XTIERRA INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – prepared by management

Third quarter

For the nine month period ended September 30, 2011

(Expressed in US$000's)

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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XTIERRA INC.

Condensed Interim Consolidated Statement of Financial Position

As at September 30, 2011

(Expressed in US$000's)	Note	September 30, 2011 $	December 31, 2010 $
ASSETS			
Current assets			
Cash and cash equivalents	5	8,275	5,269
Amounts receivable and other	6	253	421
Prepaid expenses	6	26	68
		8,554	5,758
Non-current assets			
Exploration and evaluation assets	8	19,126	16,936
Property, plant and equipment	7	94	26
Prepaid expenses and other non-current assets	9	116	-
		19,336	16,962
		27,890	22,720
LIABILITIES			
Current			
Accounts payable and accruals	10	146	306
Derivative financial liabilities (warrants)	12	859	4,128
Other financial liabilities	12	664	1,254
		1,669	5,688
Non-current liabilities			
Property acquisition obligations	11	1,410	1,268
Other financial liabilities	12	586	453
		1,996	1,721
Total liabilities		3,665	7,409
SHAREHOLDERS' EQUITY			
Capital stock	13	32,755	24,630
Share-based payment reserve	15	2,780	1,062
		35,535	25,692
Deficit		(11,310)	(10,381)
		24,225	15,311
		27,890	22,720

COMMITMENTS AND CONTINGENCIES (Notes 1, 8, 11 and 18)

The financial statements were approved by the Board of Directors on November 23, 2011 and signed on its behalf by:

Signed "John F. Kearney" , Director   Signed "Terence N. McKillen" , Director

See accompanying notes to the condensed interim consolidated financial statements

XTIERRA INC.

Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Loss)
For the three and nine month periods ended September 30,

(Expressed in US$000's, except for per share amounts)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
	$	$	$	$
Expenses				
Share-based payments	-	-	1,729	359
Foreign exchange loss/(gain)	39	28	(109)	68
General and administrative expenses	48	37	124	154
Corporate expenses	50	35	197	177
Professional fees	65	37	196	198
Loss from operations	202	137	2,137	956
Other items				
Interest income	(4)	(10)	(8)	(12)
Change in fair value of convertible notes	(107)	321	(590)	(431)
Change in fair value of derivative financial liabilities (warrants)	(1,221)	(536)	(609)	(460)
Net income (loss) and comprehensive income (loss) for the period	1,130	88	(930)	(53)
Net income (loss) per share – basic and diluted	0.012	0.001	(0.010)	(0.001)
Weighted average common shares outstanding – basic and diluted	94,079,889	64,373,133	93,872,664	64,232,071

See accompanying notes to the condensed interim consolidated financial statements

XTIERRA INC.

Condensed Interim Consolidated Statement of Changes in Equity

For the nine month period ended September 30,

(Expressed in US$000's)	Share Capital $	Share-based payment reserve $	Retained losses $	Total $
Balance as at January 1, 2010	**18,699**	**698**	**(6,763)**	**12,634**
Proceeds on share issue	4,992		-	4,992
Value of warrants granted on private placements	(612)	-	-	(612)
Share issue costs	(235)	-	-	(235)
Recognition of share-based payments	-	382	-	382
Total gain for period	-	-	(53)	(53)
Balance as at September 30, 2010	**22,843**	**1,080**	**(6,816)**	**17,107**
Proceeds on share issue	2,481		-	2,481
Value of warrants granted on private placements	(651)	-	-	(651)
Share issue costs	(109)	-	-	(109)
Exercise of stock options	48	-	-	48
Valuation allocation on exercise of stock options	18	(18)	-	-
Total loss for period	-	-	(3,565)	(3,565)
Balance as at December 31, 2010	**24,630**	**1,062**	**(10,381)**	**15,311**
Proceeds on share issue	1,496	-	-	1,496
Value of warrants granted on private placement	(1,241)	-	-	(1,241)
Exercise of warrants	3,977	-	-	3,977
Valuation allocation on exercise of warrants	3,904	-	-	3,904
Share issue costs	(71)	-	-	(71)
Recognition of share-based payments	-	1,729	-	1,729
Exercise of stock options	49	-	-	49
Valuation allocation on exercise of stock options	11	(11)	-	-
Total loss for period	-	-	(930)	(930)
Balance as at September 30, 2011	**32,755**	**2,780**	**(11,310)**	**24,225**

See accompanying notes to the condensed interim consolidated financial statements

XTIERRA INC.

