XTIERRA INC.

(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and December 31, 2009

(Expressed in US$000's)

XTIERRA INC.
(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and December 31, 2009

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Xtierra Inc.

We have audited the accompanying consolidated financial statements of Xtierra Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of operations, comprehensive loss and deficit, and the 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 Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles 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. as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements indicating 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
March 9, 2011

XTIERRA INC.
(A Development Stage Company)

Consolidated Balance Sheets
As at December 31,

(Expressed in US$000's)	2010	2009
	$	$
ASSETS		
Current		
Cash and cash equivalents	5,269	1,675
Prepaid expenses	68	19
Amounts receivable and other	421	8
	5,758	1,702
Mineral property interests (Note 3)	20,525	16,882
	26,283	18,584
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 9)	306	93
Property acquisition obligations (Note 3)	1,268	715
Future income tax liability (Note 10(b))	3,092	2,494
Convertible notes obligation (Note 4)	789	680
	5,455	3,982
SHAREHOLDERS' EQUITY		
Capital stock (Note 5)	24,630	18,699
Convertible notes (Note 4)	623	623
Warrants (Note 6)	1,263	1,316
Contributed surplus (Note 8)	2,382	702
	28,898	21,340
Accumulated other comprehensive income	-	-
Deficit	(8,070)	(6,738)
	(8,070)	(6,738)
	20,828	14,602
	26,283	18,584

COMMITMENTS AND CONTINGENCIES (Notes 1, 3, 4 and 14)

APPROVED ON BEHALF OF THE BOARD

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

See accompanying notes to the consolidated financial statements

XTIERRA INC.

(A Development Stage Company)

Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the years ended December 31,

(Expressed in US$000's, except for per share amounts)	2010 $	2009 $
Expenses		
General and administrative expenses	199	156
Corporate expenses	216	140
Professional fees	277	187
	692	483
Other items		
Write down of mineral property interests	-	4,341
Stock-based compensation	382	-
Foreign exchange	(31)	(157)
Interest income	(13)	(10)
Loss before income taxes	1,030	4,657
Future income taxes (Note 10(a))	302	(1,663)
Net loss and comprehensive loss for the year	1,332	2,994
Deficit, beginning of year	6,738	3,744
Other comprehensive loss	-	-
Deficit, end of year	8,070	6,738
Net loss per share – basic and diluted	0.019	0.060
Weighted average common shares outstanding – basic and diluted	70,926,044	49,862,003

See accompanying notes to the consolidated financial statement

XTIERRA INC.
(A Development Stage Company)

Consolidated Statements of Cash Flows
For the years ended December 31,

(Expressed in US$000's)	2010 $	2009 $
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net loss and comprehensive loss for the year	(1,332)	(2,994)
Stock-based compensation	382	-
Write down of mineral property interests	-	4,341
Foreign exchange	(224)	-
Future income taxes	302	(1,663)
Net change in non-cash working capital	(52)	(515)
	(924)	(831)
FINANCING ACTIVITIES:		
Options exercised	48	-
Convertible notes	-	1,250
Private placements	7,473	-
Issue costs	(244)	(11)
	7,277	1,239
INVESTING ACTIVITIES:		
Recoveries from mineral property interest	-	150
Mineral property interests	(2,983)	(1,013)
	(2,983)	(863)
Effect of exchange rate changes on cash and cash equivalents	224	-
Change in cash and cash equivalents	3,594	(455)
Cash and cash equivalents, beginning of year	1,675	2,130
Cash and cash equivalents, end of year	5,269	1,675

Cash and cash equivalents consist of:		
Cash	2,796	234
Cash equivalents	2,473	1,441
	5,269	1,675
SUPPLEMENTAL INFORMATION		
Income taxes paid	-	-
Interest paid	-	-
Accretion on property acquisitions obligations	151	85
Accretion on convertible notes obligation	109	64
Future income tax liability on mineral property interests	296	213
Property acquisition obligation	402	-
Change in accrued mineral property interests	64	15
Change in amounts receivable in mineral property interests	(362)	-

See accompanying notes to the consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Xtierra Inc. (the "Company" or "Xtierra") is a development stage entity, as defined by the Canadian Institute of Chartered Accountants (the "CICA") Accounting Guideline 11. The Company has interests in mineral properties located in Mexico. Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in exploration properties contain mineral reserves which are economically recoverable.

