XTIERRA INC.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and December 31, 2010

(Expressed in US$000's)

XTIERRA INC.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and December 31, 2010

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Xtierra Inc.

We have audited the accompanying consolidated financial statements of Xtierra Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Xtierra Inc. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010, and their financial performance and cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 25, 2012

XTIERRA INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31,

(Expressed in US$000's)	Note	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
ASSETS				
Current assets				
Cash and cash equivalents	6	7,782	5,269	1,675
Amounts receivable and other	7	195	421	8
Prepaid expenses	7	15	68	19
Total current assets		7,992	5,758	1,702
Non-current assets				
Exploration and evaluation assets	9	19,826	16,936	13,582
Property, plant and equipment	8	99	26	33
Prepaid expenses and other non-current assets	10	109	-	-
Total non-current assets		20,034	16,962	13,615
Total assets		28,026	22,720	15,317
LIABILITIES				
Current				
Accounts payable and accruals	11	233	306	93
Derivative financial instruments (warrants)	13	358	4,128	20
Derivative financial instruments (convertible notes)	13	623	1,254	1,522
Total current liabilities		1,214	5,688	1,635
Non-current liabilities				
Property acquisition obligations	12	1,457	1,268	715
Derivative financial instruments (convertible notes)	13	627	453	333
Total non-current liabilities		2,084	1,721	1,048
Total liabilities		3,298	7,409	2,683
SHAREHOLDERS' EQUITY				
Capital stock	14	33,594	24,630	18,699
Share-based payment reserve	16	2,780	1,062	698
Deficit		(11,646)	(10,381)	(6,763)
Total shareholders' equity		24,728	15,311	12,634
Total liabilities and shareholders' equity		28,026	22,720	15,317

COMMITMENTS AND CONTINGENCIES (Notes 1, 9, 12 and 20)

The financial statements were approved by the Board of Directors on March 21, 2012 and signed on its behalf by:

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

See accompanying notes to the consolidated financial statements.

XTIERRA INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31,

(Expressed in US$000's, except for per share amounts)		2011	2010
		$	$
Expenses			
Share-based payments	16	1,729	382
Foreign exchange gain		(166)	(31)
General and administrative expenses		112	199
Corporate expenses		240	216
Professional fees		264	277
Loss from operations		2,179	1,043
Other items			
Interest income		(12)	(13)
Change in fair value of convertible notes	13	(631)	(277)
Change in fair value of warrants	13	(271)	2,865
Net loss and comprehensive loss for the year		1,265	3,618
Net loss per share – basic and diluted		0.013	0.051
Weighted average common shares outstanding – basic and diluted		100,679,727	70,926,044

See accompanying notes to the consolidated financial statements.

XTIERRA INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(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	7,473		-	7,473
Value of warrants issued on private placements	(1,263)	-	-	(1,263)
Recognition of share-based payments	-	382	-	382
Share issue costs	(345)	-	-	(345)
Exercise of stock options	48	-	-	48
Valuation allocation on exercise of stock options	18	(18)	-	-
Total loss for year	-	-	(3,618)	(3,618)
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 issued on private placement	(426)	-	-	(426)
Exercise of warrants	3,977	-	-	3,977
Valuation allocation on exercise of warrants	3,929	-	-	3,929
Share issue costs	(71)	-	-	(71)
Recognition of share-based payments	-	1,729	-	1,729
Exercise of stock options	48	-	-	48
Valuation allocation on exercise of stock options	11	(11)	-	-
Total loss for year	-	-	(1,265)	(1,265)
Balance as at December 31, 2011	**33,594**	**2,780**	**(11,646)**	**24,728**

See accompanying notes to the consolidated financial statements.

XTIERRA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

(Expressed in US$000's)	2011 $	2010 $
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net (loss) income for the period	(1,265)	(3,618)
Share-based payments	1,729	382
Depreciation	19	-
Change in fair value of convertible notes	(631)	(277)
Change in fair value of warrants	(271)	2,865
Foreign exchange	91	(224)
Interest income	(12)	(13)
Operating cash flow before movements in working capital	(340)	(885)
Movements in working capital		
Decrease (increase) in amounts receivable and other and prepaids	171	(100)
Increase (decrease) in accounts payable and accruals	(183)	48
Net cash used in operating activities	(352)	(937)
FINANCING ACTIVITIES:		
Private placements	1,496	7,473
Exercise of warrants	3,977	-
Exercise of options	48	48
Issue costs	(71)	(244)
Net cash generated by financing activities	5,450	7,277
INVESTING ACTIVITIES:		
Interest income	12	13
Investment in exploration and evaluation assets	(2,414)	(2,983)
Expenditures on property, plant and equipment	(92)	-
Net cash used in investing activities	(2,494)	(2,970)
Effect of exchange rate changes on cash and cash equivalents	(91)	224
Change in cash and cash equivalents	2,513	3,594
Cash and cash equivalents, beginning of period	5,269	1,675
Cash and cash equivalents, end of period	7,782	5,269

Cash and cash equivalents consist of:		
Cash	1,233	2,796
Cash equivalents	6,549	2,473
	7,782	5,269
SUPPLEMENTAL INFORMATION		
Income taxes paid	-	-
Interest paid	-	-
Accretion on property acquisitions obligations	191	151
Accretion on convertible notes obligation	174	120
Property acquisition obligation	-	402
Change in accrued mineral property interests	110	64
Change in amounts receivable in mineral property interests	-	(362)

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS

Xtierra Inc. (the "Company" or "Xtierra") has interests in exploration and evaluation 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's head office 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, currency exchange fluctuations and restrictions, and political uncertainty.