Condensed Interim Consolidated Statements of Cash Flows
For the nine month period ended September 30,

(Expressed in US$000's)	2011	2010
	$	$
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net (loss) income for the period	(930)	(53)
Share-based payments	1,729	359
Depreciation	20	-
Change in fair value (decrease) of convertible notes	(590)	(431)
Change in fair value (decrease) of warrants	(609)	(460)
Foreign exchange	117	37
Interest income	(8)	(12)
Operating cash flow before movements in working capital	(271)	(560)
Movements in working capital		
(Increase) decrease in amounts receivable and other	95	(85)
(Increase) decrease in accounts payable and accruals	(160)	33
Net cash generated by/(used in) operating activities	(336)	(612)
FINANCING ACTIVITIES:		
Private placements	1,496	4,992
Exercise of warrants	3,977	-
Exercise of options	49	-
Issue costs	(71)	(235)
Net cash generated by financing activities	5,451	4,757
INVESTING ACTIVITIES:		
Interest income	8	12
Investment in exploration and evaluation assets	(1,912)	(2,538)
Expenditures on property, plant and equipment	(88)	-
Net cash used in investing activities	(1,992)	(2,526)
Effect of exchange rate changes on cash and cash equivalents	(117)	(37)
Change in cash and cash equivalents	3,006	1,582
Cash and cash equivalents, beginning of period	5,269	1,675
Cash and cash equivalents, end of period	8,275	3,257

Cash and cash equivalents consist of:		
Cash	1,735	1,088
Cash equivalents	6,540	2,169
	8,275	3,257

See accompanying notes to the condensed interim consolidated financial statements

1. NATURE OF OPERATIONS

Xtierra Inc. (the "Company" or "Xtierra") is a development stage entity. The Company has interests in mineral properties located in Mexico. Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in exploration properties contain mineral reserves which are economically recoverable.

The Company is located at 220 Bay Street, Suite 700, Toronto, Ontario M5J 2W4.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of mineral property interests and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write downs of the carrying values. All of the Company's mining assets are located outside of Canada and are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts and currency exchange fluctuations and restrictions.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it 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. The Company's properties may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and regulatory and environmental requirements.

The Company has undertaken a program of community consultation and intends to negotiate and enter into memoranda of understanding and, later, impact benefits agreement, with the Ejido Pedernalillo indigenous communities living in or adjacent to, or having an interest in or claims to, traditional land use or ownership rights in the Laguna Project Area or who may be impacted by the project.

Basis of measurement and going concern
These consolidated financial statements have been prepared in accordance with IFRS accounting principles applicable to a going concern using the historical cost basis. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

These consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These IFRS condensed interim consolidated financial statements are for the third quarter of the period covered by the first IFRS annual consolidated financial statements to be presented in accordance with IFRS for the year ending December 31, 2011, and IFRS 1 First-Time Adoption of IFRS has been applied. The impact of the transition from Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to IFRS is explained in Note 19.

These condensed interim consolidated financial statements were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting.* They do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Company's first condensed interim consolidated financial statements prepared in accordance with IAS 34 and IFRS for the period ended March 31, 2011, as well as the Company's audited consolidated financial statements for the year ended December 31, 2010 prepared in accordance with Canadian GAAP. The results presented are not necessarily indicative of the results anticipated for the year ending December 31, 2011.

(Expressed in US$000's)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of Preparation

These condensed interim consolidated financial statements have been prepared on a historical cost basis. In Addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except cash flow information. These financial statements are expressed in United States Dollars ("US$").

The accounting policies as described in the first condensed interim consolidated financial statements for the period ended March 31, 2011 have been applied consistently to all periods presented in preparing the opening balance sheet at January 1, 2010 (Note 19) for purposes of transition to IFRS. The accounting policies have been applied consistently by the Company.

The standards and interpretations within IFRS are subject to change and accordingly, the accounting policies for the annual report that are relevant to these condensed interim consolidated financial statements will be finalized only when the first annual IFRS financial statements are prepared for the year ending December 31, 2011.

(c) Accounting Changes

These condensed interim financial statements follow the same accounting policies and methods of their application as the Company's first condensed interim consolidated financial statements prepared in accordance with IAS 34 and IFRS, and as such should be read in conjunction with the Company's condensed interim consolidated financial statements for the three months ended March 31, 2011.

IFRS Standards issued but not yet effective:

IFRS 9	Financial Instruments
IFRS 7 (Amendment)	Financial Instruments: Disclosures
IAS 12 (Amendment)	Income Taxes
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 27 (Amendment)	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures

The Company has not yet determined the impact of these amendments on its financial statements.

3. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

Related Party Transactions	**September 30 2011**	September 30 2010
	$	$
Office and general	77	70
Legal fees	26	43
Professional fees	257	193
	360	306
Directors' Remuneration	175	176
Capitalized as exploration assets	147	121

No Directors fees were paid by the Company to any director of the Company in the nine months ended September 30, 2011 or in the year ended December 31, 2010. Directors' remuneration comprises of administration, geological, investor relations and legal services provided by persons or corporations controlled by persons who are directors.

(Expressed in US$000's)

3. RELATED PARTY TRANSACTIONS (continued)

Name of Subsidiary	Country of Incorporation	Percentage owned	Principal activity
Orca Minerals Limited	Canada	100%	Holding company for Orca Gold International Limited
Orca Gold International Limited	Bahamas	100%	Holding company for Mexican subsidiaries
Bilbao Resources S.A. de C.V.	Mexico	100%	Exploration
Golden Dust S.A. de C.V.	Mexico	100%	Exploration
Minera Orca S.A. de C.V.	Mexico	100%	Exploration
Orca Mining Exploration S.A. de C.V.	Mexico	100%	Exploration
Bilbao Mining S.A. de C.V.	Mexico	100%	Exploration

4. SEGMENTAL ANALYSIS

	Segment result	
	September 30, 2011	September 30, 2010
	$	$
Continuing Operations		
Canada	**(930)**	53
Mexico	**-**	-
Total for continuing operations	**(930)**	53
Income tax	**-**	-
Loss for the period	**(930)**	53