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

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. The Company's properties may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and regulatory and environmental requirements.

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

The Company has a need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. 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 have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), which include the following significant accounting policies, consistently applied, except as noted below.

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Inter-company balances are eliminated on consolidation.

(b) Mineral property interests

Exploration and development expenses relating to mineral properties in which the Company has an interest are deferred until the properties are brought into production, at which time they are amortized on a unit-of-production basis. Other general exploration expenses are charged to operations as incurred. The cost of mineral properties abandoned or sold and their related deferred exploration costs are expensed to operations in the year of abandonment or sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Mineral property interests (continued)

Costs include the cash consideration and the fair market value of the shares issued for the acquisition of mineral properties. The carrying value is reduced by option proceeds recorded until such time as the investment in the mineral property is reduced to a nominal amount and subsequently recorded in the statement of operations. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company are recorded in the accounts at the time of payment.

The Company reviews capitalized costs on its mineral properties on a periodic basis and will recognize impairment in value based upon current exploration or production results, if any, and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current value is also based upon a review of other property transactions that have occurred including those in the same geographic area as that of the property under review.

(c) Asset retirement obligations

The Company will record a liability for the estimated future costs associated with legal 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 mineral property interests 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 obligations relating to the reclamation of its interest in mineral properties.

(d) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, and affect estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of tax accounts, convertible notes, stock-based compensation and warrants and the amount of any impairment provisions. The Company regularly reviews its estimates and assumptions; however, actual results could differ from these estimates and these differences could be material.

(e) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Using this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the enacted or substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

(f) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted 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 loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options, warrants and convertible notes that would decrease loss per share. As a result, all outstanding convertible securities have been excluded from diluted loss per share as at December 31, 2010 and 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Foreign currency translation

The functional and reporting currency of the Company is the United States ("US") dollar and the consolidated financial statements have been reported in US dollars. Transactions in foreign currencies are translated into the currency of measurement at the exchange rates in effect on the transaction date. Monetary balance sheet items expressed in foreign currencies are translated into US dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in operations.

The Company's integrated foreign subsidiaries are financially or operationally dependent on the Company. The Company uses the temporal method to translate the accounts of its integrated operations into US dollars. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period, except for amortization, which is translated on the same basis as the related asset. The resulting exchange gains or losses are recognized in operations.

(h) Stock-based compensation

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. 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 compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to capital stock.

(i) Cash and cash equivalents:

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less. The Company invests cash in term deposits maintained in high credit quality institutions. The Company does not invest in asset-backed securities.

(j) Financial instruments

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", "convertible notes" or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income (loss) until the asset is removed from the balance sheet or until any impairment is determined to be other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in operations for the period, unless the instrument is a cash flow hedge and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive income (loss). As at December 31, 2010 and 2009, the Company did not have any comprehensive income (loss) transactions. As a result, comprehensive loss is equal to net loss for the years ended December 31, 2010 and 2009.

(k) Comprehensive income (loss)

Comprehensive income (loss), composed of net income (loss) and other comprehensive income (loss), is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Cumulative changes in other comprehensive income (loss) are included in accumulated other comprehensive income (loss) which is presented as a separate category in shareholders' equity.

(l) Convertible Debt

The Company's convertible debt instruments are 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 is classified as a liability, and recorded as the present value of the Company's obligation to make future interest 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 instruments, over the term of the convertible debt instrument, using the effective interest method. The value of the conversion option makes up the equity component of the instruments. The conversion option is recorded using the residual value approach.

(Expressed in US$000's)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Future Accounting Changes

International Financial Reporting Standards ("IFRS"):
On February 13, 2008, the Accounting Standards Board ("AcSB") confirmed that publicly accountable entities will be required to prepare financial statements in accordance with IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company has assessed the impact of the implementation of IFRS and has prepared an opening balance sheet as at January 1, 2010 in accordance with IFRS. The conversion to IFRS will affect the Company's accounting policies, information technology and data systems. The transition may affect certain business processes such as the interpretation of some contracts.

Sections 1582, Business Combinations, 1601, consolidations and 1602, Non-controlling Interests
In January 2009, the CICA issued these new sections to replace Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements". Section 1582 will apply to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. A bargain purchase will result in the recognition of a gain. Acquisition costs will be expensed. Any non-controlling interest will be recognized as a separate component of shareholders' equity and net income will be allocated between the controlling and non-controlling interests. These new standards will apply to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact that these new Sections may have on its consolidated financial statements.

