XTIERRA INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND DECEMBER 31, 2011

(Expressed in US$000's)

XTIERRA INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND DECEMBER 31, 2011

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, 2012 and 2011, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, 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, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company had continuing losses during the year ended December 31, 2012 and a cumulative deficit as at December 31, 2012. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 22, 2013

XTIERRA INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT DECEMBER 31,

(Expressed in US$000's)	Note	2012	2011
		$	$
ASSETS			
Current assets			
Cash and cash equivalents	6	2,761	7,782
Amounts receivable and other	7	256	195
Prepaid expenses	7	20	15
Total current assets		3,037	7,992
Non-current assets			
Exploration and evaluation assets	9	24,701	19,826
Property, plant and equipment	8	100	99
Prepaid expenses and other non-current assets	10	25	109
Total non-current assets		24,826	20,034
Total assets		27,863	28,026
LIABILITIES			
Current			
Accounts payable and accruals	11	148	233
Derivative financial liabilities (warrants)	13	-	358
Other financial instruments (convertible notes)	13	564	623
Total current liabilities		712	1,214
Non-current liabilities			
Property acquisition obligations	12	1,677	1,457
Other financial instruments (convertible notes)	13	848	627
Total non-current liabilities		2,525	2,084
Total liabilities		3,237	3,298
SHAREHOLDERS' EQUITY			
Capital stock	14	33,594	33,594
Share-based payment reserve	16	2,780	2,780
		36,374	36,374
Deficit		(11,748)	(11,646)
		24,626	24,728
Total liabilities and shareholders' equity		27,863	28,026

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

The financial statements were approved by the Board of Directors on April 22, 2013 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)	Note	2012	2011
		$	$
Expenses			
Share-based payments	16	-	1,729
Foreign exchange gain		(18)	(166)
General and administrative expenses		180	112
Corporate expenses		175	240
Professional fees		196	264
Loss from operations		533	2,179
Other items			
Interest income		(14)	(12)
Change in fair value of convertible notes (gain)	13	(59)	(631)
Change in fair value of warrants (gain)	13	(358)	(271)
Net loss and comprehensive loss for the year		102	1,265
Net loss per share – basic and diluted		0.001	0.013
Weighted average common shares outstanding – basic and diluted		103,425,892	100,679,727

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, 2011	**24,630**	**1,062**	**(10,381)**	**15,311**
Proceeds on share issue	1,496	-	-	1,496
Value of warrants granted 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**
Total loss for the year	-	-	(102)	(102)
Balance as at December 31, 2012	**33,594**	**2,780**	**(11,748)**	**24,626**

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)	2012	2011
	$	$
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net loss for the year	(102)	(1,265)
Share-based payments	-	1,729
Depreciation	29	19
Change in fair value of convertible notes	(59)	(631)
Change in fair value of warrants	(358)	(271)
Foreign exchange	(24)	91
Interest income	(14)	(12)
Operating cash flow before movements in working capital	(527)	(340)
Movements in working capital		
Decrease (increase) in amounts receivable and other and prepaids	17	171
Increase (decrease) in accounts payable and accruals	(1)	(183)
Net cash used in operating activities	(511)	(352)
FINANCING ACTIVITIES:		
Private placements	-	1,496
Exercise of warrants	-	3,977
Exercise of options	-	48
Issue costs	-	(71)
Net cash generated by financing activities	-	5,450
INVESTING ACTIVITIES:		
Interest income	14	12
Investment in exploration and evaluation assets	(4,517)	(2,414)
Expenditures on property, plant and equipment	(30)	(92)
Net cash used in investing activities	(4,533)	(2,494)
Effect of exchange rate changes on cash and cash equivalents	24	(91)
Change in cash and cash equivalents	(5,021)	2,513
Cash and cash equivalents, beginning of period	7,782	5,269
Cash and cash equivalents, end of period	2,761	7,782

Cash and cash equivalents consists of:		
Cash	739	1,233
Cash equivalents	2,022	6,549
	2,761	7,782
SUPPLEMENTAL INFORMATION		
Income taxes paid	-	-
Interest paid	-	-
Accretion on property acquisitions obligations	220	191
Accretion on convertible notes obligation	221	174
Property acquisition obligation	-	-
Change in accrued exploration and evaluation assets	26	110

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 exploration and evaluation assets 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

The Company is in the process of exploring its exploration and evaluation properties and has not yet determined whether its exploration and evaluation properties contain economically recoverable mineral reserves. The underlying value and the recoverability of the exploration and evaluation properties is entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the exploration and evaluation properties, and the generation of future profitable production or proceeds from the disposition of the exploration and evaluation properties.