Segment assets and segment liabilities

	Assets	
	September 30, 2011	December 31, 2010
	$	$
Canada	**8,329**	5,297
Mexico	**19,561**	17,423
	27,890	22,720

	Liabilities	
	September 30, 2011	December 31, 2010
	$	$
Canada	**(3,139)**	(6,949)
Mexico	**(526)**	(460)
	(3,665)	(7,409)

	Additions to non-current assets	
	September 30, 2011	September 30, 2010
	$	$
Canada	**-**	-
Mexico	**2,394**	2,721
	2,394	2,721

(Expressed in US$000's)

5. CASH AND CASH EQUIVALENTS

	September 30 2011	December 31 2010
	$	**$**
Cash	1,735	2,796
Cash equivalents	6,540	2,473
Total	8,275	5,269

The currency profile of cash and cash equivalents is as follows:

Canadian Dollars	1,604	3,680
US Dollars	6,512	1,505
Mexican Pesos	159	84
	8,275	5,269

Cash and cash equivalents comprise cash balances held for the purposes of meeting short-term cash commitments and investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Where investments are categorised as cash equivalents, the related balances have a maturity of three months or less from the date of investment. Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the cash requirements of the Company, and earn interest at the respective short-term deposit rates at floating rates.

6. AMOUNTS RECEIVABLE AND OTHER AND PREPAID EXPENSES

	September 30 2011	December 31 2010
	$	**$**
Trade receivables	52	17
Receivable sales taxes	201	404
Prepaid expenses	26	68
	279	489

7. PROPERTY, PLANT AND EQUIPMENT

	September 30 2011	Additions (depreciation)	December 31 2010
	$	$	$
Equipment at cost	137	88	49
Accumulated depreciation	(43)	(20)	(23)
Total	94	68	26

(Expressed in US$000's)

8. EXPLORATION AND EVALUATION ASSETS

The following table shows the mineral property interests:

	September 30 2011	Additions (Write downs)	December 31 2010
	$	$	$
Bilbao	14,071	2,083	11,988
Laguna	2,761	14	2,747
El Dorado	1,103	62	1,041
Other	1,191	31	1,160
Total	19,126	2,190	16,936

The Company has the following investments in exploration and development properties located in the States of Zacatecas and San Luis Potosi, Mexico:

Bilbao
The Company holds a 100% interest in the Bilbao zinc-silver-lead-copper project, subject to a 1.5% net smelter royalty.

Prior to August 2008, the Company was earning into a 75% interest in the Bilbao property.

In August 2008, the Company acquired the outstanding 25% interest in the Bilbao property for total consideration of $5,000 on the following terms:

- payment of $2,500 on the closing date (paid);
- payment of an additional $500 one year after the first payment (paid);
- payment of an additional $500 at the time of commencement of construction of a mine or no later than August 2014;
- payment of an additional $500 on the first anniversary date after the time of commencement of construction of a mine or no later than August 2018;
- payment of an additional $500 on the second anniversary date after the time of commencement of construction of a mine or no later than August 2018; and
- payment of an additional $500 on the third anniversary date after the time of commencement of construction of a mine or no later than August 2018.

The present value of the outstanding future payments of $2,500 as of August 2008 was determined to be approximately $1,023 at the time of the agreement based on a discount rate of 15%. This value has been recorded as a liability of the Company and is being accreted to its face value over the estimated life of the payment obligations.

Laguna
The Company holds a 100% interest in the Laguna silver-gold-mercury tailings development project and has been granted a twenty year concession dated December 10, 2003 by the Comision Nacional del Agua ("Conagua") relating to the extraction rights to six million cubic metres of tailings material, subject to an amount payable to Conagua in the amount MX$11.00 (approximately US$1.00) per cubic metre of tailings.

El Dorado Gold Project
In April 2010, the Company acquired a 100% interest in the El Dorado gold project located in the Pinos district of south-eastern Zacatecas State, Mexico, for payments totalling approximately $930 with the following terms:

- payment of $19 on the signing date (paid);
- payment of $14 on September 7, 2009 (paid);
- payment of $93 on the date the mining concession was transferred (paid);
- payment of $268 on the earlier of January 15, 2014 or the date a feasibility study is completed;
- payment of $268 on January 15, 2015; and
- payment of $268 on January 15, 2016.

(Expressed in US$000's)

8. MINERAL PROPERTY INTERESTS (continued)

If the Company completes a feasibility study with gold reserves in excess of 250,000 ounces or 500,000 ounces, additional payments of $500 or $1,000 respectively, are required.

The present value of the outstanding future payments that total $804 was determined to be approximately $402 at the time of the agreement based on a discount rate of 15%. This value has been recorded as a liability of the Company and is being accreted to its face value over the estimated life of the payment obligations. Since the date of the agreement, mineral property interests include $95 of accretion expense related to this property acquisition obligation.

Other
The Company holds a 100% interest in certain exploration concessions in the Panfilo Natera Mining District in Mexico in three claim groupings: (1) Galore; (2) El Morro; and (3) Milagros.

