XTIERRA INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – prepared by management

First Quarter

For the three month period ended March 31, 2011

(Expressed in US$000's)

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that the interim consolidated financial statements have not been reviewed by an auditor.

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

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

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Condensed Interim Consolidated Statement of Financial Position
As at March 31, 2011

(Expressed in US$000's)	Note	March 31 2011 $	December 31, 2010 $	January 1, 2010 $
ASSETS				
Current assets				
Cash and cash equivalents	6	9,744	5,269	1,675
Amounts receivable and other	7	461	421	8
Prepaid expenses	7	56	68	19
		10,261	5,758	1,702
Non-current assets				
Exploration and evaluation assets	9	17,421	16,936	13,582
Property, plant and equipment	8	42	26	33
		17,463	16,962	13,615
		27,724	22,720	15,317
LIABILITIES				
Current				
Accounts payable and accruals	10	89	306	93
Derivative financial liabilities (warrants)	12	4,163	4,128	20
Other financial liabilities	12	741	1,254	1,522
		4,993	5,688	1,635
Non-current liabilities				
Property acquisition obligations	11	1,315	1,268	715
Other financial liabilities	12	504	453	333
		1,819	1,721	1,048
SHAREHOLDERS' EQUITY				
Capital stock	13	32,276	24,630	18,699
Share-based payment reserve	15	1,062	1,062	698
		33,338	25,692	19,397
Deficit		(12,426)	(10,381)	(6,763)
		20,912	15,311	12,634
		27,724	22,720	15,317

COMMITMENTS AND CONTINGENCIES (Notes 1, 9, 11 and 18)

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

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

See accompanying notes to the condensed interim consolidated financial statements

XTIERRA INC.

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss
For the three month period ended March 31,

(Expressed in US$000's, except for per share amounts)		2011 $	2010 $
Expenses			
Share-based payments		-	348
Foreign exchange gain		(121)	(99)
General and administrative expenses		26	51
Corporate expenses		95	83
Professional fees		52	41
Loss from operations		52	424
Other items			
Interest income		(1)	-
Change in fair value of convertible notes	12	(513)	(851)
Change in fair value of derivative financial liabilities (warrants)	12	2,508	347
Net loss (income) and comprehensive income (loss) for the period		2,046	(80)
Net loss per share – basic and diluted		0.024	(0.002)
Weighted average common shares outstanding – basic and diluted		86,767,284	51,487,345

See accompanying notes to the condensed interim consolidated financial statements

XTIERRA INC.

Condensed Interim Consolidated Statement of Changes in Equity

For the three month period ended March 31,

(Expressed in US$000's)	Share Capital **US$'000**	Share-based payment reserve **US$'000**	Retained losses **US$'000**	Total **US$'000**
Balance as at January 1, 2010	**18,699**	**698**	**(6,763)**	**12,634**
Proceeds on share issue	3,799		-	3,799
Value of warrants granted on private placements	(566)	-	-	(566)
Share issue costs	(223)	-	-	(223)
Recognition of share-based payments	-	348	-	348
Total gain for period	-	-	80	80
Balance as at March 31, 2010	**21,709**	**1,046**	**(6,683)**	**16,072**
Proceeds on share issue	3,674		-	3,674
Value of warrants granted on private placements	(697)	-	-	(697)
Share issue costs	(122)	-	-	(122)
Recognition of share-based payments	-	34	-	34
Exercise of stock options	48	-	-	48
Valuation allocation on exercise of stock options	18	(18)	-	-
Total loss for period	-	-	(3,697)	(3,697)
Balance as at December 31, 2010	**24,630**	**1,062**	**(10,380)**	**15,312**
Proceeds on share issue	1,496	-	-	1,496
Value of warrants granted on private placement	(1,241)	-	-	(1,241)
Exercise of warrants	3,762	-	-	3,762
Valuation allocation on exercise of warrants	3,687	-	-	3,687
Share issue costs	(58)	-	-	(58)
Total loss for period	-	-	(2,046)	(2,046)
Balance as at March 31, 2011	**32,276**	**1,062**	**(12,426)**	**20,912**

See accompanying notes to the condensed interim consolidated financial statements

XTIERRA INC.