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.

Basis of measurement and going concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern. 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. BASIS OF PREPARATION AND ADOPTION OF IFRS

These consolidated financial statements of the Company and its subsidiaries represent the first annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with International Accounting Standard ("IAS") 1, *Presentation of Financial Statements* and IFRS 1, *First-time Adoption of IFRS*. These consolidated financial statements have been prepared in compliance with IFRS and in accordance with the accounting policies described in Note 3, Summary of Significant Accounting Policies. The policies set out below were consistently applied to all the periods presented, unless otherwise noted.

These consolidated financial statements have been prepared on a historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except cash flow information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Company. All material intra-Company transactions, balances, income and expenses are eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Intangible assets

Exploration and evaluation assets

Exploration expenditure relates to the search for precious and base metals in Mexico. Evaluation expenditure arises from a detailed assessment of deposits that have been identified as having economic potential.

The costs of exploration properties and leases, which include the cost of acquiring prospective properties and exploration rights and costs incurred in exploration and evaluation activities, are capitalised as intangible assets as part of exploration and evaluation assets.

Exploration costs are capitalised as an intangible asset until technical feasibility and commercial viability of extraction of reserves are demonstrable, at which point the capitalised exploration costs are re-classified to mineral property interests. Exploration costs include an allocation of administration and salary costs (including share-based payments) as determined by management, where they relate to specific projects.

Prior to reclassification to mineral property interests, exploration and evaluation assets are assessed for impairment and any impairment loss is recognised immediately in the statement of comprehensive income (loss).

(c) Property, plant and equipment

Property, plant and equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use, along with the future cost of dismantling and removing the asset.

Property, plant and equipment is amortized over the estimated useful life of the assets using the declining balance method at rates of 20% to 30% per annum, as appropriate. Depreciation methods and useful lives are reviewed at each reporting date and adjusted as required.

(d) Asset retirement obligations

The Company will record a liability for the estimated future costs associated with legal and constructive obligations relating to the reclamation and closure of its mining properties. This amount is initially recorded at its discounted present value with subsequent annual recognition of an accretion expense on the discounted liability. An equivalent amount is recorded as an increase to exploration and evaluation properties and amortized over the useful life of the properties. Management is currently not aware of any existing significant asset retirement obligations and the Company does not currently have any legal or constructive obligations relating to the reclamation of its exploration and evaluation assets and property, plant and equipment at December 31, 2011, December 31, 2010 and January 1, 2010.

(e) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, deposits in banks and highly liquid investments having original terms to maturity of 90 days or less when acquired. Term deposits can be redeemed at any time without interest or penalty.

(f) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) **Financial assets at fair value through profit or loss:** Financial assets classified as held-for-trading are included in the category financial assets at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Gains or losses on these items are recognized in profit or loss. The Company's cash equivalents are classified as financial assets measured at fair value through profit or loss.

(ii) **Financial liabilities at fair value through profit or loss:** Financial liabilities classified as fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as a fair value through profit or loss. Derivatives, including separable embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as fair value through profit or loss are recognized in profit or loss. The Company's share purchase warrants are classified under IFRS as financial liabilities measured at fair value through profit or loss as a result of their exercise price being denominated in Canadian dollars, being a currency other than the Company's functional currency of US dollars. Certain other financial instruments (conversion option component of the convertible notes) are classified under IFRS as financial liabilities measured at fair value through profit or loss as a result of the conversion option being convertible into an other than fixed number of common shares of the Company.

(iii) **Available-for-sale investments:** Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not have any instruments classified in this category. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the statement of operations and are included in other gains and losses.

(iv) **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and amounts receivable and other due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(v) **Financial liabilities at amortized cost:** Financial liabilities at amortized cost include accounts payable and accruals and certain other financial instruments (debt component of the convertible notes). Financial liabilities at amortized cost are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, financial liabilities at amortized cost are measured using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

(g) Convertible notes

On issuance of the convertible notes, the Company determined the debt component of the convertible notes to be a financial liability at amortized cost, and the conversion option component of the convertible notes to be a financial liability at fair value through profit or loss. The proceeds received were bifurcated between the debt component and the conversion option component based on the estimated fair value of each component on the date of issuance.

Subsequent to initial recognition, the debt component is measured at amortized cost using the effective interest method, and the conversion option component is recorded at its estimated fair value at each reporting date, with changes in fair value being included in the Statement of Operations and Comprehensive Income (Loss).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Functional and presentation currency

The functional currency of the Company is the US Dollar. For the purpose of the consolidated financial statements, the results and financial position of each company are expressed in US Dollars (the Company's presentation currency). In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the Statement of Financial Position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was re-determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the Statement of Operations and Comprehensive Loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the Statement of Operations and Comprehensive Loss for the period.

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(i) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The Company records compensation cost based on the fair value method of accounting for share-based payments. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as share-based payments and share-based payment reserve. When options are exercised, the proceeds received, together with any related amount in share-based payment reserve, will be credited to capital stock. On expiry, any related amount in share-based payment reserve will be credited to deficit.

(j) Operating loss

Operating loss comprises of general administrative costs incurred by the Company, which are not specific to evaluation and exploration projects and all impairment charges relating to intangible assets and financial assets during the period. Operating loss is stated before finance income, finance costs and other gains and losses.