Financing Option
The Pacific Road Group of Funds ("Pacific Road") holds options negotiated in terms of the Initial Agreement dated September 19, 2007, to provide financing of up to $15,000 and $17,500 directly to the Laguna and Bilbao projects, respectively, to obtain interests of up to 35% and 25% of the Company's interests in such projects, respectively. Such project financings, if advanced, may be converted into common shares of the Company or a subsidiary of the Company based on the 30-day volume weighted average trading price at the time of conversion. A fee of 2.5% will be payable to the Manager/Advisor of Pacific Road on any project financing provided under these options. A director of the Company is an officer of the Manager/Advisor to Pacific Road.

9. PREPAID EXPENSES AND OTHER NON-CURRENT ASSETS

	September 30 2011 $	December 31, 2010 $
Prepaid expenses and other non-current assets	116	-

10. ACCOUNTS PAYABLE AND ACCRUALS

	September 30 2011 $	December 31 2010 $
Trade creditors	40	80
Payable to related parties	31	45
Accrued liabilities	75	181
	146	306

11. NON CURRENT LIABILITIES

Property acquisition obligations (stated at net present cost) due as follows:	**September 30 2011 $**	December 31 2010 $
Between one and two years	-	-
Between two and five years	844	749
After five years	566	519
	1,410	1,268

See Note 8.

(Expressed in US$000's)

12. OTHER FINANCIAL LIABILITIES

Financial liabilities carried at fair value through profit and loss	**September 30 2011 $**	December 31 2010 $
Warrants	859	4,128
Other derivative financial liabilities - current portion of convertible notes	664	1,254
	1,523	5,382
Other financial liabilities - non-current portion of convertible notes	586	453
	2,109	5,835

Warrants

Under Canadian GAAP the Company classified warrants it issued in Canadian dollars to purchase common shares as equity instruments. Under IFRS, warrants issued by the Company to purchase common shares, for a fixed price stated in a currency other than the Company's functional currency and not offered pro rata to all existing shareholders of the same class at the time of issuance, are considered derivative financial liabilities. Such warrants are required to be measured and recognized at fair value with changes subsequent to initial recognition charged to income. The Company has determined fair value using the Black-Scholes option pricing model.

See note 19. Transition to IFRS.

As at September 30, 2011, the Company had the following outstanding share purchase warrants:

	Warrants (000's)	Value of Conversion Option $	Exercise Price $	Expiry Date
	9,000	529	Cdn$0.40 per unit	December 23, 2012
	5,331	330	Cdn$0.40 per unit	January 20, 2013
Total	14,331	859		

Share purchase warrant transactions for the respective periods were as follows:

	Warrants (000's)	Weighted Average Exercise Price Cdn$	Value of Conversion Option $
Balance, December 31, 2010	22,010	0.97	4,128
Granted	5,331	0.40	1,504
Exercised	(12,928)	0.30	(1,948)
Expired	(82)	0.30	(17)
Change in fair value	-	-	(2,808)
Balance, September 30, 2011	14,331	0.39	859

(Expressed in US$000's)

12. OTHER FINANCIAL LIABILITIES (continued)

The key assumptions used in determining the fair value of the warrants were:

	September 30 2011	December 31 2010
Market value of one ordinary share	Cdn$0.22	Cdn$0.43
Exercise price	Cdn$0.40	Cdn$0.34
Term	1.25 years	0.94 year
Risk free rate	1.66%	1.66%
Volatility	103%	103%
Dividend	0%	0%
Warrants outstanding	14,331,210	22,010,000
Fair value of warrants	$ 859,000	$ 4,128,000

Convertible Notes

On April 14, 2009, the Company and Pacific Road entered into an agreement, whereby Pacific Road subscribed for an aggregate principal amount of $1,250 in non-interest bearing notes (the "Notes") issued by Orca Minerals Limited ("Orca Minerals"), a subsidiary of the Company. The Notes have a term of five years and are convertible, at the holders' option, into a number of common shares of Orca Minerals which will equal ten percent (10%) of the issued shares of Orca Minerals on a fully diluted basis.

Pacific Road has a further right to exchange its holdings in Orca Minerals into either: (i) a number of shares of Bilbao Resources, S.A. de C.V. ("Bilbao Resources"), an indirectly-owned Mexican subsidiary of Orca Minerals which holds the Company's interest in the Bilbao project, which will equal ten percent (10%) of the issued shares of Bilbao Resources on a fully diluted basis or (ii) a number of common shares of Xtierra equal to the value of Pacific Road's equity interest in Orca Minerals at the time of exchange divided by the volume-weighted average trading price of Xtierra's shares during a 30-day period prior to such exchange.

If exchanged into shares of Bilbao Resources, the Bilbao Resources shares are further exchangeable into a number of common shares of Xtierra equal to the value of Pacific Road's equity interest in Bilbao Resources at the time of exchange divided by the volume-weighted average trading price of Xtierra's shares during a 30-day period prior to such exchange.

Pacific Road also has a put right, exercisable at its option at any time prior to maturity to require Xtierra to purchase the Notes for a number of common shares equal to the principal amount of the Notes divided by the volume weighted average trading price of Xtierra's common shares during the 30 day period prior to the exercise of such right.

The Notes provide for a minimum conversion price of Cdn$0.10 per Xtierra common share.