Condensed Interim Consolidated Statements of Cash Flows

For the three month period ended March 31,

(Expressed in US$000's)	2011 $	2010 $
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net (loss) income for the period	(2,046)	80
Share-based payments	-	348
Change in fair value of convertible notes	(513)	(851)
Change in fair value of warrants	2,508	347
Operating cash flow before movements in working capital	(50)	(76)
Movements in working capital		
(Increase) decrease in amounts receivable and other	(27)	12
(Increase) decrease in accounts payable and accruals	(217)	14
Net cash generated by/used in operating activities	(295)	(50)
FINANCING ACTIVITIES:		
Private placements	1,496	3,799
Exercise of warrants	3,732	-
Issue costs	(58)	(223)
	5,170	3,576
INVESTING ACTIVITIES:		
Investment in exploration and evaluation assets	(380)	(573)
Expenditures on property, plant and equipment	(20)	-
	(400)	(573)
Change in cash and cash equivalents	4,475	2,953
Cash and cash equivalents, beginning of period	5,269	1,675
Cash and cash equivalents, end of period	9,744	4,628

Cash and cash equivalents consist of:		
Cash	1,973	3,549
Cash equivalents	7,771	1,079
	9,744	4,628

See accompanying notes to the condensed interim consolidated financial statements

1. NATURE OF OPERATIONS

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

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

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

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

The Company has undertaken a program of community consultation and intends to negotiate and enter into memoranda of understanding and, later, impact benefits agreement, with the Ejido Pedernalillo 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.

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

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

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

These are the Company's first IFRS condensed interim consolidated financial statements for the first quarter of the period covered by the first IFRS annual consolidated financial statements to be presented in accordance with IFRS for the year ending December 31, 2011 and IFRS 1 First-Time Adoption of IFRS has been applied. The impact of the transition from Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to IFRS is explained in Note 20.

These condensed interim consolidated financial statements were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting.* They do not include all of the information required for full annual consolidated financial statements. The results presented are not necessarily indicative of the results anticipated for the year ended December 31, 2011.

The accounting policies set out below have been applied consistently to all periods presented in preparing the opening balance sheet at January 1, 2010 (Note 20) for purposes of transition to IFRS. The accounting policies have been applied consistently by the Company.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

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

(b) Intangible assets

Exploration and evaluation assets

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

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

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

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

Management reviews the carrying value of capitalized exploration costs at least annually. In the case of undeveloped projects, there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding the Company's intentions for development of the undeveloped property. In some cases, the undeveloped properties are regarded as successors to ore bodies currently in production. Where this is the case, it is intended that these will be developed and go into production when the current source of ore is exhausted or to replace the reduced output.

(c) Property, plant and equipment

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

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

(d) Asset retirement obligations

The Company will record a liability for the estimated future costs associated with legal 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 exploration and evaluation assets and PPE.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Cash and cash equivalents

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

(f) Financial Instruments

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

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

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

(ii) **Financial liabilities at fair value through profit or loss:** Financial liabilities classified as fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as a fair value through profit or loss financial liability. Derivatives, including separable embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as fair value through profit or loss are recognized in profit or loss. The Company's warrants and other financial liabilities are classified as financial liabilities measured at fair value through profit or loss.

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

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

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

(g) Convertible borrowings

On issue of a convertible borrowing, the fair value of the liability component is determined depending on whether the financial instrument is a compound instrument or a hybrid instrument. In a compound instrument, the liability component is determined by discounting the contractual future cash flows using a market rate for a non-convertible instrument with similar terms. In a hybrid instrument, the liability component is the residual value of the proceeds after the equity conversion option derivative fair value is determined unless the entire convertible financial instrument is designated as financial liability at fair value through profit or loss, in which case, the entire convertible financial instrument is measured at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent to initial recognition, the debt component of both compound and hybrid financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. The equity conversion option of a hybrid financial instrument is marked to market at the consolidated statement of financial position date and changes to fair value are charged or credited in profit or loss.

As disclosed above, the Company designated the warrants and other financial liabilities as a fair value through profit or loss financial liability. The warrants and other financial liabilities were determined to be a hybrid financial instrument upon inception, as the warrants and other financial liabilities could be converted to capital stock at the option of the holder for the amount which varied in the Company's functional currency at the time of the issuance of the warrants and other financial liabilities.