3. MINERAL PROPERTY INTERESTS

The following table shows the mineral property interests:

	December 31 2008	Additions (Write downs)	December 31 2009 $	Additions (Write downs) $	December 31 2010 $
Bilbao	10,514	1,071	11,585	2,798	14,383
Laguna	8,345	(4,449)	3,896	6	3,902
El Dorado	-	187	187	854	1,041
Other	1,123	91	1,214	(15)	1,199
Total	19,982	(3,100)	16,882	3,643	20,525

The following table shows the acquisition obligations related to mineral property interests:

	December 31 2008	Accretion/ (Payments)	December 31 2009 $	Accretion/ Additions $	December 31 2010 $
Bilbao	1,080	(365)	715	106	821
El Dorado	-	-	-	447	447
Total	1,080	(365)	715	553	1,268

3. MINERAL PROPERTY INTERESTS (continued)

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

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

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

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

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

The present value of the then outstanding future payments of $2,500 was determined to be approximately $1,023 at the time of the agreement based on a discount rate of 15%. This value has been recorded as a liability of the Company and is being accreted to its face value over the estimated life of the payment obligations. On June 30, 2009, an amending agreement was signed whereby the Company agreed to pay a discounted amount of $450, which was paid on July 2, 2009, in lieu of the payment of $500 due in August 2009. Since the date of the agreement, mineral property interests include $248 of accretion expense related to this property acquisition obligation.

The acquisition resulted in a future income tax liability of $1,370, which has also been included in mineral property interests.

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.

In November 2009, the Company entered into an Option and Sale Agreement (the "Agreement") with Indo Gold Limited ("IGL"), of Queensland, Australia with regard to the Laguna project. Under the terms of the Agreement, IGL paid $150 on signing and had the option for a three month period to conduct initial due diligence. Subsequent to December 31, 2009, IGL requested and was granted extensions to August 30, 2010 to perform the initial due diligence. IGL informed the Company that it was ceasing its interest in developing the Laguna project.

As a result of the Agreement with IGL, the Company re-evaluated the carrying value of its investment in the Laguna project and, based on the terms of the Agreement, determined that it would be appropriate to take a write-down of the carrying value of the Laguna Project. The Company subsequently completed a discounted cash flow analysis of the project, based on the terms of the Agreement and certain technical reports, and using a 15% discount rate, determined that a write down in the amount of $4,341 would be appropriate. This write down was recorded during 2009.

3. MINERAL PROPERTY INTERESTS (continued)

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

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

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

The present value of the outstanding future payments that total $804 was determined to be approximately $402 at the time of the agreement based on a discount rate of 15%. This value has been recorded as a liability of the Company and is being accreted to its face value over the estimated life of the payment obligations. Since the date of the agreement, mineral property interests include $45 of accretion expense related to this property acquisition obligation.

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

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

4. CONVERTIBLE NOTES

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

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

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

(Expressed in US$000's)

4. 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.

The present value of the debt component of the Notes was determined to be approximately $621 at the time of the agreement based on a discount rate of 15% with the remaining value of $629 being allocated to the equity portion of the Notes, represented by the various conversion options. Share issue costs of $11 were prorated to the debt and equity portions. The $621 liability is being accreted to the Notes' face value over the estimated life of the obligations. Since the date of issue, mineral property interests include $173 of accretion related to this obligation.

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

A continuity of the Notes is as follows:

	Amount $
Notes at face value at April 14, 2009	1,250
Transaction costs	(11)
Net proceeds	1,239
Allocated to equity	623
Allocated to debt portion	616
2009 accretion expense	64
Debt portion at December 31, 2009	680
2010 accretion expense	109
Debt portion at December 31, 2010	789

5. CAPITAL STOCK

Common shares

Authorized
Unlimited number of common shares

Issued

	Shares (000's)	Amount $
Balance at December 31, 2008 and 2009	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

(Expressed in US$000's)

5. CAPITAL STOCK (continued)

(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, in the amount of Cdn$605,000 ($583), was estimated on the date of issue 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 received Cdn$175,000 cash finder's fee, and a director and officer of the Company was paid Cdn$41,000 for legal fees. The fair value of the broker warrants, in the amount of Cdn$9,000 ($8), was estimated on the date of issue 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.