Under Canadian GAAP, the Company's convertible note instruments were segregated into debt and equity components at the date of issue, based on the relative fair market values of these components in accordance with the substance of the contractual agreements. The debt component of the instruments were classified as a liability, and recorded as the present value of the Company's obligation to make future payments and settle the redemption value of the instrument. The carrying value of the debt component was accreted to the original face value of the instruments, over the term of the convertible debt instrument, using the effective interest method. The value of the conversion option made up the equity component of the instruments. Under IFRS, the combined fair value of the convertible loan notes has been recorded as a financial liability.

See note 19. Transition to IFRS.

(Expressed in US$000's)

12. OTHER FINANCIAL LIABILITIES (continued)

A director of the Company is an officer of the Manager/Advisor to Pacific Road.

The proceeds from the non-interest bearing loan were initially measured and recorded at fair value. After initial measurement these borrowings are measured at amortized cost using the effective interest rate method. The key assumptions used in determining the fair value of the non interest bearing loan were:

	September 30 2011	December 31 2010
Market value of one ordinary share	Cdn$0.22	Cdn$0.43
Face value of convertible notes	1,250,000	1,250,000
Term	2.54 years	3.29 years
Risk free rate	2.77%	2.77%
Volatility	103%	103%
Current other financial liabilities	$ 664,000	$ 1,254,000
Non-current portion of convertible notes	$ 586,000	$ 453,000

13. CAPITAL STOCK

Common shares

Authorized
Unlimited number of common shares

Issued	Shares (000's)	Amount $
Balance at December 31, 2010	84,867	24,630
Private placement (i)	5,331	1,496
Warrant valuation (i)	-	(1,241)
Share issue costs	-	(71)
Exercise of warrants (ii)	12,999	3,977
Grant date fair value adjustment of warrants exercised	-	3,904
Exercise of stock options	229	49
Exercise of stock options - value reallocation	-	11
Balance at September 30, 2011	103,426	32,755

(i) On January 20, 2011, the Company completed a non-brokered private placement by issuing 5,331,210 Units to Pacific Road Resources Fund Group for gross proceeds of Cdn$1,493,000 ($1,496) at Cdn$0.28 per Unit. Each Unit consists of one common share and one common share purchase warrant, each warrant entitling the holder to purchase one common share at Cdn$0.40 per share for two years

(ii) The Company issued 12,998,929 common shares as a result of the exercise of 12,998,929 warrants at a weighted average exercise price of $0.30 for gross proceeds of Cdn$3,899,679 ($3,977).

(Expressed in US$000's)

14. STOCK OPTIONS

The board of directors has approved a Stock Option Plan for directors, officers, management, employees and other persons who perform ongoing services for the Company or any of its subsidiaries. The purpose of the plan is to attract, retain and motivate these parties by providing them with the opportunity, through share options, to acquire a proprietary interest in the Company and to benefit from its growth.

The maximum number of common shares reserved for issuance upon the exercise of options is not to exceed 10% of the total number of common shares outstanding immediately prior to such an issuance. The options are exercisable over a period not exceeding ten years. The options are non-assignable and may be granted for a term not exceeding ten years. The exercise price of the options is fixed by the board of directors at the market price of the shares at the time of grant, subject to all applicable regulatory requirements.

On April 27, 2011, the Company granted 4,225,000 stock options to directors, officers and employees pursuant to its Stock Option Plan. These options vested on the date of the grant. The grant fair value of these options is $1,729 which has been recorded to stock-based compensation and share-based payment reserve. The following assumptions were used in calculating the fair value of options granted, using the Black-Scholes option pricing model: expected dividend yield of 0%, expected volatility of 103%, risk-free interest rate of 2.5% and expected life of five years. Directors and officers were granted 2,700,000 stock options.

As at September 30, 2011, the Company had the following outstanding stock options:

	Number of Options Granted and Exercisable at September 30, 2011	Estimated Grant Date Fair Value	Exercise Price	Expiry Date
	(000's)	$		
	2,250	693	Cdn$0.50	May 23, 2013
	2,351	358	Cdn$0.21	February 15, 2015
	4,225	1,729	Cdn$0.51	April 27, 2016
Total	8,826	2,780		

The weighted average remaining contractual life of options outstanding at September 30, 2011 is 3.2 years.

The weighted average exercise price for options that are exercisable at September 30, 2011 amounted to $0.43 per option.

The weighted average grant date fair value of options granted during the period ended September 30, 2011 was $0.39 per option.

Stock option transactions for the respective periods were as follows:

	Number of Options	Weighted Average Exercise Price
	(000's)	Cdn$
Balance, December 31, 2010	4,830	0.34
Granted	4,225	0.51
Exercised	(229)	0.20
Balance, September 30, 2011	8,826	0.43

During the period ended September 30, 2011, the weighted average exercise price and grant date fair value of options were granted at an exercise price equal to or above the quoted market value of the Company's shares.

(Expressed in US$000's)

15. SHARE-BASED PAYMENT RESERVE

	September 30 2011 $
Balance, December 31, 2010	1,062
Value attributed to stock options granted during the period - employees	1,729
Exercise of stock-based compensation options	(11)
Balance, September 30, 2011	2,780

16. FINANCIAL INSTRUMENTS

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. There have been no significant changes in the risks or the Company's objectives, policies and procedures related to risk management during 2011 and 2010.

The principal risks to which the Company is exposed to are described below.