(k) Derivative Financial Instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each Statement of Financial Position date. The resulting gain or loss is recognised in the profit or loss immediately. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

(l) Critical accounting judgements and key sources of estimation uncertainty

Critical accounting judgements
In the process of applying the Company's accounting policies above, management has identified the judgemental areas that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations), which are dealt with below:

Exploration and evaluation
The assessment of whether general administration costs and salary costs are capitalised or expensed involves judgement. Management consider the nature of each cost incurred and whether it is deemed appropriate to capitalise it within intangible assets. Costs which can be demonstrated as project related are included within exploration and evaluation assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Critical accounting judgements and key sources of estimation uncertainty (continued)

Exploration and evaluation (continued)
Exploration and evaluation assets relate to prospecting, exploration and related expenditures in Mexico. The Company's exploration activities are subject to a number of significant and potential risks including:

- exploration, development and operating risk
- no assurance of production
- factors beyond the Company's control
- failure to obtain additional financing
- insurance and uninsured risks
- environmental risks and hazards
- government regulation and permitting
- delays
- infrastructure
- price volatility of publicly traded securities
- fluctuating mineral prices
- foreign currency fluctuations

The recoverability of these intangible assets is dependent on the discovery and successful development of economic reserves, including the ability to raise financing to develop future projects. Should this prove unsuccessful, the value included in the Statement of Financial Position would be written off to the Statement of Operations and Comprehensive Loss.

Key sources of estimation uncertainty
Preparation of financial statements requires directors to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the Statement of Financial Position date and the amounts reported for revenues and expenses during the period. The nature of estimation means that actual outcomes could differ from those estimates. The key sources of estimation uncertainty are discussed below:

Mineral reserve estimates
The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

Estimation of asset retirement obligations and the timing of expenditure
The cost estimates are updated annually during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

Share-based payments
Estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of options granted and the time of exercise of those options. The model used by the Company is the Black-Scholes valuation model.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Critical accounting judgements and key sources of estimation uncertainty (continued)

Warrants
The fair value of the share purchase warrants is estimated at the issue date using the Black-Scholes option pricing model with estimates of the volatility based on the Company's historical common share trading prices, expected dividend yield and a risk-free interest rate. Such warrants are required to be measured and recognized at fair value with changes subsequent to initial recognition charged to income. Estimation of the fair value of the warrants requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of warrants granted and the time of exercise of those warrants. The model used by the Company is the widely used Black-Scholes valuation model, which was developed for applications very different from the valuation of the Company's share purchase warrants and contains characteristics that are significantly different from those of traded warrants. Changes in any of the assumptions used can materially affect fair value estimates.

Convertible notes
Convertible notes have been bifurcated into their debt component and conversion option component 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 convertible notes is classified as a liability, and recorded as the estimated 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 is accreted to the original face value of the notes, over the term of the instrument, using the effective interest method.

The value of the conversion option component of the convertible notes was determined under IFRS to be a derivative financial liability because the conversion option is for other than a fixed number of common shares, and has been recorded as other derivative financial liabilities (current) on the Statement of Financial Position.

Income taxes and recoverability of potential deferred tax assets
In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers relevant tax planning opportunities that are within the Company's control, are feasible and within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Impairment of intangible assets
The assessment of intangible assets for any indications of impairment involves judgement. If an indication of impairment exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds recoverable amount. Recoverable amount is determined as the higher of fair value less costs to sell and value in use. The assessment requires judgement as to the likely future commerciality of the asset and when such commerciality should be determined; future revenues, capital and operating costs and the discount rate to be applied to such revenues and costs.

(m) Impairment of non-financial assets

Non-financial assets are evaluated at least annually by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present the recoverable amount of an asset is evaluated at the level of a cash generating unit (CGU), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in income to the extent that the carrying amount exceeds the recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of non-financial assets (continued)

In calculating recoverable amount the Company uses discounted cash flow techniques to determine fair value when it is not possible to determine fair value either by quotes from an active market or a binding sales agreement. The determination of discounted cash flows is dependent on a number of factors, including future metal prices, the amount of reserves, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures, and site closure, restoration and environmental rehabilitation costs. Additionally, the reviews take into account factors such as political, social and legal and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount. The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions concerning reserves and expected future production revenues and expenses.

(n) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise or indicators that a debtor will enter bankruptcy.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(o) Income (loss) per share

Basic income (loss) per share is calculated using the weighted average number of shares outstanding. Diluted income (loss) per share is calculated using the treasury stock method. In order to determine diluted income (loss) per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted income (loss) per share calculation. The diluted income (loss) per share calculation excludes any potential conversion of options, warrants and other convertible securities that would decrease income (loss) per share, as a result, all outstanding convertible securities at December 31, 2011 and 2010 have been excluded from diluted loss per share.

(p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred 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 bases. Deferred tax assets and liabilities are measured using enacted or 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. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(r) New standards and interpretations not yet adopted

At the date of authorization of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 9 *Financial Instruments* ("IFRS 9") was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 9 on its financial statements.

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 *Consolidated and Separate Financial Statements*. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its financial statements.

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces the guidance in IAS 31 *Interests in Joint Ventures*. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 *Investments in Associates* and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening deficit at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 11 on its financial statements

IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 12 on its financial statements.

(Expressed in US$000's except for per share amounts)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 13 *Fair Value Measurement* ("IFRS 13") converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its financial statements.