(h) Functional and Presentation currency

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the statement of operations and comprehensive loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the statement of operations and comprehensive loss for the period.

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

(i) Share-based payments

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

(j) Operating Loss

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

(k) Derivative Financial Instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Exploration and evaluation

The assessment of whether general administration costs and salary costs are capitalised or expensed involves judgement. Management consider the nature of each cost incurred and whether it is deemed appropriate to capitalise it within intangible assets. Costs which can be demonstrated as project related are included within exploration and evaluation assets. Exploration and evaluation assets relate to prospecting, exploration and related expenditure in Mexico. The Company's exploration activities are subject to a number of significant and potential risks including:

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

The recoverability of these intangible assets is dependent on the discovery and successful development of economic reserves, including the ability to raise finance to develop future projects. Should this prove unsuccessful, the value included in the statement of financial position would be written off to the statement of operations and comprehensive loss.

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

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

Warrants
The fair value of the warrants is estimated at the issue date using the Black-Scholes option pricing model with estimates of the volatility based on the Company's historical common share trading prices, expected dividend yield and a risk-free interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(m) Impairment of non-current assets

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

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

(n) Impairment of financial assets

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income (loss) per share

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

(p) Borrowing costs

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

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

(q) Income taxes

The Company uses the balance sheet method of accounting for income taxes. Under the balance sheet method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(r) New standards and interpretations not yet adopted

IFRS 7 *Financial instruments - Disclosures* ("IFRS 7") was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company has not yet determined the impact of the amendments to IFRS 7 on its financial statements.

IFRS 9 *Financial Instruments* ("IFRS 9") was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 9 on its financial statements.

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

(Expressed in US$000's)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 *Investments in Associates* and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 7 on its financial statements.

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

4. RELATED PARTY TRANSACTIONS

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

	March 31 2011	March 31 2010
	$	$
Office and general	49	36
Legal fees	19	27
Professional fees	68	52
	136	115

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

(Expressed in US$000's)

5. SEGMENTAL ANALYSIS

	Segment result	
	March 31, 2011	March 31, 2010
	$	$
Continuing Operations		
Canada	**(2,046)**	80
Mexico	**-**	-
Total for continuing operations	**(2,046)**	80
Income tax	**-**	-
Loss for the period	**(2,046)**	80

Segment assets and segment liabilities

	Assets		
	March 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Canada	**9,727**	5,297	1,599
Mexico	**17,997**	17,423	13,718
	27,724	22,720	15,317

	Liabilities		
	March 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Canada	**(6,330)**	(6,949)	(2,674)
Mexico	**(482)**	(460)	(9)
	(6,812)	(7,409)	(2,683)

	Additions to non-current assets	
	March 31, 2011	March 31, **2010**
	$	$
Canada	**-**	-
Mexico	**501**	625
	501	625

(Expressed in US$000's)

6. CASH AND CASH EQUIVALENTS

	March 31 2011	December 31 2010	January 1 2010
	$	**$**	**$**
Cash	1,973	2,796	234
Cash equivalents	7,771	2,473	1,441
Total	9,744	5,269	1,675

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

Canadian Dollars	2,443	3,680	1,265
US Dollars	7,188	1,505	311
Mexican Pesos	113	84	99
	9,744	5,269	1,675

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

7. AMOUNTS RECEIVABLE AND OTHER AND PREPAID EXPENSES

	March 31 2011	December 31 2010	January 1 2010
	$	**$**	**$**
Trade receivables	19	17	1
Receivable sales taxes	442	404	7
Prepaid expenses	56	68	19
	517	489	27

8. PROPERTY, PLANT AND EQUIPMENT

	March 31 2011	Additions (depreciation)	December 31 2010	Additions (depreciation)	January 1 2010
	$	$	$	$	$
Equipment at cost	69	20	49	-	49
Accumulated depreciation	(27)	(4)	(23)	(7)	(16)
Total	42	16	26	(7)	33

(Expressed in US$000's)