Fair value
The carrying amounts for cash and cash equivalents, amounts receivable and other, prepaid expenses and accounts payable and accrued liabilities on the consolidated balance sheets approximate fair value because of the limited term of these instruments.

Capital Risk:
The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain and explore its mineral properties. The capital structure of the Company consists of cash, cash equivalents and capital stock.

Credit Risk:
Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owed or owing by the Company. Management's assessment of the Company's risk is low as it is primarily attributable to funds held in Canadian banks, government sales taxes recoverable from the Government of Canada, and IVA taxes recoverable from the Mexican government, which are included in amounts receivable and other. Management expects the IVA taxes recorded in amounts receivable to be fully recoverable.

Liquidity Risk:
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At September 30, 2011, the Company had cash and cash equivalents of $8,275 to settle current liabilities of $1,669. Accordingly, the Company is able to meet its current obligations.

Market Risk:
Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Company is exposed to these risks as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals.

Price Risk:
The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Price risk is remote since the Company is not a producing entity.

Interest Rate Risk:
The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by major Canadian banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

16. FINANCIAL INSTRUMENTS (continued)

Foreign Currency Risk:
The Company is subject to foreign exchange risk as some of its operating, investing and financing activities are transacted in currencies other than the United States ("US") dollar. The Company is therefore subject to gains and losses due to fluctuations in these currencies relative to the U.S. dollar. As at September 30, 2011, the Company held Canadian monetary assets and liabilities totalling approximately Cdn$1,646,000 ($1,594), and Mexican monetary assets and liabilities totalling approximately MXN$4,074,000 ($301).

Sensitivity Analysis:
The Company has designated its cash equivalents, warrants and other financial liabilities as held-for-trading, which are measured at fair value. Financial instruments included in cash and amounts receivable and other are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accruals are classified as other financial liabilities, which are measured at amortized cost.

The carrying and fair value amounts of the Company's financial instruments are approximately the same at the statement of financial position dates.

The Company holds approximately Cdn$1,646,000 ($1,594) in financial assets and liabilities. A one percent change in the Canadian - US foreign exchange rates could result in a foreign exchange impact of approximately $16 based on monetary assets and liability balances existing at September 30, 2011.

The Company holds approximately Mxn$4,074,000 ($301) in financial assets and liabilities. A one percent change in the Mexican - US foreign exchange rates could result in a foreign exchange impact of approximately $3 based on monetary assets and liability balances existing at September 30, 2011.

A one percent change in interest rates will result in a corresponding change in interest income of approximately $65 based on cash and cash equivalent balances existing at September 30, 2011.

Fair Value Hierarchy and Liquidity Risk Disclosure:
The fair value hierarchy have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At September 30, 2011, the Company's financial instruments that are carried at fair value, consisting of cash equivalents have been classified as Level 2 within the fair value hierarchy.

17. CAPITAL MANAGEMENT

The Company's capital structure consists of its capital stock, convertible notes, property acquisition obligation, warrants and share-based payment reserve.

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, exploration and development of mineral properties. The board of directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration and development stages; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will utilize its existing working capital and seek to raise additional amounts as needed through the issue of common shares or other securities.

The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There have been no changes to the Company's capital management during 2011.

(Expressed in US$000's)

18. COMMITMENTS AND CONTINGENCIES

The Company's mining and exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

19. TRANSITION TO IFRS

An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position and comprehensive loss is set out in this note.

The accounting policies set out in note 3 have been applied in preparing the condensed interim consolidated financial statements for the period ended September 30, 2011, the comparative information presented in these financial statements for the period ended September 30, 2010, and in the preparation of the opening IFRS statement of financial position as at January 1, 2010 "Transition Date".

IFRS 1 "First-time Adoption of International Financial Reporting Standards" (IFRS 1)
IFRS 1 generally requires that first-time adopters retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date. IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions to this general principle.

The Company has elected under IFRS 1 to not apply the following:

- IFRS 2 – *Share-Based Payments*, to equity instruments which vested before the Company's date of transition to IFRS. The Company will elect not to apply IFRS 2 to equity instruments which vested before the Company's Transition Date.
- IFRS 3 – *Business Combinations*, option to apply retrospectively or prospectively from the Transition Date. The Company elected to apply IFRS 3 prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company did not apply IFRS 3 retrospectively to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying this exemption.
- IAS 32 - *Compound Financial Instruments*, not revalue compound financial instruments where the liability component does not exist as of the Transition Date.

Adjustments on transition to IFRS
IFRS has many similarities with Canadian GAAP as it is based on a similar conceptual framework. However, there are important differences with regard to recognition, measurement and disclosure. While adoption of IFRS did not change the Company's actual cash flows, it resulted in changes to the Company's condensed interim consolidated statement of financial position, condensed interim consolidated statements of operations and comprehensive loss and condensed interim consolidated statement of changes in equity as set out below.

Financial Liabilities - Warrants
Under Canadian GAAP the Company classified warrants it issued in Canadian dollars to purchase common shares as equity instruments. Under IFRS, warrants issued by the Company to purchase common shares, for a fixed price stated in a currency other than the Company's functional currency and not offered pro rata to all existing shareholders of the same class at the time of issuance, are considered derivative financial liabilities. Such warrants are required to be measured and recognized at fair value with changes subsequent to initial recognition charged to income. The Company has determined fair value using the Black-Scholes option pricing model.

