XTIERRA INC.
(A Development Stage Company)

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2010

Dated March 18, 2011

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

(Form 51-102F1)

XTIERRA INC.
(A Development Stage Company)
Management Discussion and Analysis
For the Year Ended December 31, 2010
(Expressed in US$000's, except per share amounts)

Date: March 18, 2011

General

The following discussion of financial condition, results of operations and future prospects should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010 of Xtierra Inc. ("Xtierra" or the "Company"), which have been prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts are stated in US dollars, unless otherwise noted.

Company Overview

The Company is a natural resource company with the primary business objective of exploring for and developing precious and base metal deposits on its mineral properties located in the Central Silver Belt of Mexico in the States of Zacatecas and San Luis Potosi, with a view to undertaking a production feasibility study and, if warranted, the commencement of commercial production of ore from one or more mineral deposits located on the Properties at the earliest opportunity. Substantially all of the Company's efforts are devoted to financing and developing these properties. The Company will also consider projects elsewhere in Mexico as opportunities present themselves.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of the carrying value of interest in mineral properties 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, possible political instability 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 environmental requirements.

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.

Overall Performance

The Company holds mineral properties located in the Central Mineral Belt of Mexico, primarily in the State of Zacatecas but also in the adjoining State of San Luis Potosi. The Central Mexican Mineral Belt is a prolific mineralized belt that has historically generated the bulk of Mexico's silver production from the early colonial period to the present day and hosts many world class precious and base metal deposits.

The Company's Zacatecas Projects consist of:

- The <u>Bilbao Project</u>, a polymetallic sulphide and oxide replacement deposit upon which the Company has delineated a NI 43-101 compliant resource of zinc-lead-silver-copper. The independent resource estimate is summarized in the table below (using a 3% zinc equivalent cut off - includes sulphide, oxide and mixed ore categories). It does not include results of a 6,077 metre drill program completed in the fourth quarter of 2010 which resulted in the discovery of a high grade silver zone along the western flank of the deposit.

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

Resource Category	Tonnage (million)	Zinc (%)	Lead (%)	Copper (%)	Silver (G/T)
Indicated Resources	9.68	2.43	2.09	0.21	59.40
Inferred Resources	4.04	1.43	1.55	0.17	53.64

The Bilbao deposit still remains open to the northwest and to the southwest. Approximately one million tonnes of historic production was developed from three small pits and limited underground workings in the near surface oxide mineralization (early 20^{th} century);

- The La Laguna Pedernalillo (Laguna) Tailings Project – a silver-gold-mercury tailings reprocessing project upon which Micon International completed a bankable feasibility study in 2006 and in February 2008 revised a NI 43-101 compliant reserve (Proven and Probable) of 6,799,000 tonnes at 57.92g/t silver, 0.31g/t gold and 328.92g/t mercury;

- El Dorado Gold Exploration Project – In June 2009 the Company entered into an option agreement with private Mexican interests whereby it may acquire a 100% interest in the El Dorado gold project within 2,890 hectares of mining claims located in the Pinos district of southeastern Zacatecas State, Mexico. The property is located within the Central Mexican Mineral Belt and has an existing small-scale underground gold mining operation developed on one level of the El Dorado vein. It is located close to Xtierra's existing Orca 3 property in the Pinos district and some 80 kilometres southeast of Xtierra's Bilbao silver-zinc-lead-copper development project. The Company completed an initial 1,385 metre underground and surface drill program on the property during January – March, 2010. On March 26, 2010 the Company exercised its option to purchase the property and the transaction was completed on April 12, 2010.

- Approximately 12,267 hectares of Exploration Properties in three groupings identified as the Villa de Ramos, El Morro, Orca 3 property in the Pinos district and Milagros Properties in the Panfilo Natera Mining District of Zacatecas and neighbouring San Luis Potosi, in the general vicinity of the Bilbao Project.

Bilbao Silver-Zinc-Lead-Copper Deposit

The Bilbao Property is located northwest of Mexico City in the State of Zacatecas, 50km east of the state capital, Zacatecas. The Bilbao deposit is a sulphide replacement deposit with a skarn overprint and is located adjacent to the La Blanca granodiorite. The upper 70-90 metres of the deposit have been oxidised. Prior to the Company's involvement at Bilbao in 2006, no drilling was carried out although historical intermittent mining of direct shipping ore may have amounted to 1 million tonnes of the near surface oxide mineralization.

A Feasibility Study on the Bilbao property is in its final phases and a final production decision is anticipated following its completion, likely in the third quarter of 2011.

In July 2010, the Company announced that it had retained Dowding, Reynard and Associates (DRA), a recognized leader in the field of mine design, mine engineering, mineral process design, project management and mine construction to oversee the Bilbao Feasibility Study. DRA has particular expertise in Process Plant Design, Metallurgical Process Engineering, and Metallurgical Consulting. DRA will be involved in 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 contract is now estimated to be $700. Xtierra also retained Golder Associates for tailings disposal design work related to the Bilbao development.

Pilot Plant:

The proposed test work comprises several component parts, including: (1) bulk sampling and preparation of composite samples; (2) crushing, milling and pre-concentration; (3) process stage of acid leaching, flotation and cyanidation; (4) confirmation of recovered grades and marketing of iron oxide in the reject magnetic material to the cement industry.