4. 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 were as follows:

Related Party Transactions	**December 31 2011**	December 31 2010
	$	$
Office expenses	39	38
Administrative expenses	63	89
Professional fees	410	381
Share-based payment	1,053	302
Key Management personnel Remuneration	1,526	772
Capitalized as exploration assets	194	212

No fees were paid by the Company to directors for their services as directors of the Company in the years ended December 31, 2011 or December 31, 2010. Key management personnel remuneration comprises payments, including share based payments, for administration, geological, investor relations and legal services provided by persons, or corporations controlled by persons, who are directors or provided by any other person with the authority and responsibility for planning, directing and controlling the activities of the Company.

Included in accounts payable and accruals at December 31, 2011 is $4 (2010 - $85) due to related parties. These balances are due on demand, unsecured and non-interest bearing (Note 11).

The subsidiaries of the Company at December 31, 2011 were as follows:

Name of Subsidiary	**Country of Incorporation**	**Percentage owned**	**Principal activity**
Orca Minerals Limited	Canada	100%	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

(Expressed in US$000's except for per share amounts)

5. SEGMENTAL ANALYSIS

	Segment result	
	December 31 2011	December 31 2010
	$	$
Continuing Operations		
Canada	**(1,265)**	(3,618)
Mexico	**-**	-
Total for continuing operations	**(1,265)**	(3,618)
Income tax	**-**	-
Loss for the period	**(1,265)**	(3,618)

Segment assets and segment liabilities	Assets		
	December 31 2011	December 31, 2010	January 1, 2010
	$	$	$
Canada	**7,825**	5,297	1,599
Mexico	**20,201**	17,423	13,718
	28,026	22,720	15,317

	Additions to non-current assets	
	December 31 2011	December 31 2010
	$	$
Canada	**-**	-
Mexico	**3,071**	3,347
	3,071	3,347

	Liabilities		
	December 31 2011	December 31, 2010	January 1, 2010
	$	$	$
Canada	**(2,763)**	(6,949)	(2,674)
Mexico	**(535)**	(460)	(9)
	(3,298)	(7,409)	(2,683)

(Expressed in US$000's except for per share amounts)

6. CASH AND CASH EQUIVALENTS

	December 31 2011 $	December 31 2010 $	January 1 2010 $
Cash	1,233	2,796	234
Cash equivalents	6,549	2,473	1,441
Total	7,782	5,269	1,675

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

Canadian Dollars	1,422	3,680	1,265
US Dollars	6,214	1,505	311
Mexican Pesos	146	84	99
	7,782	5,269	1,675

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 categorized as cash equivalents, the related balances have a maturity of three months or less from the date of investment. Cash in the 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.

7. AMOUNTS RECEIVABLE AND OTHER AND PREPAID EXPENSES

	December 31 2011 $	December 31 2010 $	January 1 2010 $
Trade receivables	17	17	1
Receivable sales taxes - Canada	65	36	7
Receivable sales taxes - Mexico	113	368	-
Amounts receivables and other	195	421	8
Prepaid expenses	15	68	19
	210	489	27

8. PROPERTY, PLANT AND EQUIPMENT

	December 31 2011 $	Additions (depreciation) $	December 31 2010 $	Additions (depreciation) $	January 1 2010 $
Equipment at cost	140	92	48	-	48
Accumulated depreciation	(41)	(19)	(22)	(7)	(15)
Total	99	73	26	(7)	33

(Expressed in US$000's except for per share amounts)

9. EXPLORATION AND EVALUATION ASSETS

The following table shows the exploration and evaluation assets:

	December 31 2011 $	Additions (Write downs) $	December 31 2010 $	Additions (Write downs) $	January 1 2010 $
Bilbao	14,759	2,771	11,988	2,512	9,476
Laguna	2,765	18	2,747	6	2,741
El Dorado	1,136	95	1,041	854	187
Other	1,166	6	1,160	(18)	1,178
Total	19,826	2,890	16,936	3,354	13,582

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 of which $2,500 was paid on the closing date and a further $500 was paid one year after the closing date and the balance of $2,000 is payable on the following terms:

- $500 at the time of commencement of construction of a mine or no later than August 2014;
- $500 on the first anniversary of commencement of construction of a mine or no later than August 2018;
- $500 on the second anniversary of commencement of construction of a mine or no later than August 2018; and
- $500 on the third anniversary of commencement of construction of a mine or no later than August 2018.

At the time of the agreement in 2008 the present value of the then outstanding future payments of $2,500 was determined to be approximately $1,023 based on a discount rate of 15%. This value was recorded as a liability and is being accreted to its face value over the estimated life of the payment obligations. Since the date of the agreement to December 31, 2011, $371 (2010 - $248) of accretion expense has been added to evaluation assets related to this property acquisition obligation.

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. The Laguna project was subject to an impairment provision in 2009 totalling $4,341.

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, of which $126 has been paid and the balance is payable on the following terms:

- 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.

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.

At the time of the agreement the present value of the then outstanding future payments that totaled $804 was determined to be approximately $402 at based on a discount rate of 15%. This value has been recorded as a liability and is being accreted to its face value over the estimated life of the payment obligations. Since the date of the agreement to December 31, 2011, $111 (2010 - $45) of accretion expense has been added to evaluation assets related to this property acquisition obligation.

(Expressed in US$000's except for per share amounts)

9. EXPLORATION AND EVALUATION ASSETS (continued)

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. As of December 31, 2011, no financing has been provided to the Laguna or Bilbao projects under these options.