Impact on Consolidated Statement of Financial Position

	December 31, 2010	September 30, 2010	January 1, 2010
Other financial liabilities – warrants	**4,128**	**152**	**20**
Warrants	**(1,263)**	**(612)**	**(1,316)**
Adjustment to deficit	**(2,865)**	**460**	**1,296**

(Expressed in US$000's)

19. TRANSITION TO IFRS (continued)

Warrants

On transition to IFRS the Company elected to change its accounting policy for the treatment of warrants whereby amounts recorded for expired warrants are transferred to deficit. Previously, the Company's Canadian GAAP policy was to transfer such amounts in contributed surplus.

Impact on Consolidated Statement of Financial Position

	December 31, 2010	September 30, 2010	January 1, 2010
Contributed surplus	**(1,320)**	**(10)**	**(4)**
Adjustment to deficit	**1,320**	**10**	**4**

Share-based payments

On transition to IFRS the Company elected to change its accounting policy for the treatment of share-based payments whereby amounts recorded for expired unexercised stock options are transferred to deficit. Previously, the Company's Canadian GAAP policy was to leave such amounts in contributed surplus.

Impact on Consolidated Statement of Financial Position

	December 31, 2010	September 30, 2010	January 1, 2010
Share-based payments reserve	**1,062**	**1,080**	**698**
Contributed surplus	**(1,062)**	**(1,080)**	**(698)**
Adjustment to deficit	-	-	-

Financial Liabilities – Convertible loan notes

Under Canadian GAAP, the Company's convertible debt instruments were segregated into debt and equity components at the date of issue, based on the relative fair market values of these components in accordance with the substance of the contractual agreements. The debt component of the instruments were classified as a liability, and recorded as the present value of the Company's obligation to make future payments and settle the redemption value of the instrument. The carrying value of the debt component was accreted to the original face value of the instruments, over the term of the convertible debt instrument, using the effective interest method. The value of the conversion option made up the equity component of the instruments. Under IFRS, the entire carrying value of the convertible loan notes has been recorded as a financial liability.

Financial Liabilities - Notes	**December 31, 2010**	**September 30, 2010**	**January 1, 2010**
Other derivative financial liabilities	1,254	1,091	1,522
Convertible notes obligation	(336)	(325)	(347)
Convertible notes equity portion	(623)	(623)	(623)
Adjustment to deficit	(295)	(143)	(552)

Mineral property interests

Under Canadian GAAP the fair value allocation on acquisition of mineral properties, treated as asset acquisitions, included a gross-up of deferred tax on the allocated fair value with the debit entry capitalized to the mineral property and the credit entry accounted for as a future income tax (deferred tax) liability. An IFRS adjusting entry in the amount of $2,494 was processed on the January 1, 2010 balance sheet to eliminate the future income tax entry accounted for on acquisition of mineral properties, reducing the carrying value of the exploration and evaluation assets.

(Expressed in US$000's)

19. TRANSITION TO IFRS (continued)

Future income taxes (deferred taxes)

In addition to the adjustment to future income taxes as noted above, an additional adjustment was processed to eliminate the future income tax liability recognized under Canadian GAAP on the temporary difference between the accounting and tax base of mineral properties. Under IFRS, deferred taxes should not be recognized for the acquisition of assets that do not constitute a business combination and had no statement of operations impact on initial recognition.

Exploration and Evaluation Assets	December 31, 2010	September 30, 2010	January 1, 2010
Exploration and evaluation assets	(3,563)	(3,358)	(3,267)
Future income tax liability	3,092	2,583	2,494
Adjustment to deficit	(471)	(775)	(773)

Reconciliation to previously reported financial statements

A reconciliation of the above noted changes is included in the following Statements of Financial Position and Statement of Operations and Comprehensive Income (Loss). The effects of transition from Canadian GAAP to IFRS on the cash flow are immaterial. Therefore, a reconciliation of cash flows has not been presented.

- Reconciliation of consolidated statement of financial position as of January 1, 2010.
- Reconciliation of consolidated statement of financial position as of September 30, 2010.
- Reconciliation of consolidated statement of operations and comprehensive loss (income) for the three months ended September 30, 2010.
- Reconciliation of consolidated statement of financial position as of December 31, 2010.
- Reconciliation of consolidated statement of operations and comprehensive loss for the twelve months ended December 31, 2010.

(Expressed in US$000's)

Reconciliation of consolidated statement of financial Position as at January 1, 2010

	Canadian GAAP	IFRS reclassifications	IFRS
ASSETS			
Current assets			
Cash and cash equivalents	1,675	-	1,675
Amounts receivable and other	8	-	8
Prepaid expenses	19	-	19
	1,702	-	1,702
Non-current assets			
Exploration and evaluation assets	16,882	(3,300)	13,582
Property, plant and equipment	-	33	33
	16,882	(3,267)	13,615
Total assets	18,584	(3,267)	15,317
LIABILITIES			
Current			
Accounts payable and accruals	93		93
Warrants	-	20	20
Other financial liabilities	-	1,522	1,522
	93	1,542	1,635
Non-current liabilities			
Property acquisition obligations	715	-	715
Other financial liabilities	680	(347)	333
Deferred tax liabilities	2,494	(2,494)	-
	3,889	(2,841)	1,048
SHAREHOLDER'S EQUITY			
Capital stock	18,699	-	18,699
Convertible notes	623	(623)	-
Warrants	1,316	(1,316)	-
Contributed surplus	702	(702)	-
Share-based payment reserve	-	698	698
	21,340	(1,943)	19,397
Deficit	(6,738)	(25)	(6,763)
	14,602	(1,968)	12,634
	18,584	(3,267)	15,317