9. EXPLORATION AND EVALUATION ASSETS

The following table shows the mineral property interests:

	March 31 2011 $	Additions (Write downs) $	December 31 2010 $	Additions (Write downs) $	January 1 2010 $
Bilbao	12,435	447	11,988	2,512	9,476
Laguna	2,758	11	2,747	6	2,741
El Dorado	1,066	25	1,041	854	187
Other	1,162	2	1,160	(18)	1,178
Total	17,421	485	16,936	3,354	13,582

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

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

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

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

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

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

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

(Expressed in US$000's)

9. MINERAL PROPERTY INTERESTS (continued)

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

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

10. ACCOUNTS PAYABLE AND ACCRUALS

	March 31 2011 $	December 31 2010 $	January 1 2010 $
Trade creditors and accruals	89	306	93
	89	306	93

11. NON CURRENT LIABILITIES

Property acquisition obligations (stated at net present cost) due as follows:	**March 31 2011 $**	December 31 2010 $	January 1 2010 $
Between one and two years	-	-	-
Between two and five years	777	749	262
After five years	538	519	453
	1,315	1,268	715

See Note 9.

(Expressed in US$000's)

12. OTHER FINANCIAL LIABILITIES

Financial liabilities carried at fair value through profit and loss	**March 31 2011 $**	December 31 2010 $	January 1 2010 $
Warrants	4,163	4,128	20
Other derivative financial liabilities	741	1,254	1,522
	4,904	5,382	1,542
Convertible notes obligation	504	453	333
	5,408	5,835	1,875

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

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

See note 20. Transition to IFRS.

Warrants

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

	Warrants (000's)	Value of Conversion Option $	Exercise Price $	Expiry Date
	818	159	Cdn$0.30 per unit	April 15, 2011
	9,000	2,500	Cdn$0.40 per unit	December 23, 2012
	5,331	1,504	Cdn$0.40 per unit	January 20, 2013
Total	15,149	4,163		

(Expressed in US$000's)

12. OTHER FINANCIAL LIABILITIES (continued)

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

	Warrants	Weighted Average Exercise Price	Value of Conversion Option
	(000's)	Cdn$	$
Balance, January 1, 2010	9,295	0.97	1,316
Granted	22,010	0.34	4,128
Expired	(9,295)	0.97	(1,316)
Balance, December 31, 2010	22,010	0.97	4,128
Granted	5,331	0.40	1,504
Exercised	(12,144)	0.30	(1,796)
Expired	(47)	0.30	(10)
Change in fair value	-	-	337
Balance, March 31, 2011	15,150	0.39	4,163

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

	March 31, 2011	December 31, 2010	January 1, 2010
Market value of one ordinary share	Cdn$0.485	Cdn$0.43	Cdn$0.175
Exercise price	Cdn$0.40	Cdn$0.34	Cdn$1.00
Term	1.75 years	0.94 year	0.75 year
Risk free rate	1.66%	1.66%	1.66%
Volatility	103%	103%	103%
Dividend	0%	0%	0%
Warrants outstanding	15,150,000	22,010,000	9,295,000
Fair value of warrants	$ 4,163,000	$ 4,128,000	$ 20,000

Convertible Notes

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

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

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

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

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

(Expressed in US$000's)

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

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

	March 31, 2011	December 31, 2010	January 1, 2010
Market value of one ordinary share	Cdn$0.485	Cdn$0.43	Cdn$0.175
Face value of convertible notes	1,250,000	1,250,000	1,250,000
Term	3.04 years	3.29 years	4.29 years
Risk free rate	2.77%	2.77%	2.77%
Volatility	103%	103%	107%
Current other financial liabilities	$ 741,000	$ 1,254,000	$ 1,522,000
Non-current portion of convertible notes	$ 504,000	$ 453,000	$ 333,000

13. CAPITAL STOCK

Common shares

Authorized
Unlimited number of common shares

Issued	Shares (000's)	Amount $
Balance at January 1, 2010	49,862	18,699
Private placement (i)	25,775	4,992
Warrant valuation (i)	-	(583)
Private placement (ii)	9,000	2,481
Warrant valuation (ii)	-	(680)
Share issue costs	-	(345)
Exercise of stock options	230	48
Exercise of stock options - value reallocation	-	18
Balance at December 31, 2010	84,867	24,630
Private placement (iii)	5,331	1,496
Warrant valuation (iii)	-	(1,241)
Share issue costs	-	(58)
Exercise of warrants	12,205	3,762
Grant date fair value adjustment of warrants exercised	-	3,687
Balance at March 31, 2011	102,403	32,276