10. PREPAID EXPENSES AND OTHER NON-CURRENT ASSETS

	December 31 2011 $	December 31, 2010 $	January 1 2010 $
Prepaid expenses and other non-current assets	109	-	-

11. ACCOUNTS PAYABLE AND ACCRUALS

	December 31 2011 $	December 31 2010 $	January 1 2010 $
Trade creditors	154	80	53
Payable to related parties (Note 4)	4	85	40
Accrued liabilities	75	141	-
	233	306	93

12. NON CURRENT LIABILITIES

Property acquisition obligations (stated at net present cost) due as follows:	**December 31 2011 $**	December 31 2010 $	January 1 2010 $
Between one and two years	-	-	-
Between two and five years	860	620	262
After five years	597	648	453
	1,457	1,268	715

See Note 9.

(Expressed in US$000's except for per share amounts)

13. OTHER FINANCIAL LIABILITIES

	December 31 2011	December 31 2010	January 1 2010
Financial liabilities at fair value through profit and loss	**$**	$	$
Warrants	358	4,128	20
Conversion option component of convertible notes	623	1,254	1,522
	981	5,382	1,542
Financial liabilities at amortized cost			
Debt component of convertible notes (non-current)	627	453	333
	1,608	5,835	1,875

Warrants

As at December 31, 2011, the Company had the following outstanding share purchase warrants:

	Warrants	Value of Conversion Option	Exercise Price	Expiry Date
	(000's)	$	$	
	9,000	217	Cdn$0.40 per unit	December 23, 2012
	5,331	141	Cdn$0.40 per unit	January 20, 2013
Total	14,331	358		

Warrants issued by the Company to purchase common shares, for a fixed price stated in Canadian dollars, a currency other than the Company's functional currency of US dollars, and not offered pro rata to all existing shareholders of the same class at the time of issuance, are considered derivative financial liabilities under IFRS. Such warrants are required to be measured and recognized at fair value with changes subsequent to initial recognition included in the Statement of Operations and Comprehensive Income (Loss). The Company has estimated fair value using the Black-Scholes option pricing model at each reporting date.

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

	Warrants	Weighted Average Exercise Price	Value of Conversion Option
	(000's)	Cdn$	$
Balance, January 1, 2010	9,295	0.97	20
Issued	22,010	0.34	1,263
Expired	(9,295)	0.97	(20)
Change in fair value	-	-	2,865
Balance, December 31, 2010	22,010	0.34	4,128
Issued	5,331	0.40	426
Issued upon exercise of Units (i)	61	0.30	28
Exercised	(12,999)	0.30	(3,929)
Expired	(72)	0.30	(24)
Change in fair value	-	-	(271)
Balance, December 31, 2011	14,331	0.40	358

(i) 122,000 broker warrants were exercised into Units comprised of one common share and one-half of one common share purchase warrant. As a result 122,000 shares and 61,000 warrants exercisable at Cdn$0.30 per share were issued.

(Expressed in US$000's except for per share amounts)

13. OTHER FINANCIAL LIABILITIES (continued)

Warrants (continued)

The share purchase warrants issued as part of the 2010 Private Placements were initially valued at $1,263, assuming a volatility of 103%, a risk free rate of 1.27% and an expected life of one and two years (Note 14,(i)(ii)), and increased to $4,128 at December 31, 2010 as a result of an increase in the value of the warrant following an increase in the price of the Company's shares from the date of issue of the 2010 warrants.

The share purchase warrants issued as part of the 2011 Private Placement were initially valued at $426, assuming a volatility of 103%, a risk free rate of 1.27% and an expected two year life.

During 2011, the estimated fair value of the warrants exercised was recalculated immediately prior to the exercise of warrants, with the resulting change in fair value prior to exercise included in the change in fair value of warrants recognition recorded in the Statement of Operations and Comprehensive Income (Loss).

The fair value of the warrants issued in December 2010 and January 2011 and remaining outstanding at December 31, 2011 decreased to $358 at December 31, 2011, mainly as a result of a decrease in the value of the warrant following a decrease in the Company's share price from the date of issue of these warrants.

The change in fair value of warrants, as recorded in the consolidated Statement of Operations and Comprehensive Loss, is a result of the fair value adjustment of the warrants. The warrants are carried on the Statement of Financial Position as financial liabilities at their estimated fair value as a result of their exercise price being denominated in Canadian dollars, being a currency other than the Company's functional currency of US dollars. This $358 derivative financial liability is an accounting treatment only under IFRS and does not represent a cash liability of the Company. The change in fair value recorded is a non-cash adjustment that has had no cash effect on the Company.

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

	December 31 2011	December 31 2010	January 1 2010
Market value of one ordinary share	Cdn$0.16	Cdn$0.43	Cdn$0.175
Exercise price	Cdn$0.40	Cdn$0.34	Cdn$1.00
Term	1.01 years	0.94 year	0.75 year
Risk free rate	1.66%	1.66%	1.66%
Volatility	103%	103%	103%
Dividend	0%	0%	0%
Warrants outstanding	14,331,210	22,010,000	9,295,000
Value per warrant	$0.02	$0.19	$0.00
Fair value of warrants	$358	$4,128	$20

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

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.

(Expressed in US$000's except for per share amounts)

13. OTHER FINANCIAL LIABILITIES (continued)

Convertible notes (continued)

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.

On issuance of the convertible notes, the Company determined the debt component of the convertible notes to be a financial liability at amortized cost, and the conversion option component to be a financial liability at fair value through profit or loss.

The proceeds received on the issue of the notes were bifurcated between $621 allocated to the debt component and $629 allocated to the conversion option component based on the estimated fair value of each component on the date of issuance. At the date of issuance, the present value of the debt component was determined to be approximately $621 based on a discount rate of 15%, with the remaining value of $629 allocated to the conversion option equity component.

