "LIT" on the Exchange.
- (e) The Company granted 1,760,000 stock options to directors, officers and consultants of the Company pursuant to its stock option plan. The stock options are exercisable at a price of \$0.20 per share and will expire on October 14, 2014.