(i) On January 20, 2011, the Company completed a non-brokered private placement by issuing 5,331,210 Units to Pacific Road Resources Fund Group for gross proceeds of Cdn$1,493,000 ($1,481) 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 12,205,059 common shares as a result of the exercise of 12,205,059 warrants at a weighted average exercise price of $0.30 for gross proceeds of $3,762.

(Expressed in US$000's)

14. STOCK OPTIONS

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

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

On 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 was $12 which had 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.

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

	Number of Options Granted and Exercisable at March 31, 2011 (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	696	Cdn$0.50	May 23, 2013
	2,351	358	Cdn$0.21	February 15, 2015
Total	4,830	1,065		

(Expressed in US$000's)

14. STOCK OPTIONS (continued)

Stock option transactions for the respective periods were as follows:

	Number of Options (000's)	Weighted Average Exercise Price Cdn$
Balance, January 1, 2010	2,329	0.49
Issued	2,731	0.21
Exercised	(230)	0.21
Balance, December 31, 2010 and March 31, 2011	4,830	0.34

During the period ended March 31, 2011, the weighted average exercise price and grant date fair value of options were granted at an exercise price equal to or above the quoted market value of the Company's shares.

15. SHARE-BASED PAYMENT RESERVE

	March 31, 2011 $
Balance, January 1, 2010	698
Value attributed to stock options granted during the year - employees	382
Exercise of stock-based compensation options	(18)
Balance, December 31, 2010 and March 31, 2011	1,062

16. FINANCIAL INSTRUMENTS

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

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

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

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

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

16. FINANCIAL INSTRUMENTS (continued)

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 March 31, 2011, the Company had cash and cash equivalents of $9,744 to settle current liabilities of $4,993. Accordingly, the Company is able to meet its current obligations.

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

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

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

Foreign Currency Risk:
The Company is subject to foreign exchange risk as some of its operating, investing and financing activities are transacted in currencies other than the United States ("US") dollar. The Company is therefore subject to gains and losses due to fluctuations in these currencies relative to the U.S. dollar. As at March 31, 2011, the Company held Canadian monetary assets and liabilities totalling approximately Cdn$2,375,000 ($2,443), and Mexican monetary assets and liabilities totalling approximately MXN$1,352,000 ($113).

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

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

The Company holds approximately Cdn$2,537,000 ($2,468) 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 March 31, 2011.

The Company holds approximately Mxn$6,148,000 ($515) 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 March 31, 2011.

A one percent change in interest rates will result in a corresponding change in interest income of approximately $24 based on cash and cash equivalent balances existing at March 31, 2011.

Fair Value Hierarchy and Liquidity Risk Disclosure:
The fair value hierarchy have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At March 31, 2011, the Company's financial instruments that are carried at fair value, consisting of cash equivalents have been classified as Level 2 within the fair value hierarchy.

17. CAPITAL MANAGEMENT

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

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The board of directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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

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

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

There have been no changes to the Company's capital management during 2011 and 2010.

18. COMMITMENTS AND CONTINGENCIES

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

19. SUBSEQUENT EVENTS

By April 14, 2011, 794,000 warrants expiring on April 14, 2011 were exercised at an exercise price of $0.30 per share, resulting in the issuance of 794,000 shares for total proceeds of $247,000. The remaining 24,000 warrants expired unexercised.

On April 27, 2011, the Company granted 4,225,000 incentive stock options to directors, officers and employees pursuant to its Stock Option Plan. All of the options are exercisable at a price of $0.51 per share for a period of five years from the date of issue. Directors received 2,000,000 options, 1,400,000 were granted to officers and senior employees and the balance to employees and consultants.

On June 15, 2011, 75,000 stock options were exercised at an exercise price of $0.21 per share, resulting in the issuance of 75,000 common shares for total proceeds of $15,750.