Subsequent to initial recognition, the debt component is measured at amortized cost using the effective interest method and is accreted to its fair value over the expected life of the obligation. The conversion option component is recorded at its estimated fair value at each reporting date, with changes in fair value being included in the Statement of Operations and Comprehensive Income (Loss).

	Conversion option component	Debt component	Total
	$	$	$
Convertible Notes - Face Value			1,250
Balance, January 1, 2010	1,522	333	1,855
Change in fair value	(268)	-	(268)
Accretion	-	120	120
Balance, December 31, 2010	1,254	453	1,707
Change in fair value (i)	(631)	-	(631)
Accretion	-	174	174
Balance, December 31, 2011 (i)	623	627	1,250

(i) The fair value of the conversion option component at December 31, 2011 was calculated as $537, implying a change in fair value of $717, however, as the total value of the notes cannot be less than face value, a change of $631 was recorded, resulting in a recorded fair value of the conversion option component of $623, which together with the accreted value of $627 of the debt component, equals the face value of $1,250.

The change in fair value of convertible notes, as recorded in the consolidated Statement of Operations and Comprehensive Income (Loss), is a result of the fair value adjustment of the conversion option component of the convertible notes. The conversion option component of the convertible notes is carried on the Statement of Financial Position as financial liabilities at its estimated fair value. The change in fair value recorded is a non-cash adjustment that has had no cash effect on the Company.

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

	December 31 2011	December 31 2010	January 1 2010
Market value of one ordinary share	Cdn$0.16	Cdn$0.43	Cdn$0.175
Face value of convertible notes	$1,250,000	$1,250,000	$1,250,000
Term - expected life	2.29 years	3.29 years	4.29 years
Risk free rate	2.77%	2.77%	2.77%
Volatility	103%	103%	107%

(Expressed in US$000's except for per share amounts)

14. CAPITAL STOCK

Common shares

Authorized
Unlimited number of common shares

Issued	Shares (000's)	Amount $
Balance at January 1, 2010	49,862	18,699
Private placement (i)	25,775	4,992
Warrant valuation (i)	-	(583)
Private placement (ii)	9,000	2,481
Warrant valuation (ii)	-	(680)
Share issue costs	-	(345)
Exercise of stock options	230	48
Exercise of stock options - value reallocation	-	18
Balance at December 31, 2010	84,867	24,630
Private placement (iii)	5,331	1,496
Warrant valuation (iii)	-	(426)
Share issue costs	-	(71)
Exercise of warrants (iv)	12,999	3,977
Grant date fair value adjustment of warrants exercised (iv)	-	3,929
Exercise of stock options	229	48
Exercise of stock options - value reallocation	-	11
Balance at December 31, 2011	103,426	33,594

(i) In March and April 2010, the Company completed a non-brokered private placement for gross proceeds of Cdn$5,155,000 ($4,992) consisting of 25,775,000 units ("Units") at Cdn$0.20 per Unit. Each Unit consists of one common share and one-half a common share purchase warrant, each whole warrant entitling the holder to purchase one common share at Cdn$0.30 per share for one year. The fair value of the warrants, was estimated on the date of issue as Cdn$605,000 ($583), using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, expected volatility of 103%, risk free interest rate of 1.27% and an expected life of one year. The Pacific Road Resources Fund group, a substantial shareholder in the Company, purchased an aggregate of 12,500,000 Units for gross proceeds of Cdn$2,500,000 ($2,421).

The issue costs for the private placement were Cdn$246,000 ($235) cash. The Company paid Cdn$30,000 cash finder's fee and issued 122,000 Broker Warrants valid for a period of one year, Pacific Road was paid Cdn$175,000 cash finder's fee, and a director and officer of the Company was paid Cdn$41,000 for legal fees.

(ii) In December 2010, the Company completed the first part of a non-brokered private placement by issuing 9,000,000 units ("Units") for gross proceeds of Cdn$2,520,000 ($2,481) 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. The fair value of the warrants was estimated on the date of issue as Cdn$691,000 ($680), using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, expected volatility of 103%, risk free interest rate of 1.27% and an expected life of two years.

The issue costs for this private placement were Cdn$112,000 ($110) cash. The Company paid Cdn$101,000 cash and a director and officer of the Company was paid Cdn$11,000 for legal fees.

14. CAPITAL STOCK (continued)

(iii) On January 20, 2011, the Company completed the second part of the 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. The fair value of the warrants was estimated on the date of issue as Cdn$433,000 ($426), using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, expected volatility of 103%, risk free interest rate of 1.27% and an expected life of two years.

(iv) During 2011 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 Cdn$0.30 for gross cash proceeds of $3,977.

As a result of the exercise of warrants, the capital stock was increased by $7,906, being the value of the 12,998,929 shares issued at a weighted average share price of the Company's shares during the period when these warrants were exercised (January to April 14, 2011) of $0.60 per share. The $7,906 increase in capital stock includes a reallocation of $3,929 from the fair value of the warrants included as a derivative financial instrument carried at fair value through profit and loss, with the balance of $3,977 being the actual cash gross proceeds received.

15. 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 February 16, 2010, the Company granted 2,431,250 stock options to directors, officers and employees (of which 1,981,250 were granted to directors and officers) pursuant to its Stock Option Plan exercisable at Cdn$0.21 per share for a period of five years. These options vested on the date of the grant. The grant date fair value of these options was estimated at $370 and this amount was recorded to share-based payments expense 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.