(ii) In December 2010, the Company completed a portion 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, in the amount of Cdn$691,000 ($680), was estimated on the date of issue 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 transaction 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.

6. SHARE PURCHASE WARRANTS

As at December 31, 2010, the Company had the following outstanding share purchase warrants:

	Warrants (000's)	Estimated Grant Date Fair Value $		Exercise Price $	Expiry Date
	9,888	437	(Note 5(i))	Cdn$0.30 per unit	March 1, 2011
	122	8	(Note 5(i))	Cdn$0.20 per unit	March 1, 2011
	1,250	57	(Note 5(i))	Cdn$0.30 per unit	March 31, 2011
	1,750	81	(Note 5(i))	Cdn$0.30 per unit	April 14, 2011
	9,000	680	(Note 5(ii))	Cdn$0.40 per unit	December 23, 2012
Total	22,010	1,263			

(Expressed in US$000's)

6. SHARE PURCHASE WARRANTS (continued)

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

	Warrants	Weighted Average Exercise Price	Estimated Grant Date Fair Value
	(000's)	Cdn$	$
Balance, December 31, 2008	9,375	0.85	1,320
Expired	(80)	0.20	(4)
Balance, December 31, 2009	9,295	0.97	1,316
Granted	22,010	0.34	1,263
Expired	(9,295)	0.97	(1,316)
Balance, December 31, 2010	22,010	0.34	1,263

The weighted average grant date fair value of warrants granted during 2010 was Cdn$0.06 (2009 – N/A).

7. 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 pursuant to its Stock Option Plan. These options vested on the date of the grant. The grant fair value of these options is $370 which has been recorded to stock-based compensation and contributed surplus. 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 1,981,250 stock options.

On May 18, 2010, the Company granted 300,000 stock options to Vantage Communications Ltd., a Vancouver based investor relations service provider who 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 shall become vested in accordance with the TSX Venture Exchange requirements over a period of not more than 12 months as to 25% on the date that is three months from the date of grant, and a further 25% on each successive date that is three months from the date of the previous vesting. These options will expire upon 30 days after the date at which the agreement is terminated. The grant fair value of these options is $12 which has been recorded to stock-based compensation and contributed surplus. 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.

(Expressed in US$000's)

7. STOCK OPTIONS (continued)

As at December 31, 2010, the Company had the following outstanding stock options:

Number of Options Granted and Exercisable at December 31, 2010 (000's)	Estimated Grant Date Fair Value $	Exercise Price	Expiry Date
150	6	Cdn$0.21	May 18, 2011
79	5	Cdn$0.20	August 7, 2012
2,250	683	Cdn$0.50	May 23, 2013
2,351	358	Cdn$0.21	February 15, 2015
4,830	1,052		

Stock option transactions for the respective years were as follows:

	Number of Options (000's)	Weighted Average Exercise Price Cdn$
Balance, December 31, 2008	2,475	0.47
Expired	(146)	0.20
Balance, December 31, 2009	2,329	0.49
Issued	2,731	0.21
Exercised	(230)	0.21
Balance, December 31, 2010	4,830	0.34

The weighted average remaining contractual life of options outstanding at December 31, 2010 is 2.15 (2009 – 3.37) years.

The weighted average exercise price for options that are exercisable at December 31, 2010 amounted to Cdn$0.34 (2009 – Cdn$0.49) per option.

The weighted average grant date fair value of options granted during 2010 amounted to Cdn$0.14 (2009 – $Nil) per option.

During the year ended December 31, 2010, the weighted average exercise price and grant date fair value of options were granted at an exercise price equal to or above the quoted market value of the Company's shares.

(Expressed in US$000's)

8. CONTRIBUTED SURPLUS

	December 31, 2010 $	December 31, 2009 $
Balance, beginning of year	702	698
Value attributed to stock options		
granted during the year - employees	370	-
- non-employee	12	-
Value of expired warrants	1,316	4
Exercise of stock-based compensation options	(18)	-
Balance, end of year	2,382	702

9. RELATED PARTY TRANSACTIONS

Related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Amounts paid and accrued include the following expenditures which were incurred with directors and officers of the Company, corporations with directors and/or officers in common with the Company, and corporations controlled by directors and/or officers of the Company.