Composite Sampling - Four composite samples have been prepared representing approximately 20 tonnes of material obtained from within the oxide body from surface as well as from the 40 and 76 levels of the old mine workings.

Crushing, Milling and Pre-Concentration Stage - Installation of civil, mechanical and electrical facilities for the milling and pre-concentration production have been completed on location nearby the Bilbao project site, including the installation of a crusher, ball mill, classifier and wet, high intensity magnetic separator (WHIMS). The WHIMS was commissioned by Outotec in October.

Once the WHIMS settings are optimized, the four 5 tonne sample composites will be batch processed to produce four, non-magnetic concentrates of approximately 3 tonnes each which contain the payable zinc, silver, lead, copper and gold. The magnetic material, containing a high percentage of iron oxide, will remain on site at Bilbao and marketing of this reject material to the cement industry will be pursued.

Process Stage - Fabrication of the tanks, agitators, flotation cells including electric controls for a 20 kg/hr process plant has been completed. Once locked cycle bench scale test work has been completed, the balance of the pilot plant will be finalized, installed and commissioned to process the batched pre concentrates.

Drilling:

During the third and fourth quarter, Xtierra completed a drilling program comprised of 29 holes totaling 6,077 metres. Mineralization was encountered in two step-out holes (X-84 and X-85) to the south, extending the outer limits of the Bilbao deposit for at least an additional 50 metres. Both holes encountered higher grade zinc and lead values than for the deposit as a whole. Hole X-84, collared 50m east of hole X-85 and 75m southeast of hole X-26, encountered a mineralized zone of 2.2m with a combined grade of over 11% zinc+lead together with 0.21% copper and 70.50g/t silver and hole X-85, collared 50m south of hole X-26, intersected a zone of 1.8m with >7% zinc+lead together with 0.65% copper and 53.65/t silver as well as a separate, upper zone, of brecciated limestone averaging 90.14g/t silver over a width of 20.0 metres.

This new silver intersection lies within 75 metres of the previously reported high grade native silver veinlets encountered in hole X-26 which averaged 1.3kg/t silver over 3 metres.

High silver values were also recorded in three other holes previously collared in the southwestern part of the Bilbao deposit (X-34, X-35 and X-37), located 50m to 100m respectively northeast and north of hole X-26. As presently known, the area of high silver values occurs over a length of at least 150m by 75m in width, and is open ended to the south and west. It is believed that the high silver values may be related to a silver-rich, late-stage, pulse of hydrothermal mineralization.

This recent drilling data is being compiled and integrated into the existing resource model. A mineral resource update was started during the fourth quarter of 2010 and will be available during the first quarter of 2011 after independent review.

The Bilbao property is subject to a 1.5% net smelter royalty in favour of Minera Portree S.A. de C.V., commencing after the second year of commercial production and on which the Company holds a first right of refusal to purchase.

La Laguna Pedernalillo (Laguna) Tailings Project

Through its Mexican subsidiary, Minera Orca S.A de C.V., ("Minera Orca"), the Company holds an extraction licence granted by Conagua, the Mexican authority responsible for water resources, for the silver-rich La Laguna Pedernalillo ("Laguna") tailings deposit located near the city of Zacatecas in Mexico. The Laguna deposit comprises tailings solids derived from historic mine processing wastes and tailings located some distance from a dam constructed in 1836 to retain water for agricultural use.

The mineral reserve as estimated by Micon International totals 6.8 million tonnes containing an average of 57.92 g/t silver, 0.31 g/t gold and 328.92 g/t mercury. Micon have estimated total capital cost of $34,203 (comprised of $17,537 direct costs together with indirect and owner's cost of $7,743, and an additional $8,923 is estimated for pre-production cost for the tailings area to bring the project into production). These costs are as of January 2006. Further optimization studies have been undertaken by the Company and additional leach test work has been carried out with respect to evaluating a static vat leach process using calcium thiosulphate to recover silver, gold and mercury. Results of such test work have been positive.

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 to conduct due diligence. Subsequent to December 31, 2009, IGL requested and was granted extensions to August 30, 2010 when IGL informed the Company that it was ceasing its interest in developing the Laguna project.

The Company will seek to advance the Laguna Project through additional metallurgical testing and updating of an earlier feasibility study, either directly or through other farm-out or joint venture arrangements.

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.

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 the feasibility study is completed;
- payment of $268 on January 15, 2015;
- payment of $268 on January 15, 2016;

If the Company completes a feasibility study prior to January 15, 2014 with gold reserves of 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 of $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.

The project is within 2,890 hectares of mining claims located in the Pinos district of the Central Mexican Mineral Belt and has an existing small-scale underground gold mining operation developed on one level of the El Dorado vein. It is located close to Xtierra's existing Orca 3 property and some 80 kilometres southeast of the Bilbao silver-zinc-lead-copper development project.

The El Dorado property is located 7 kilometers northeast of the historic Pinos gold deposits where veins with reported bonanza grades of more than 200g/t gold were mined historically on northwest striking veins, which made the Pinos district the largest gold producer in the State of Zacatecas during the Colonial Period. Historic records suggest the average mined grade was 97 g/t silver and 58.26 g/t gold.