On May 18, 2010, the Company granted 300,000 stock options exercisable at Cdn$0.21 per share for a period of one year to Vantage Communications Ltd., a Vancouver based investor relations service provider which was retained for a period of one year to act as a marketing and investor relations consultant for the Company. The stock options are subject to the Company's Stock Option Plan and vested in accordance with the TSX Venture Exchange requirements as to 25% three months from the date of grant, and a further 25% on each successive three months from the date of the previous vesting. The grant date fair value of these options was estimated at $12 and this amount was recorded to share-based payments expense 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 1.27% and expected life of one year.

On April 27, 2011, the Company granted 4,225,000 stock options to directors, officers and employees (of which 2,700,000 were granted to directors and officers) pursuant to its Stock Option Plan. These options are exercisable at Cdn$0.51 per share for a period of five years and vested in full on the date of the grant. The grant fair value of these options was estimated at $1,729 and this amount was recorded to share-based payments expense 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.

(Expressed in US$000's except for per share amounts)

15. STOCK OPTIONS (continued)

As at December 31, 2011, the Company had the following outstanding stock options:

	Number of Options Granted and Exercisable at December 31, 2011	Estimated Grant Date Fair Value	Exercise Price	Expiry Date
	(000's)	$		
	2,250	683	Cdn$0.50	May 23, 2013
	2,351	368	Cdn$0.21	February 15, 2015
	4,225	1,729	Cdn$0.51	April 27, 2016
Total	8,826	2,780		

Stock option transactions for the respective periods were as follows:

	Number of Options	Weighted Average Exercise Price
	(000's)	Cdn$
Balance, January 1, 2010	2,329	0.49
Granted	2,731	0.21
Exercised	(230)	0.21
Balance, December 31, 2010	4,830	0.34
Granted	4,225	0.51
Exercised	(229)	0.20
Balance, December 31, 2011	8,826	0.43

During the years ended December 31, 2011 and 2010, the exercise price of options were at an exercise price equal to or above the quoted market value of the Company's shares.

The weighted average remaining contractual life of options outstanding at December 31, 2011 is 2.95 years (2010 – 2.15)

The weighted average exercise price for options that were exercisable at December 31, 2011 was Cdn$0.43 (2010 – Cdn$0.34) per share.

The weighted average grant date fair value of options granted during 2011 was estimated at Cdn$0.39 (2010 – Cdn$0.14) per option.

(Expressed in US$000's except for per share amounts)

16. SHARE-BASED PAYMENT RESERVE

Share-based payment reserve transactions for the years ended December 31, 2011 and 2010 were as follows:

	December 31 2011 $
Balance, January 1, 2010	698
Value attributed to stock options granted during the period - employees	382
Exercise of stock-based compensation options	(18)
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, December 31, 2011	2,780

17. INCOME TAXES

Major items causing the Company's income tax rate to differ from the Canadian statutory rate of approximately 28% (2010 – 31%) were as follows:

	December 31, 2011 $	December 31, 2010 $
Loss before income taxes	(1,265)	(3,618)
Expected recoverable income taxes at statutory rates	357	1,122
Increase (decrease) resulting from:		
Other	132	(293)
Differences in tax rates	13	(106)
Stock-based compensation	(488)	(118)
Share issue costs	18	111
Tax benefits not realized	(32)	(716)
Provision for income taxes	-	-

Unrecorded deferred tax assets existing at December 31, 2011 and 2010 are as follows:

	December 31, 2011 $	December 31, 2010 $
Non-capital losses	761	692
Share issue costs	78	116
Exploration and evaluation assets	10,775	10,775
	11,614	11,583

The Company has approximately Cdn$3,043,000 of non-capital losses in Canada which under certain circumstance can be used to reduce the taxable income of future years. The Canadian losses expire at various dates through 2031.

18. 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, amounts receivable and other, and accounts payable and accruals on the consolidated statements of financial position approximate fair value because of the limited term of these instruments. Cash equivalents, derivative financial liabilities and other financial liabilities are carried at fair value.

Capital Risk:
The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain and explore its evaluation assets.

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 December 31, 2011, the Company had cash and cash equivalents of $7,782 (2010 - $5,269) to settle current liabilities of $1,214 (2010 - $5,688). 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.

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 December 31, 2011, the Company held Canadian monetary assets and liabilities totalling approximately Cdn$1,326,000 ($1,300 net), and Mexican monetary assets and liabilities totalling approximately MXN$3,427,000 ($245 net).

Sensitivity Analysis:
The Company has designated its cash equivalents, derivative financial liabilities (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.

18. FINANCIAL INSTRUMENTS (continued)

The Company holds approximately Cdn$1,326,000 ($1,300) 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 $13 based on monetary assets and liability balances existing at December 31, 2011.

The Company holds approximately Mxn$3,427,000 ($245) 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 $2 based on monetary assets and liability balances existing at December 31, 2011.

A one percent change in interest rates will result in a corresponding change in interest income of approximately $78 based on cash and cash equivalent balances existing at December 31, 2011.

Fair Value Hierarchy and Liquidity Risk Disclosure:
The fair value hierarchy has 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 December 31, 2011 and 2010, the Company's financial instruments that are carried at fair value, consisting of cash equivalents, derivative financial liabilities (warrants) and other financial liabilities have been classified as Level 2 within the fair value hierarchy.

19. 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 and 2010.

20. 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.

(Expressed in US$000's except for per share amounts)

21. 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 consolidated financial statements for the period ended December 31, 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*. The Company can choose this standard only for equity instruments granted after Nov 7, 2002 that had not vested by the Transition Date. The Company will elect not to apply IFRS 2 to equity instruments which vested before the Company's Transition Date.
- IFRS 3 – *Business Combinations*. The Company has the 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*. The Company has elected to 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 consolidated Statement of Financial Position, consolidated statements of operations and comprehensive loss and consolidated statement of changes in equity as set out below.