(Expressed in US$000's)

Reconciliation of consolidated statement of financial Position as at September 30, 2010

	Canadian GAAP	IFRS reclassifications	IFRS
ASSETS			
Current assets			
Cash and cash equivalents	3,257	-	3,257
Amounts receivable and other	46	-	46
Prepaid expenses	66	-	66
	3,369	-	3,369
Non-current assets			
Exploration and evaluation assets	20,098	(3,358)	16,740
Property, plant and equipment	-	26	26
	20,098	(3,332)	16,766
Total assets	23,467	(3,332)	20,135
LIABILITIES			
Current			
Accounts payable and accruals	125	-	125
Warrants	-	152	152
Other financial liabilities	-	1,091	1,091
	125	1,243	1,368
Non-current liabilities			
Property acquisition obligations	1,227	-	1,227
Other financial liabilities	758	(325)	433
Deferred tax liabilities	2,583	(2,583)	-
	4,568	(2,908)	1,660
SHAREHOLDER'S EQUITY			
Capital stock	22,761	82	22,843
Convertible notes	623	(623)	-
Warrants	694	(694)	-
Contributed surplus	2,378	(2,378)	-
Share-based payment reserve	-	1,080	1,080
	26,456	(2,533)	23,923
Deficit	(7,682)	866	(6,816)
	18,774	(1,667)	17,107
	23,467	(3,332)	20,135

(Expressed in US$000's)

Reconciliation of consolidated statement of operations and comprehensive loss (income) for the nine months ended September 30, 2010

	Canadian GAAP	IFRS reclassifications	IFRS
Expenses			
Share-based payments	359	-	359
Foreign exchange	68	-	68
General and administrative expenses	154	-	154
Corporate expenses	177	-	177
Professional fees	198	-	198
	956	-	956
Other items			
Interest income	(12)	-	(12)
Change in fair value of convertible notes	-	(431)	(431)
Change in fair value of warrants	-	(460)	(460)
Net loss and comprehensive loss for the period	944	(891)	53

Reconciliation of consolidated statement of operations and comprehensive loss (income) for the three months ended September 30, 2010

	Canadian GAAP	IFRS reclassifications	IFRS
Expenses			
Share-based payments	-	-	-
Foreign exchange	28	-	28
General and administrative expenses	37	-	37
Corporate expenses	35	-	35
Professional fees	37	-	37
	137	-	137
Other items			
Interest income	(10)	-	(10)
Change in fair value of convertible notes	-	321	321
Change in fair value of warrants	-	(536)	(536)
Net loss and comprehensive loss for the period	127	(215)	(88)

(Expressed in US$000's)

Reconciliation of consolidated statement of financial position as at December 31, 2010

	Canadian GAAP	IFRS reclassifications	IFRS
ASSETS			
Current assets			
Cash and cash equivalents	5,269	-	5,269
Amounts receivable and other	421	-	421
Prepaid expenses	68	-	68
	5,758	-	5,758
Non-current assets			
Exploration and evaluation assets	20,525	(3,589)	16,936
Property, plant and equipment	-	26	26
	20,525	(3,563)	16,962
Total assets	26,283	(3,563)	22,720
LIABILITIES			
Current			
Accounts payable and accruals	306	-	306
Warrants	-	4,128	4,128
Other financial liabilities	-	1,254	1,254
	306	5,382	5,688
Non-current liabilities			
Property acquisition obligations	1,268	-	1,268
Other financial liabilities	789	(336)	453
Deferred tax liabilities	3,092	(3,092)	-
	5,149	(3,428)	1,721
SHAREHOLDER'S EQUITY			
Capital stock	24,630	-	24,630
Convertible notes	623	(623)	-
Warrants	1,263	(1,263)	-
Contributed surplus	2,382	(2,382)	-
Share-based payment reserve	-	1,062	1,062
	28,898	(3,206)	25,692
Deficit	(8,070)	(2,311)	(10,381)
	20,828	(5,517)	15,311
	26,283	(3,563)	22,720

(Expressed in US$000's)

Reconciliation of consolidated statement of operations and comprehensive loss for the twelve months ended December 31, 2010

	Canadian GAAP	IFRS reclassifications	IFRS
Expenses			
Share-based payments	382	-	382
Foreign exchange	(31)	-	(31)
General and administrative expenses	199	-	199
Corporate expenses	216	-	216
Professional fees	277	-	277
	1,043	-	1,043
Other items			
Interest income	(13)	-	(13)
Change in fair value of convertible notes	-	(268)	(268)
Change in fair value of warrants	-	2,865	2,865
Loss before income taxes	1,030	2,597	3,627
Future income taxes	302	(302)	-
Net loss and comprehensive loss for the year	1,332	2,295	3,627