Gold mineralization at El Dorado occurs as veins and in quartz stockworks related to late stage extensional faulting developed within an intrusive quartz-eye rhyolite. The El Dorado vein trends north-northwest and dips steeply to the west. It comprises one main and several parallel veins of quartz-hematite. Mineralization noted within the single level adit driven 134 metres on the vein is native gold within a matrix of hematite. Lower grade gold mineralization has been found in altered wall rocks. The current mining operation on the El Dorado vein structure produces only small tonnages each day by selectively hand mining higher grade vein material which is directly shipped to the Peñoles smelter, 400 km to the north, at Torreon.

Work completed by Xtierra during preliminary due diligence resulted in the discovery of an extensive gold-bearing stockwork encompassing the El Dorado vein and several other parallel structures. Soil and rock geochemistry have demonstrated that this stockwork, formed at the edge of a linear gold soil anomaly over 1km in strike length, is open-ended to the north-east and trends directly into a second, newly identified stockwork body, located over 300 metres away from the El Dorado vein. Sampling by Xtierra confirmed the high grade nature of the El Dorado vein with channel sampling returning values ranging from 0.5 to 57.0 g/t gold over widths of 0.10 to 1.0 metre with individual grab samples as high as 1,760 g/t gold and 3,590 g/t silver. Such grades indicate the potential for bonanza deposition zone development within an epithermal boiling zone. Prospecting, trenching and soil geochemical sampling indicates the presence of a number of parallel veins underlain by altered and brecciated, prophyritic rhyolite with well developed quartz-hematite stockwork veining which have consistently returned anomalous gold values in the range 0.1 to 80 g/t gold within the area of the stockwork.

The Company commenced initial drilling at the El Dorado project in January 2010 which included five inclined holes (between -35 and -45 degrees) for a total of 1,385 metres, of which two holes were collared underground in the main El Dorado adit.

The number of mineralized veins identified on the property was increased to twelve with a combined strike length in excess of 1,300m. The veins have a north-south orientation and trend parallel or sub-parallel with the main El Dorado gold-bearing structure. The veins are emplaced within a quartz-stockwork at the southern margin of a rhyolitic intrusive host. The drilling was carried out over a surface area of 600 m by 200 m along the stockwork contact and to a maximum vertical depth of about 200 m.

Some of the widths on the veins are significantly greater than had been anticipated with a zone of 7.80 m occurring in hole ED-1 averaging 4.72g/t gold on the Gavilan vein and a 4.00 m intersection averaging 11.55g/t gold on the newly found El Oro vein (hole ED-5). In addition, excavation of the drill pad in the underground adit on the El Dorado vein has demonstrated that the mineralized zone extends well into the hangingwall as evidenced by the discovery of an additional high grade vein containing 189.0 g/t gold within a 6.0 m wide zone of mineralization.

Of the two remaining, surface drill-holes, ED-4 was a stratigraphic hole in a separate area and was not expected to intersect auriferous vein structures. However, minor veinlets of anomalous gold in the 0.1-0.3 g/t gold range were encountered. This hole also intersected two zones of highly anomalous mercury content. The zones occurred in brecciated, carbonaceous limestone near the contact with tuffs. One zone of 35.0 m between 250.0 m and 285.0 m averaged 9.90g/t mercury and a zone of 6.0 m between 227.0 m and 233.0 m averaged 14.27 g/t mercury.

Exploration Properties

The Company holds approximately 12,267 hectares of mineral claims in the general Panfilo Natera area, adjacent to and for significant distances to the north and south of the Bilbao project area. Over the past three years, the Company's Mexican subsidiaries have conducted preliminary exploration activities over parts of these claims including geological mapping, geophysical surveys, geochemical soil surveys and trenching and resampling of historic workings. A very limited number of holes have been drilled. A number of targets have been identified which indicate the potential for skarn-type mineralisation (as at Bilbao), epithermal gold and silver vein mineralisation and volcanogenic massive sulphide (VMS) mineralisation.

Exploration Properties - Schedule of Deferred Exploration Expenditures

For the years ended December 31, 2010 and 2009

	Bilbao		Laguna		El Dorado		Other		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Expressed in US$000's	$	$	$	$	$	$	$	$	$	$
Drilling	816	-	-	-	213	-	-	-	1,029	-
Geology, geophysics and geochemistry	163	128	-	11	67	56	-	-	230	195
Salaries	315	197	-	-	14	19	-	-	329	216
Feasibility study and technical reports	1,055	329	-	8	1	4	-	-	1,056	341
Other field related expenses	99	211	-	17	(25)	35	(53)	-	21	263
Exploration rights	-	-	-	-	10	33	-	-	10	33
Mining tax concessions	8	5	-	-	4	5	27	50	39	60
Other	133	52	6	6	30	35	11	41	180	134
Sub-total	2,589	922	6	42	314	187	(15)	91	2,894	1,242
Acquisition of El Dorado project	-	-	-	-	495	-	-	-	495	-
Total additions before accretion	2,589	922	6	42	809	187	(15)	91	3,389	1,242
Accretion expense	209	149	-	-	45	-	-		254	149
Total	2,798	1,071	6	42	854	187	(15)	91	3,643	1,391

Exploration Properties - Schedule of Deferred Exploration Expenditures
For the three-month periods ended December 31, 2010 and 2009