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

Impact on Consolidated Statement of Financial Position

	December 31, 2010 $	January 1, 2010 $
Other financial instruments – warrants	**4,128**	**20**
Change in fair value of warrants	**(1,263)**	**(1,316)**
Adjustment to deficit	**(2,865)**	**1,296**

(Expressed in US$000's except for per share amounts)

21. TRANSITION TO IFRS (continued)

(b) 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 to contributed surplus.

Impact on Consolidated Statement of Financial Position	December 31, 2010	January 1, 2010
	$	$
Contributed surplus	(1,320)	(4)
Adjustment to deficit	1,320	4

(c) 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	January 1, 2010
	$	$
Share-based payment reserve	1,062	698
Contributed surplus	(1,062)	(698)
Adjustment to deficit	-	-

(d) Financial Liabilities – Convertible notes

Under Canadian GAAP, the Company's convertible notes 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 represented the equity component of the instruments.

Under IFRS, the entire carrying value of the convertible loan notes has been recorded as a financial liability, with the debt component of the convertible notes determined to be a financial liability at amortized cost, and the conversion option component determined to be a financial liability at fair value through profit or loss. The proceeds received were bifurcated between the debt component and the conversion option component based on the estimated fair value of each component on the date of issuance. Subsequent to initial recognition, the debt component is measured at amortized cost using the effective interest method, and the conversion option component is recorded at its estimated fair value at each reporting date, with changes in fair value being included in the Statement of Operations and Comprehensive Income (Loss).

Financial Liabilities - Convertible Notes	**December 31, 2010**	**January 1, 2010**
	$	$
Derivative financial instruments	1,254	1,522
Convertible notes debt component	(336)	(347)
Convertible notes equity component	(623)	(623)
Adjustment to deficit	(295)	(552)

(Expressed in US$000's except for per share amounts)

21. TRANSITION TO IFRS (continued)

(e) 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 Statement of Financial Position to eliminate the future income tax entry accounted for on acquisition of mineral properties, reducing the carrying value of the exploration and evaluation assets.

(f) 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 evaluation assets. 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**	**January 1, 2010**
	$	$
Exploration and evaluation assets	(3,563)	(3,267)
Future income tax liability	3,092	2,494
Adjustment to deficit	(471)	(773)

(g) Property, plant and equipment

Under Canadian GAAP, certain property, plant and equipment was grouped with exploration and evaluation assets for financial statement presentation purposes. Under IFRS, property, plant and equipment is recorded as a separate item on the Statement of Financial Position.

Property, plant and equipment	**December 31, 2010**	**January 1, 2010**
	$	$
Exploration and evaluation assets	(26)	(33)
Property, plant and equipment	26	33
	-	-

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 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 except for per share amounts)

Reconciliation of Consolidated Statement of Financial Position as at January 1, 2010

	Ref	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	e,f,g	16,882	(3,300)	13,582
Property, plant and equipment	g	-	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	a	-	20	20
Derivative financial instruments (convertible notes)	d	-	1,522	1,522
		93	1,542	1,635
Non-current liabilities				
Property acquisition obligations		715	-	715
Derivative financial instruments (convertible notes)	d	680	(347)	333
Deferred tax liabilities	e,f	2,494	(2,494)	-
		3,889	(2,841)	1,048
		3,982	(1,299)	2,683
SHAREHOLDER'S EQUITY				
Capital stock		18,699	-	18,699
Convertible notes	d	623	(623)	-
Warrants	a,b	1,316	(1,316)	-
Contributed surplus	b,c	702	(702)	-
Share-based payment reserve		-	698	698
		21,340	(1,943)	19,397
Deficit	a,d	(6,738)	(25)	(6,763)
		14,602	(1,968)	12,634
		18,584	(3,267)	15,317

(Expressed in US$000's except for per share amounts)

Reconciliation of Consolidated Statement of Financial Position as at December 31, 2010

	Ref	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	e,f,g	20,525	(3,589)	16,936
Property, plant and equipment	g	-	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	a	-	4,128	4,128
Derivative financial instruments (convertible notes)	d	-	1,254	1,254
		306	5,382	5,688
Non-current liabilities				
Property acquisition obligations		1,268	-	1,268
Derivative financial instruments (convertible notes)	d	789	(336)	453
Deferred tax liabilities	e,f	3,092	(3,092)	-
		5,149	(3,428)	1,721
		5,455	1,954	7,409
SHAREHOLDER'S EQUITY				
Capital stock		24,630	-	24,630
Convertible notes	d	623	(623)	-
Warrants	a,b	1,263	(1,263)	-
Contributed surplus	b,c	2,382	(2,382)	-
Share-based payment reserve		-	1,062	1,062
		28,898	(3,206)	25,692
Deficit	a,d	(8,070)	(2,311)	(10,381)
		20,828	(5,517)	15,311
		26,283	(3,563)	22,720

(Expressed in US$000's except for per share amounts)

Reconciliation of Consolidated Statement of Operations and Comprehensive Loss for the twelve months ended December 31, 2010

	Ref	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	d	-	(277)	(277)
Change in fair value of warrants	a	-	2,865	2,865
Loss before income taxes		1,030	2,588	3,618
Future income taxes	f	302	(302)	-
Net loss and comprehensive loss for the year		1,332	2,286	3,618