These consolidated financial statements are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Several conditions discussed below create a material uncertainty about the Company's ability to continue as a going concern.

At December 31, 2012, the Company had not achieved profitable operations, had an accumulated deficit since inception and expects to incur further losses in the development of its business. The Company will need to generate additional financial resources in order to meet its planned business objectives. There is a risk that additional financing will not be available to the Company on a timely basis or on acceptable terms. There are no assurances that the Company will continue to obtain additional financial resources and/or achieve positive cash flows or profitability. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations and exploration and development activities. Furthermore, failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis which would differ significantly from the going concern basis.

2. BASIS OF PREPARATION

These consolidated financial statements of the Company and its subsidiaries are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). 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.

(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 exploration and evaluation assets 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 any reclassification to mineral property interests (a component of property, plant and equipment), exploration and evaluation assets are assessed for impairment and any impairment loss is recognised immediately in the consolidated statement of operations.

(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 exploration and evaluation assets and property, plant and equipment. 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 property, plant and equipment, and amortized over the useful life of these assets. 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, 2012 and 2011.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 consolidated 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.

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 operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Functional and presentation currency

The functional currency of the Company and its subsidiaries 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 operations for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in operations.

(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 using 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 exploration and evaluation 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 consolidated statement of operations.

Key sources of estimation uncertainty
Preparation of financial statements requires management 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 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 consolidated 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

At the end of each reporting period, non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly. Any impairment is recognized in the statement of loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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 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, 2012 and 2011 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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) New standards and interpretations not yet adopted

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2013 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. Earlier adoption is permitted.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") was issued by the IASB in May 2011 and will replace IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect returns. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

IFRS 11 – Joint Arrangements ("IFRS 11") was issued by the IASB in May 2011 and will replace IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: joint operations and joint ventures. A joint operation exists when the parties have rights to the assets and obligations for the liabilities of a joint arrangement. A joint venture exists when the parties have rights to the net assets of a joint arrangement. Assets, liabilities, revenues and expenses in a joint operation are accounted for in accordance with the arrangement. Joint ventures are accounted for using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

IFRS 12 – Disclosure of Interests in Other Entities ("IFRS 12") was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles and off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

IFRS 13 – Fair Value Measurement ("IFRS 13") was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRSs. IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. It also establishes disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended by the IASB in June 2011. As a result of the amendment, items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. Earlier adoption is permitted.

IAS 27 - Separate Financial Statements ("IAS 27") was amended during 2011 and replaces IAS 27 – Consolidated and Separate Financial Statements. IAS 27 has been reissued to reflect the change of including the consolidation guidance in IFRS 10. In addition, IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements. The amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) New standards and interpretations not yet adopted (continued)

IAS 28 - Investments in Associates and Joint Ventures ("IAS 28") was issued by the IASB in May 2011 and supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. IAS 28 also provides guidance on how the equity method of accounting is to be applied and also prescribes how investments in associates and joint ventures should be tested for impairment. The amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

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:

	December 31, 2012	December 31, 2011
	$	$
General and administrative expenses	39	39
General and administrative expenses	71	63
Professional fees	372	370
Share-based payments	-	1,053
Key management personnel remuneration	443	1,486
Capitalized as exploration and evaluation assets	193	194

No fees were paid by the Company to directors for their services as directors of the Company in the years ended December 31, 2012 or December 31, 2011. 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, 2012 is $9 (2011 - $4) 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, 2012 were as follows:

Name of Subsidiary	**Country of Incorporation**	**Percentage owned**	**Principal activity**
Orca Minerals Limited	Canada	100%	Holding company for Orca Gold International
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, 2012	December 31, 2011
	$	$
Statement of Operations		
Canada	**(102)**	(1,265)
Mexico	**-**	-
Net loss before income taxes	**(102)**	(1,265)
Income taxes	**-**	-
Net loss for the year	**(102)**	(1,265)

Segment assets and segment liabilities	Assets	
	December 31, 2012	December 31, 2011
	$	$
Canada	**2,697**	7,825
Mexico	**25,166**	20,201
	27,863	28,026

	Total non-current assets	
	December 31, 2012	December 31, 2011
	$	$
Canada	**-**	-
Mexico	**24,801**	19,925
	24,801	19,925

	Liabilities	
	December 31, 2012	December 31, 2011
	$	$
Canada	**(2,617)**	(2,763)
Mexico	**(620)**	(535)
	(3,237)	(3,298)