	Bilbao		Laguna		El Dorado		Other		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Expressed in US$000's	$	$	$	$	$	$	$	$	$	$
Drilling	5	-	-	-	1	-	-	-	7	-
Geology, geophysics and geochemistry	56	24	-	4	2	9	-	-	58	37
Salaries	87	68	-	-	0	1	-	-	87	69
Feasibility study and technical reports	347	86	-	-	0	(2)	-	-	347	84
Other field related expenses	67	178	-	(5)	(22)	27	(53)	-	(8)	200
Exploration rights	-	-	-	-	0	-	-	-	0	-
Mining tax concessions	0	-	-	-	0	-	0	-	0	-
Other	40	(7)	-	4	1	7	3	-	43	4
Sub-total	602	349	-	3	(18)	42	(50)	-	534	394
Accretion expense	105	46	-	-	30	-	-		135	46
Total additions	707	395	-	3	12	42	(50)	-	669	440

Future Plans

Management is currently focused on advancing the Zacatecas Projects, particularly the Bilbao Project, to production. The objective of management is to advance the Bilbao project so that a production decision could be made subject to a satisfactory outcome of the Feasibility Study.

The high priority and critical path feasibility study task to conclude is the oxide ore metallurgical test work. Due to the late delivery of equipment, mechanical and electrical issues and availability of laboratory testing facilities and related personnel, the preparation for the pilot plant test work has fallen behind schedule by six months. Open cycle test work is presently being conducted at the SGS Laboratory in Durango. This will be followed by locked-cycle test work which, once completed, will provide the necessary engineering data to complete the pilot plant flow sheet, necessary fabrication and commissioning of the 20kg/hr plant. If no major hurdles are encountered, we anticipate completing the metallurgical test work in late second quarter 2011. All other tasks are progressing on schedule. The estimated cost to complete the Study is $2,400.

On the Eldorado project, the Company plans to evaluate the results of its preliminary drilling and conduct further ground follow up surveys, including additional trenching on the El Dorado, Santa Patricia and El Centenario claims. Once the data and information has been compiled and reviewed, and targets are confirmed, a second drill program will be considered for the third or fourth quarter of 2011.

The Company will seek to advance the Laguna Project through additional metallurgical testing and updating of an earlier feasibility study during 2011 at an estimated cost of $300.

In addition, the Company evaluates and reviews mineral property opportunities in Mexico and elsewhere as well as M&A opportunities.

Financing Option

The Pacific Road Group of Funds ("Pacific Road") holds options pursuant to 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, in order to obtain interests of up to 35% and 25% of the Company's interests, respectively. Such project financings may be converted into common shares 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 the Pacific Road Group of Funds on any project financing provided under these options.

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

On April 14, 2009, the Company and Pacific Road Group of Funds entered into an agreement whereby Pacific Road subscribed for $1,250 in non-interest bearing convertible notes issued by Orca Minerals Limited, a wholly-owned subsidiary of the Company. 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.

In January 2011, Pacific Road subscribed for 5,331,210 Units (Cdn$1,493,000) of a 14,331,210 Unit private placement financing, and a fee of Cdn$57,010 was paid to the Manager/Advisor. On March 1, 2011, Pacific Road exercised 6,250,000 warrants thereby increasing their group shareholdings in the Company to approximately 35.3 million shares (34.9%) undiluted.

Qualified Persons

Terence N. McKillen, P. Geo., Chief Executive Officer and Director, and Gerald Gauthier, P. Eng., Chief Operating Officer, are the Company's Qualified Persons for the purposes of National Instrument 43-101 and have approved the technical disclosures in this MD&A.

Results of Operations

The Company recorded no revenue in 2010 or 2009.

For the year ended December 31, 2010, the Company incurred a loss of $1,332 ($0.019 per share), compared to a loss of $2,994 ($0.060 per share) for the year ended December 31, 2009.

The loss for the year ended December 31, 2010 included $382 stock-based compensation and $302 future income taxes. The loss for the year ended December 31, 2009 included a write-down of $4,341 in mineral properties and a future income tax recovery of $1,663.

Administrative expense for the year ended December 31, 2010 amounted to $692, compared to $483 for the same period in 2009. The conversion of some Canadian assets and liabilities, primarily cash to US dollars, resulted in a foreign exchange recovery of ($31), for the year ended December 31, 2010, compared to a recovery of ($157) during the same period in 2009.

Selected Annual Information

The following selected annual information has been derived from the financial statements of the Company, which have been prepared in accordance with Canadian generally accepted accounting principles.

	Year ended Dec. 31, 2010 $	Year ended Dec. 31, 2009 $	Six months ended Dec. 31, 2008 $	Six months ended June 30, 2008 $
Loss before other items	692	483	305	87
Net and comprehensive loss for the period	1,332	2,994	692	117
Net Loss per common share	0.019	0.060	0.014	0.003
Total assets	26,283	18,584	22,163	21,330
Cash and cash equivalents	5,269	1,675	2,130	5,119
Long-term debt and capital notes	5,149	3,889	4,565	2,526
Shareholders equity	20,828	14,602	16,973	18,362

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

Summary of Quarterly Results

	Mar. 31 2009 $	June 30 2009 $	Sept. 30 2009 $	Dec. 31 2009 $	Mar. 31 2010 $	June 30 2010 $	Sept. 30 2010 $	Dec. 31 2010 $
Net loss (gain)	149	(18)	165	2,698	423	394	127	388
Net loss per share	0.003	(0.000)	0.003	0.036	0.008	0.007	0.002	0.005
Total assets	21,994	23,312	22,784	18,584	22,166	23,610	23,467	26,283
Working Capital	1,200	2,194	1,763	1,609	4,574	4,716	3,244	5,452