(Expressed in US$000's)

20. TRANSITION TO IFRS

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

The accounting policies set out in note 3 have been applied in preparing the condensed interim consolidated financial statements for the period ended March 31, 2011, the comparative information presented in these financial statements for the period ended March 31, 2010, and in the preparation of the opening IFRS statement of financial position as at January 1, 2010 "Transition Date".

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

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

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

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

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

Impact on Consolidated Statement of Financial Position

	December 31, 2010	March 31, 2010	January 1, 2010
Other financial liabilities – warrants	**4,128**	**367**	**20**
Warrants	**(1,263)**	**(1,882)**	**(1,316)**
Adjustment to deficit	**(2,865)**	**1,515**	**1,296**

(Expressed in US$000's)

20. TRANSITION TO IFRS (continued)

Warrants

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

Impact on Consolidated Statement of Financial Position

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

Share-based payments

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

Impact on Consolidated Statement of Financial Position

	December 31, 2010	March 31, 2010	January 1, 2010
Share-based payments reserve	**1,062**	**1,046**	**698**
Contributed surplus	**(1,062)**	**(1,046)**	**(698)**
Adjustment to deficit	-	-	-

Financial Liabilities – Convertible loan notes

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

Financial Liabilities - Notes	**December 31, 2010**	**March 31, 2010**	**January 1, 2010**
Other derivative financial liabilities	1,254	671	1,522
Convertible notes obligation	(336)	(253)	(347)
Convertible notes equity portion	(623)	(623)	(623)
Adjustment to deficit	(295)	205	(552)

Mineral property interests

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

(Expressed in US$000's)

20. TRANSITION TO IFRS (continued)

Future income taxes (deferred taxes)

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

Exploration and Evaluation Assets	**December 31, 2010**	**March 31, 2010**	**January 1, 2010**
Exploration and evaluation assets	(3,563)	(3,304)	(3,267)
Future income tax liability	3,092	2,531	2,494
Adjustment to deficit	(471)	(773)	(773)

Reconciliation to previously reported financial statements

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

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

(Expressed in US$000's)

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

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

(Expressed in US$000's)

Reconciliation of consolidated statement of financial Position as at March 31, 2010

	Canadian GAAP	IFRS reclassifications	IFRS
ASSETS			
Current assets			
Cash and cash equivalents	4,628	-	4,628
Amounts receivable and other	12	-	12
Prepaid expenses	19	-	19
	4,659	-	4,659
Non-current assets			
Exploration and evaluation assets	17,507	(3,335)	14,172
Property, plant and equipment	-	31	31
	17,507	(3,304)	14,203
Total assets	22,166	(3,304)	18,862
LIABILITIES			
Current			
Accounts payable and accruals	85	-	85
Warrants	-	367	367
Other financial liabilities	-	671	671
	85	1,038	1,123
Non-current liabilities			
Property acquisition obligations	742	-	742
Other financial liabilities	706	(253)	453
Deferred tax liabilities	2,531	(2,531)	-
	3,979	(2,784)	1,195
SHAREHOLDER'S EQUITY			
Capital stock	21,709	-	21,709
Convertible notes	623	(623)	-
Warrants	1,882	(1,882)	-
Contributed surplus	1,050	(1,050)	-
Share-based payment reserve	-	1,046	1,046
	25,264	(2,509)	22,755
Deficit	(7,162)	951	(6,211)
	18,102	(1,558)	16,544
	22,166	(3,304)	18,862

(Expressed in US$000's)

Reconciliation of consolidated statement of operations and comprehensive loss (income) for the three months ended March 31, 2010

	Canadian GAAP	IFRS reclassifications	IFRS
Expenses			
Share-based payments	348	-	348
Foreign exchange	(99)	-	(99)
General and administrative expenses	51	-	51
Corporate expenses	83	-	83
Professional fees	41	-	41
	424	-	424
Other items			
Interest income	-	-	-
Change in fair value of convertible notes	-	(851)	(851)
Change in fair value of warrants	-	347	347
Net loss and comprehensive loss for the period	424	(504)	(80)

(Expressed in US$000's)

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

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

(Expressed in US$000's)

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

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