	December 31, 2010 $	December 31, 2009 $
General and administrative	38	34
Professional fees	6	47
Share issue costs	52	-
	96	81

Included in accounts payable and accrued liabilities at December 31, 2010 is $15 (2009-$16) due to the related parties. These balances are due on demand, unsecured and non-interest bearing. (Note 5)

See Note 4.

(Expressed in US$000's)

10. INCOME TAXES

a) Provision for income taxes

Major items causing the Company's income tax rate to differ from the Canadian statutory rate of approximately 31% (2009 – 33%) were as follows:

	December 31, 2010 $	December 31, 2009 $
Loss before income taxes	(1,030)	(4,657)
Expected recoverable income taxes at statutory rates	319	1,537
Increase (decrease) resulting from:		
Other	(293)	197
Difference in tax rates	(106)	(75)
Stock-based compensation	118	-
Share issue costs	111	-
Valuation allowance	(451)	4
Provision for income taxes	(302)	1,663

b) Future income tax balances

The tax effect of temporary differences that give rise to future income tax assets and liabilities in Canada is as follows:

	December 31, 2010 $	December 31, 2009 $
Future income tax assets (liabilities)		
Non-capital losses	692	275
Mineral property interests	(3,092)	(2,494)
Finance costs	116	82
Valuation allowance	(808)	(357)
	(3,092)	(2,494)

The future income tax liability arose due to the differences between the accounting values and tax values of the mineral property interests.

The Company has approximately Cdn$2,769,000 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 in 2030.

(Expressed in US$000's)

11. SEGMENTED INFORMATION

The Company considers its business to consist of two geographical segments, Canada and Mexico. Geographic segmentation of the Company's assets is as follows:

	December 31, 2010 $	December 31, 2009 $
Canada	5,297	1,599
Mexico	20,986	16,985
	26,283	18,584

During the years ended December 31, 2010 and December 31, 2009, substantially all of the Company's operating expenses were incurred in Canada.

12. 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 2010 and 2009.

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

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

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

Credit Risk:
Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owed or owing by the Company. Management's assessment of the Company's risk is low as it is primarily attributable to funds held in Canadian banks, government sales taxes recoverable from the Government of Canada, and IVA taxes recoverable from the Mexican government, which are included in amounts receivable. 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, 2010, the Company had cash and cash equivalents of $5,269 (2009 - $1,675) to settle current liabilities of $306 (2009 - $93). 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.

12. FINANCIAL INSTRUMENTS (continued)

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, 2010, the Company held Canadian monetary assets and liabilities totalling approximately Cdn$3,500,000 ($3,499), and Mexican monetary assets and liabilities totalling approximately MXN$5,552,000 ($448).

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

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

The Company holds approximately Cdn$3,500,000 ($3,499) 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 $35 based on monetary assets and liability balances existing at December 31, 2010.

The Company holds approximately Mxn$5,552,000 ($448) 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 $4 based on monetary assets and liability balances existing at December 31, 2010.

A one percent change in interest rates will result in a corresponding change in interest income of approximately $39 based on cash and cash equivalent balances existing at December 31, 2010.

Fair Value Hierarchy and Liquidity Risk Disclosure:
At December 31, 2010, the Company's financial instruments that are carried at fair value, consisting of cash and cash equivalents, have been classified as Level 2 within the fair value hierarchy.

13. CAPITAL MANAGEMENT

The Company's capital structure consists of its capital stock, convertible notes, property acquisition obligation, warrants and contributed surplus.

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.

13. CAPITAL MANAGEMENT (continued)

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 2010 and 2009.

14. 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.

In July 2010, the Company retained Dowding, Reynard and Associates ("DRA"). DRA is involved in the oversight of all of the component parts of the feasibility study which was originally initiated by Xtierra as an in-house managed study. DRA are managing the preparation for and commissioning, and operation of the pilot plant designed to test the recovery process for the near surface oxide ores at Bilbao. The estimated cost to cover DRA's contractual obligations is $700. During 2010, the Company paid DRA $193.

15. SUBSEQUENT EVENTS

On January 20, 2011, the Company completed a non-brokered private placement by issuing 5,331,210 Units to Pacific Road Resources Fund Group for gross proceeds of Cdn$1,493,000 ($1,481) 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 Company issued 10,365,235 common shares as a result of the exercise of 10,365,235 warrants at a weighted average exercise price of $0.30 for gross proceeds of Cdn$3,108,000 ($3,034).