- The loss incurred in the quarter ended March 31, 2009 included $47 in foreign exchange.
- The income generated in the quarter ended June 30, 2009 included a foreign exchange recovery of ($132) and $45 in professional fees.
- The loss incurred in the quarter ended December 31, 2009 included a write-down of $4,341 on the Laguna property and a reversal of future income taxes of $1,663.
- The loss incurred in the quarter ended March 31, 2010 included $347 stock-based compensation.
- Total assets and working capital in the quarter ended March 31, 2010 reflect the receipt of a private placement financing.
- The loss incurred in the quarter ended June 30, 2010 included $139 in foreign exchange and $120 professional fees.
- The loss incurred in the quarter ended September 30, 2010 included $28 in foreign exchange and $37 professional fees.
- The loss incurred in the quarter ended December 31, 2010 included a foreign exchange recovery of ($99), $79 professional fees and $302 future income taxes.
- Total assets and working capital in the quarter ended December 31, 2010 reflect the receipt of a private placement financing.

Liquidity and Capital Resources

At December 31, 2010, the Company held $5,269 in cash and cash equivalents. Total assets increased to $26,283 at December 31, 2010 from $18,584 at December 31, 2009 as a result of two private placement financings less funds expended during the year. Accounts payable and accrued liabilities increased to $306 at December 31, 2010 from $93 at December 31, 2009. The Company had a working capital surplus of $5,452 at December 31, 2010 compared to a surplus of $1,609 at December 31, 2009.

At December 31, 2010, the Company had mineral properties with a total book value of $20,525. The balance sheet values may not represent those which could be obtained if the properties were to be offered for sale at this time.

The Pacific Road Group of Funds holds options negotiated in the terms of the Initial Agreement dated September 19, 2007 to provide financing of up to $32,500, please refer to the "Financing Option" above for additional details. There can be no certainty that such funds will be available to the Company when or if required.

In December 2010 and on January 20, 2011, the Company completed a non-brokered private placement for gross proceeds of Cdn$4,013,000 ($3,962) consisting of 14,331,210 units ("Units") at Cdn$0.28 per Unit ($1,493 was deposited on January 20, 2011). 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.

Between January 1, 2011 and March 18, 2011, the Company also issued 10,969,883 common shares as a result of the exercise of 10,969,883 warrants at a weighted average exercise price of $0.30 for gross proceeds of Cdn$3,291,000. At March 18, 2011, the Company held cash and cash equivalents in Canadian accounts totaling approximately $9,240. The Company is adequately financed to complete its stated goals for 2011; however, additional funding will be required to further advance the Bilbao deposit into production.

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

Related Party Transactions

Related party transactions were in the normal course of operations and 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) payable to Neil J.F. Steenberg, Director, for legal fees.

During the year ended December 31, 2010, the Company made payments totaling $96 (2009-$81) to related parties, including $58 to Neil J.F. Steenberg, Director, for legal fees, $52 of which were related to the two private placements, and $38 to Labrador Iron Mines Holdings Limited, a company with common directors and/or officers, for office rent.

Critical Accounting Estimates

The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles and require 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, if any, 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 valuation of tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

The following is a discussion of the accounting estimates that are considered by management to be significant in determining the Company's financial results and position:

Mineral Property Interests

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 sale of the property. Management's assessment of the property's estimated current value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review. These assessments are based on opinions, estimates and assumptions and are subject to risks and uncertainties, including geological and exploration risks.

Changes in Accounting Policies

Future Accounting Standards

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 does not believe that these new Sections will have an impact on its consolidated financial statements.

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 developed a three phase changeover plan to adopt IFRS by January 1, 2011 as follows:

(i) Scope and Plan: This first phase involved the development of an initial project plan and structure, the identification of differences between IFRS and existing Canadian GAAP, and an assessment of their applicability and the expected impact on the Company.

(ii) Design and Build: The second phase included the detailed review, documentation and selection of accounting policy choices relating to each IFRS standard. This phase also included assessing the impact of the conversion on business activities, including the effect on information technology and data systems, income tax, internal controls over financial reporting, and disclosure controls. In this phase, accounting policies were finalized, first-time adoption exemptions and exceptions were considered, and draft financial statements and note disclosures were prepared.

(iii) Implement and Review: The final phase involves the actual implementation of IFRS standards. This phase involves the finalization of IFRS conversion impacts, approval and implementation of accounting policies, implementation and testing of new processes, systems and controls, and the execution of detailed training where required.

The Company's IFRS transition date of January 1, 2011 requires the restatement, for comparative purposes, of amounts reported on the Company's opening IFRS balance sheet as at January 1, 2010 and amounts reported by the Company for the year ending December 31, 2010.

The CEO, CFO and certain other directors currently sit on the Boards of companies that report under IFRS and have knowledge of IFRS. The needs of other members of the audit committee and the Company generally, were reviewed. The Board of Directors and the Audit Committee have been updated on the progress of the IFRS conversion. The Company's staff involved in the preparation of financial statements were trained on the relevant aspects of IFRS and the anticipated changes to accounting policies.

Differences between IFRS and Canadian GAAP, in addition to those referenced further under "Accounting Policy Impacts and Decisions", may continue to be identified based on further detailed analyses by the Company and other changes in IFRS.