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

6. CASH AND CASH EQUIVALENTS

	December 31, 2012	December 31, 2011
	$	$
Cash	739	1,233
Cash equivalents	2,022	6,549
Total	2,761	7,782

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

Canadian Dollars	85	1,422
US Dollars	2,520	6,214
Mexican Pesos	156	146
	2,761	7,782

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 what management believes is 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, 2012	December 31, 2011
	$	$
Trade receivables	2	17
Receivable sales taxes - Canada	51	65
Receivable sales taxes - Mexico	203	113
Amounts receivables and other	256	195
Prepaid expenses	20	15
	276	210

8. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2012	Additions (depreciation)	December 31 2011	Additions (depreciation)	January 1 2011
	$	$	$	$	$
Equipment at cost	170	30	140	92	48
Accumulated depreciation	(70)	(29)	(41)	(19)	(22)
Total	100	1	99	73	26

(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, 2012	Additions	December 31 2011	Additions	January 1 2011
	$	$	$	$	$
Bilbao	19,300	4,541	14,759	2,771	11,988
Laguna	2,809	44	2,765	18	2,747
El Dorado	1,257	121	1,136	95	1,041
Other	1,335	169	1,166	6	1,160
Total	24,701	4,875	19,826	2,890	16,936

The Company has the following investments in exploration and evaluation 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, 2012, $513 (2011 - $371) of accretion expense has been added to exploration and evaluation assets related to this property acquisition obligation.

During 2012, the Company acquired surface lands for surface installations and development for the Bilbao deposit.

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 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, 2012, $189 (2011 - $111) of accretion expense has been added to exploration and 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, 2012, no financing has been provided to the Laguna or Bilbao projects under these options.

10. PREPAID EXPENSES AND OTHER NON-CURRENT ASSETS

	December 31, 2012 $	December 31, 2011 $
Prepaid expenses and other non-current assets	25	109

11. ACCOUNTS PAYABLE AND ACCRUALS

	December 31, 2012 $	December 31, 2011 $
Trade creditors	58	154
Payable to related parties (Note 4)	9	4
Accrued liabilities	81	75
	148	233

12. NON CURRENT LIABILITIES

Property acquisition obligations (stated at net present cost) due as follows:	**December 31, 2012 $**	December 31, 2011 $
Between two and five years	990	860
After five years	687	597
	1,677	1,457

See Note 9.

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

13. OTHER FINANCIAL LIABILITIES

	December 31 2012	December 31 2011
	$	**$**
Financial liabilities carried at fair value through profit and loss		
Warrants	-	358
Conversion option component of convertible notes	564	623
	564	981
Financial liabilities at amortized cost		
Debt component of convertible notes (non-current)	848	627
	1,412	1,608

Warrants

As at December 31, 2012, the Company had 5,331,210 share purchase warrants outstanding with an expiry date of January 20, 2013. The calculated value of the financial liability of these warrants at December 31, 2012 was nominal. On January 20, 2013, the warrants expired unexercised and the amount was written off.

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 (Notes 14,(i) and (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 consolidated 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, 2012	December 31, 2011
Market value of one ordinary share	Cdn$0.28	Cdn$0.16
Exercise price	Cdn$0.40	Cdn$0.40
Term	0.26 years	1.01 years
Risk free rate	1.66%	1.66%
Volatility	103%	103%
Dividend	0%	0%
Warrants outstanding	5,331,210	14,331,210
Value per warrant	$ 0.002	$ 0.02
Fair value of warrants	$ 13	$ 358

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

13. OTHER FINANCIAL LIABILITIES (continued)

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.

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 consolidated statements of operations and comprehensive loss.

	Conversion option component	Debt component	Total
	$	$	$
Convertible Notes - Face Value			1,250
Balance, January 1, 2011	1,254	453	1,707
Change in fair value	(631)	-	(631)
Accretion	-	174	174
Balance, December 31, 2011	623	627	1,250
Change in fair value	(59)	-	(59)
Accretion	-	221	221
Balance, December 31, 2012	564	848	1,412

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

13. OTHER FINANCIAL LIABILITIES (continued)

Convertible Notes (continued)

The change in fair value of convertible notes, as recorded in operations, 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 consolidated statement of financial position as a financial liability 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, 2012	December 31, 2011
Market value of one ordinary share	Cdn$0.28	Cdn$0.16
Face value of convertible notes	1,250,000	1,250,000
Term	1.29 years	2.29 years
Risk free rate	2.77%	2.77%
Volatility	103%	103%

14. CAPITAL STOCK

Common shares

Authorized
Unlimited number of common shares

Issued	Shares (000's)	Amount $
Balance at January 1, 2011	84,867	24,630
Private placement	5,331	1,496
Warrant valuation	-	(426)
Share issue costs	-	(71)
Exercise of warrants	12,999	3,977
Grant date fair value adjustment of warrants exercised	-	3,929
Exercise of stock options	229	48
Exercise of stock options - value reallocation	-	11
Balance, December 31, 2011 and December 31, 2012	103,426	33,594

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

(ii) 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.