Accounting Policy Impacts and Decisions
The Company has completed its initial assessment of the impacts of adopting IFRS based on the standards as they currently exist, and has identified the following as having the greatest potential to impact the Company's accounting policies, financial reporting and information systems requirements upon conversion to IFRS. The Company believes that other than reclassifications within the statement of financial position (balance sheet), the changes identified to date are minimal.

- *Presentation and Disclosure*

IFRS requires significantly more disclosure than Canadian GAAP for certain standards, most of which do not apply to the Company. The increased disclosure requirements will not cause the Company to change financial reporting processes to ensure the appropriate data is collected.

- *Deferred exploration and development costs*

Canadian GAAP is more comprehensive than IFRS, which only provides guidance up to the point that technical feasibility and commercial viability of extracting is demonstrated. Canadian GAAP allows for the capitalization of certain exploration and development costs. IFRS allows accounting in line with Canadian GAAP for the exploration and evaluation phase but expenditures beyond the exploration and evaluation phase must be considered in line with the capitalization criteria for plant, property and equipment (PP&E) and/or intangible assets. Other than the reclassification of certain exploration expenditures from this classification of asset to PP&E and certain potential future/deferred income tax adjustments, no significant impact on the measurement of these assets is expected.

IAS 36, *Impairment of Assets* ("IAS 36") uses a one-step approach for testing and measuring asset impairments, with asset carrying values being compared to the higher of value in use and fair value less costs to sell. Value in use is defined as being equal to the present value of future cash flows expected to be derived from the asset in its current state. In the absence of an active market, fair value less costs to sell may also be determined using discounted cash flows. The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP where undiscounted future cash flows are used to compare against the asset's carrying value to determine if impairment exists. This may result in more frequent adjustments in the carrying value of assets under IFRS since asset carrying values that were previously supported under Canadian GAAP based on undiscounted cash flows may not be supported on a discounted cash flow basis under IFRS. However, under IAS 36, previous impairment losses may be reversed where circumstances change such that the impairment has been reduced. This also differs from Canadian GAAP, which prohibits the reversal of previously recognized impairment losses. The Company has performed a thorough assessment of its assets as at December 31, 2010 and is not expecting any impact on the measurement of these assets. In the future, testing and measuring for asset impairment will be performed as required.

- *Provisions and Contingent Liabilities*

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37") requires a provision to be recognized when: (i) there is a present obligation as a result of a past transaction or event; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) a reliable estimate can be made of the obligation. The threshold for recognizing a provision under Canadian GAAP is higher than under IFRS. It is possible, therefore, that some contingent liabilities which would not have been recognized under Canadian GAAP may meet the criteria for recognition as a provision under IFRS. The Company is not aware of any situation that would require a provision for contingent liability.

- *Functional Currency*

Functional currency is the currency of the primary economic environment in which the entity operates. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. IFRS requires that the functional currency of the Company and its subsidiaries be determined separately, and the factors considered to determine functional currency are different than in Canadian GAAP. *Foreign exchange translation*; under IFRS, assets and liabilities are translated at the closing rate at the date of balance sheet. All resulting exchange rate differences are recognized as a separate component of equity.

The Company's functional currency is the United States Dollar; therefore, the Company does not expect any changes to its accounting policies. The Company expects certain adjustments with respect to the accounting for exchange rate differences.

- *Stock-based Compensation*

Under Canadian GAAP, vesting of employee stock options can be recognized on a straight-line basis whereas IFRS requires that each tranche of stock option vesting is treated as having a separate fair value. The amount of the expense recognized under IFRS may be different to that under Canadian GAAP and is recognized more up-front. The Company issued stock-based compensation in 2010; however, the differences are not expected to have a material impact on the Company.

- *Income Taxes*

IAS 12, *Income Taxes* ("IAS 12") prescribes that an entity account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Therefore, where transactions and other events are recognized in earnings, the recognition of deferred tax assets or liabilities that arise from those transactions should also be recorded in earnings. For transactions that are recognized outside the statement of earnings, either in other comprehensive income or directly in equity, any related tax effects should also be recognized outside the statement of earnings.

- *IFRS 1, First-Time Adoption of IFRS*

IFRS 1 provides the framework for the first-time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. IFRS 1 also specifies that the adjustments that arise on retrospective conversion to IFRS from other GAAP should be recognized directly in retained earnings. Certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS 1.

The various accounting policy choices available are being assessed and those determined to be most appropriate will be implemented. At the current time, the Company expects to apply the following optional exemptions under IFRS 1: (a) Share-based payments (stock-based compensation) vested as at January 1, 2010 will not be retrospectively applied, and (b) financial instruments designated as held for trading under Canadian GAAP will be designated as at fair value through profit or loss (to the extent permitted) in order to maintain the current accounting practice of changes in fair value being reported directly in the statement of operations.

Prior to reporting interim financial statements in accordance with IFRS for the quarter ending March 31, 2011, the Company may decide to apply other optional exemptions contained in IFRS 1.

- *Information Systems*

The Company is using an external financial software application and is expecting an efficient transition to IFRS. The Company has prepared an opening balance sheet as at January 1, 2010 in accordance with IFRS.

The International Accounting Standards Board has a number of ongoing projects on its agenda that may result in changes to existing IFRS prior to the Company's conversion to IFRS in 2011. The Company continues to monitor these projects and the impact that any resulting IFRS changes may have on its accounting policies, financial position or results of operations under IFRS for 2011 and beyond.

Risk and Uncertainties

In conducting its business, the Company faces a number of risks common to the mining and exploration industry. These are summarized below. There are also certain specific risks including those listed below, associated with an investment in the Company and prospective investors should consider carefully these specific risk factors associated with an investment in the Company.

Title Risks

Title insurance is generally not available although the Company has exercised the usual due diligence with respect to determining title to and interests in the Properties, there is no guarantee that such title to or interests in the Properties will not be challenged or impugned. The Company's mineral property interests may be subject to prior unregistered agreements or transfers and title may be affected by, among other things, undetected defects. Until competing interests in the mineral lands have been determined, the Company can give no assurance as to the validity of title of the Company to those lands or the size of such mineral lands.

Exploration, Development and Operating Risk

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. The marketability of minerals acquired or discovered by the Company may be affected by numerous factors that are beyond the control of the Company and that cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection, the combination of which factors may result in the Company not receiving an adequate return of investment capital. Many of the claims to which the Company has a right to acquire an interest are in the exploration stage only and are without a known body of commercial ore. Development of the subject mineral properties would follow only if favourable exploration results are obtained and a positive feasibility study is completed.

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any discoveries of commercial bodies of ore. The long-term profitability of the Company's operations will in part be directly related to the costs and success of its exploration and development programs, which may be affected by a number of factors.

Substantial expenditures are required to establish reserves through drilling and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis.

No Assurance of Production

Mineral exploration is highly speculative in nature, involves many risks, and frequently does not lead to the discovery of commercial reserves of minerals. While the rewards can be substantial if commercial reserves of minerals are found, there can be no assurance that the Company's past or future exploration efforts will be successful, that any production therefrom will be obtained or continued, or that any such production which is attempted will be profitable.

The Company has limited experience in placing resource properties into production, and its ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements with other major resource companies that can provide such expertise. There can be no assurance that the Company will have available to it the necessary expertise when and if the Company places its resource properties into production and whether it will produce revenue, operate profitably or provide a return on investment in the future.

Factors beyond the Company's Control

The exploration and development of mineral properties and the marketability of any minerals contained in such properties will be affected by numerous factors beyond the control of the Company. These factors include government regulation, high levels of volatility in market prices, availability of markets, availability of adequate transportation and refining facilities and the imposition of new or amendments to existing taxes and royalties. The effect of these factors cannot be accurately predicted.

Failure to Obtain Additional Financing

The Company does not currently have all the financial resources necessary to undertake its currently planned activities and there can be no assurance that the Company will be successful in obtaining any additional required funding necessary to conduct additional exploration, if warranted, on the Company's exploration properties or to develop mineral resources on such properties, if commercially mineable quantities of such resources are located thereon. Failure to obtain additional financing on a timely basis could cause the Company to forfeit its interest in such properties. If additional financing is raised through the issuance of equity or convertible debt securities of the Company, the interests of shareholders in the net assets of the Company may be diluted.

Insurance and Uninsured Risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or properties of others, delays in development or mining, monetary losses and possible legal liability.

Although the Company will purchase insurance to protect against certain risks in such amounts as it considers reasonable, such insurance may not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Environmental Risks and Hazards
The Company's operations may be subject to environmental regulations in the various jurisdictions in which it operates. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner that means standards are stricter, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. The Company intends to comply fully with all applicable environmental regulations.

Government Regulation and Permitting
The current or future operations of the Company, including development activities and commencement of production on its properties, require permits from various federal, state and local governmental authorities in Mexico, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, water use, environmental protection, land claims of local people, mine safety and other matters.

Mexico is considered among the desirable regions of the world for exploration and mining, according to results of a recent survey conducted by The Fraser Institute, an independent Canadian research organization. The country's desirability for mining companies results from a combination of factors including a strong mining culture, excellent geology, relative political stability and favourable tax and permitting structures. Under the country's foreign ownership laws, non-Mexican companies can maintain 100% ownership of their properties and reap the benefits of successful exploration.

Such operations and exploration activities are also subject to substantial regulation under applicable laws by governmental agencies that will require the Company to obtain permits, licences and approvals from various governmental agencies. There can be no assurance, however, that all permits, licences and approvals that the Company may require for its operations and exploration activities will be obtainable on reasonable terms or on a timely basis or that such laws and regulations will not have an adverse effect on any mining project which the Company might undertake.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

To the best of the Company's knowledge, it is operating in compliance with all applicable rules and regulations.

Lags
The Company is unable to predict the amount of time which may elapse between the date when any new mineral reserve may be discovered, the date upon which such discovery may be deemed to be economic pursuant to a feasibility study and the date when production will commence from any such discovery.

Infrastructure
Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants which affect capital and operating costs. Unusual or infrequent weather phenomena, terrorism, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

Competition
The mining industry is intensely competitive in all its phases, and the Company competes with other mining companies in connection with the acquisition of properties producing or capable of producing, precious and base metals. Many of these companies have greater financial resources, operational experience and technical facilities than the Company. Competition could adversely affect the Company's ability to acquire suitable properties or prospects in the future. Consequently, the Company's revenue, operations and financial condition could be materially adversely affected.