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

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 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 of these stock options.

As at December 31, 2012, the Company had the following outstanding stock options:

	Number of Options Granted and Exercisable at December 31, 2012	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, 2011	4,830	0.34
Granted	4,225	0.51
Exercised	(229)	0.20
Balance, December 31, 2011	8,826	0.43
Granted	-	-
Balance, December 31, 2012	8,826	0.43

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

15. STOCK OPTIONS (continued)

During the years ended December 31, 2012 and 2011, the exercise price of options was 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, 2012 is 1.95 years (2011 – 2.95)

The weighted average exercise price for options that were exercisable at December 31, 2012 was Cdn$0.43 (2011 – Cdn$0.43) per share.

The weighted average grant date fair value of options granted during December 31, 2012 was estimated at Cdn$Nil (2011 – Cdn$0.14) per option.

16. SHARE-BASED PAYMENT RESERVE

Share-based payment reserve transactions for the years ended December 31, 2012 and 2011 were as follows:

	December 31 2012 $
Balance, January 1, 2011	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
Value attributed to stock options granted during the period - employees	-
Balance, December 31, 2012	2,780

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

17. INCOME TAXES

Major items causing the Company's income tax rate to differ from the Canadian statutory rate of approximately 26.5% (2011 – 28%) were as follows:

	December 31, 2012	December 31, 2011
	$	$
Loss before income taxes	**(102)**	(1,265)
Expected recoverable income taxes at statutory rates	**27**	357
Increase (decrease) resulting from:		
Other	**177**	132
Differences in tax rates	**(1)**	13
Stock-based compensation	**-**	(488)
Share issue costs	**-**	18
Tax benefits not realized	**(203)**	(32)
Provision for income taxes	**-**	-

Recorded deferred tax assets and liabilities at December 31, 2012 and 2011 are as follows:

	2012	2011
	$	$
Non-capital losses - Canada	**167**	113
Warrants - Canada	**(167)**	(113)
Non-capital losses - Mexico	**2,836**	1,791
Exploration and evaluation assets - Mexico	**(2,836)**	(1,791)
	-	-

Unrecorded deferred tax assets existing at December 31, 2012 and 2011 are as follows:

	2012	2011
	$	$
Non-capital losses - Canada	**826**	648
Non-capital losses - Mexico	**611**	1,377
Share issue costs - Canada	**49**	78
Convertible debt - Canada	**43**	-
Unrecorded deferred tax assets	**1,529**	2,103

The Company has approximately Cdn$3,746,000 of non-capital losses in Canada and approximately 160 million Mexican Pesos (US$12 million), 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 2012 and 2011.

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.

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, 2012, the Company had cash and cash equivalents of $2,761 (2011 - $7,782) to settle current liabilities of $725 (2011 - $1,214). Accordingly, the Company is able to meet its current obligations.

Price Volatility of Publicly Traded Securities
Securities of exploration companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally, and market perceptions of the relative attractiveness of particular industries. The Company's share price is also likely to be significantly affected by short-term changes in metal prices or in the Company's financial condition or results of operations as reflected in quarterly earnings reports.

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, 2012, the Company held Canadian monetary assets and liabilities totalling approximately Cdn$32,000 ($32 net), and Mexican monetary assets and liabilities totalling approximately MXN$4,375,000 ($336 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$32,000 ($32) 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 $Nil based on monetary assets and liability balances existing at December 31, 2012.

The Company holds approximately Mxn$4,375,000 ($336) in financial assets and liabilities. A one percent change in the Mexican - US foreign exchange rates could result in a foreign exchange impact of approximately $3 based on monetary assets and liability balances existing at December 31, 2012.

A one percent change in interest rates will result in a corresponding change in interest income of approximately $28 based on cash and cash equivalent balances existing at December 31, 2012.

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, 2012 and 2011, 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 2012 and 2011.

20. COMMITMENTS AND CONTINGENCIES

The Company's mining and exploration activities are subject to various 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.

21. SUBSEQUENT EVENT

On January 21, 2013, 5,331,000 share purchase warrants expired unexercised.