Management
The success of the Company is currently largely dependent on the performance of its directors and officers. There is no assurance the Company can maintain the services of its directors and officers or other qualified personnel required to operate its business. The loss of the services of these persons could have a material adverse affect on the Company and its prospects. Some of the directors and officers also serve as directors and/or officers of other companies which are engaged and will continue to be engaged in the search for additional business opportunities on behalf of other companies, and situations may arise where these directors and officers will be in direct competition with the Company. Conflicts, if any, will be dealt with in accordance with the relevant provisions of applicable corporate and securities laws.

Ability to Attract and Retain Qualified Personnel
Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Company's business activity grows, additional key financial, administrative and mining personnel as well as additional operations staff will be required. Although the Company believes it will be successful in attracting, training and retaining qualified personnel, there can be no assurance of such success. If the Company is not successful in attracting, training and retaining qualified personnel, the efficiency of operations could be affected.

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. Other factors unrelated to the Company's performance that may have an effect on the price of the the Company Shares include the following:

- the extent of analytical coverage available to investors concerning the Company's business may be limited if investment banks with research capabilities do not follow its securities;
- the limited trading volume and general market interest in the Company's securities may affect an investor's ability to trade the Company Shares;
- the relatively small size of the publicly held shares will limit the ability of some institutions to invest in the Company's securities; and
- a substantial decline in the Company's share price that persists for a significant period of time could cause its securities to be delisted from any stock exchange upon which they are listed, further reducing market liquidity.

As a result of any of these factors, the market price of the Company Shares at any given point in time may not accurately reflect the Company's long-term value.

Fluctuating Mineral Prices
Factors beyond the control of the Company may affect the marketability of metals discovered, if any. Metal prices are subject to significant fluctuation and are affected by a number of factors which are beyond the control of the Company. The principal factors include: diminished demand which may arise if current rates of economic growth in North America, India and China are not sustained; supply interruptions due to changes in government policies in base and precious metals, war, or international trade embargos; increases in supply resulting from the alleviation of professional and skilled labour shortages experienced by the world's largest producers; and, increases in supply resulting from the discovery and the development of new sources of base and precious metals. The effect of these factors on the Company's operations cannot be predicted.

Foreign Currency Exchange

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. The Company's financing activities have been denominated in Canadian Dollars, while the expenditures to be incurred by the Company on its mineral exploration projects in Mexico will be denominated in US Dollars or Mexican Pesos. The Company also has certain liabilities denominated in US Dollars. The appreciation of the US Dollar against the Canadian Dollar, if it occurs, would result in increased costs of the Company's activities in Mexico in Canadian Dollar terms, and currency movements may have a significant impact on the Company's financial position and results of operations in the future. Fluctuations in the exchange rates between the Canadian Dollar and the Mexican Peso or US Dollar may have an adverse or positive effect on the Company.

Dividends

The Company has not paid any dividends on its Shares since incorporation. The Company has a limited operating history and there can be no assurance of its ability to operate its projects profitably. Payment of any future dividends will be at the discretion of the Company's board of directors after taking into account many factors, including the Company's operating results, financial condition and current and anticipated cash needs.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

Financial Instruments

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.

The Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Fair value estimates of financial assets and liabilities are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates involve uncertainties and are subjective in nature. Other financial instruments included in current assets are classified as loans and receivables, which are measured at amortized costs. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. As at December 31, 2010, the carrying and fair value amounts of the Company's financial instruments are the same.

The Company is subject to foreign exchange risk as some of its operating, investing and financing activities are transacted in currencies other than the US Dollar. The Company's operations are carried out in Mexico and Canada and cash is held in Canadian Dollars and Mexican Pesos as well as in US Dollars, the Company is therefore subject to gains and losses due to fluctuations in these currencies. As at December 31, 2010, the Company held cash and cash equivalents in Canadian accounts totaling approximately Cdn$3,681,000 and US$1,505.

Outstanding Share Capital

The Company has unlimited authorized share capital of a single class of common shares of which, at December 31, 2010, 84,867,003 common shares were issued.

At December 31, 2010, the Company had 22,009,500 share purchase warrants outstanding and 4,830,000 stock options issued pursuant to the Company's Stock Option Plan. The options are exercisable over a period of five years.

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 ($1,481) at Cdn$0.28 per Unit. Between January 1, 2011 and March 18, 2011, the Company issued 10,969,883 common shares as a result of the exercise of 10,969,883 warrants at a weighted average exercise price of $0.30 for gross proceeds of Cdn$3,290,000. As at March 18, 2011, the Company had 101,349,780 shares and 16,370,827 share purchase warrants outstanding. Upon conversion of the convertible notes, additional shares of the Company could be issued.

On May 18, 2010, the Company retained the services of Vantage Communications Ltd. ("VantageWire"), a Vancouver based Investor Relations service provider, to act as a marketing and investor relations consultant for the Company. VantageWire were granted 300,000 incentive Stock Options at a price of $0.21 per share. The Stock Options become vested in accordance with the Company's standard Stock Option plan 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. On December 17, 2010 Vantage exercised 150,000 options. The remaining options will expire on July 8, 2011 unless exercised.

Additional Information

Additional information about the Company is available under the Company's profile on SEDAR at www.sedar.com and on the Company's website.

Forward-Looking Statements

This management's discussion and analysis contains certain forward-looking statements relating to, but not limited to, the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves the grade and recovery of ore which is mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, delays in the development of projects changes in exchange rates, fluctuations in commodity prices, inflation and other factors. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results. Shareholders and prospective investors should be aware that these statements are subject to known and unknown risks uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

Date: March 18, 2011