XTIERRA INC.
(A Development Stage Company)

MANAGEMENT DISCUSSION AND ANALYSIS

For the Six Month Period Ended June 30, 2011

Dated August 19, 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 Six Month Period Ended June 30, 2011
(Expressed in US Dollars)

Date: August 19, 2011

General

The following discussion of financial condition, results of operations and future prospects should be read in conjunction with the condensed consolidated financial statements for the period ended June 30, 2011 of Xtierra Inc. ("Xtierra" or the "Company"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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.

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 Projects consist of:

- The Bilbao Project, 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). A new resource estimate released in May 2011 and prepared as of December 31, 2010 by R.T.G. Parker, a Qualified Person, shows a 10% increase in Indicated Resources from the February 2010 estimate to 10.62 million tonnes and represents a 6% increase in total metal content, as zinc equivalent, from 650,565 tonnes Zn_{eq} to 688,258 tonnes Zn_{eq}.

  The Bilbao deposit still remains open to the southwest and exploration drilling has indicated a zone of high grade silver mineralization to the south of the outlined open pit resource. Approximately one million tonnes was extracted historically from three small pits and limited underground workings in the near surface oxide mineralization in the early 20th 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 – the Company's El Dorado gold project comprising 2,890 hectares of mining claims is located in the Pinos district of southeastern Zacatecas State, Mexico. The property 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 in Q1 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 approximately 500km northwest of Mexico City in the southeastern part of the State of Zacatecas and 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 a direct shipping ore may have amounted to 1 million tonnes of the near surface oxide mineralization.

Feasibility Study

A Feasibility Study on the Bilbao property is in its final phase of completion. In July 2010, the Company 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 and complete the Bilbao Feasibility Study. DRA has particular expertise in Process Plant Design, Metallurgical Process Engineering, and Metallurgical Consulting. DRA is involved in oversight of all of the component parts of the feasibility study. DRA is managing the commissioning and operation of a pilot plant designed to test the recovery process for the near surface oxide ores at Bilbao. Xtierra has also retained Golder Associates to advise on tailings disposal design work. The estimated remaining cost to cover DRA's contract is currently estimated to be $500,000. A final production decision is anticipated following its completion in early Q1 2012.

Metallurgical Testing: Most of the key component parts of the Feasibility Study have been completed or are near completion and awaiting final outputs from ongoing metallurgical test work. The metallurgical test work to finalize flow sheet design for processing the oxide portion of the deposit (approximately 35% of the total indicated resources) has been delayed by about six months due to a number of issues including late delivery of equipment, mechanical and electrical issues and availability of certified laboratory testing facilities and related personnel. Once current open cycle test work conducted at SGS Laboratories at Lakefield, Ontario is completed in Q3, locked cycle test work will be undertaken. The results of this locked cycle test work will be used for final design/construction of the oxide pilot plant and eventually final design inputs for the commercial scale processing plant and tailings treatment/disposal options

Optimization test work on the sulphide ore will be undertaken in late Q3 once fresh samples from the core drilling in representative areas of the sulphide ore zones have been delivered to the SGS in Lakefield. Locked cycle test work on the sulphide ore will immediately follow the program. Completion of the feasibility study is expected to take approximately three months after completion of the oxide pilot plant and sulphide locked cycle test programs.

Pilot Plant – Oxide Ore: The pilot plant 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. As previously indicated the full implementation of the pilot plant test work has been delayed by about six months. However, the bulk sampling and preparation of composite sampling, crushing, milling and pre-concentration stage using a wet high intensity magnetic separator (WHIMS) were completed during the period. The open cycle and locked cycle metallurgical test work on the oxide ore along with calcite flotation test work has been completed and final report pending.

Process Stage - Fabrication of the tanks, agitators, flotation cells including electric controls for a 20 kg/hr process plant has been completed. Once the proposed 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 whole ore and pre-concentrate samples.

Resources: A new independent resource estimate was prepared by R.T.G. Parker, C.Eng., an independent consulting mining geologist, in May 2011. Mr. Parker is a 'Qualified Person' within the meaning of NI 43-101 – *Standards of Disclosure for Mineral Projects* of the Canadian Securities Administrators. Mr. Parker also prepared the previously published resource estimates for the Bilbao project (November 2008 and February 2010).

Resource Category	Tonnes (millions)	Lead (%)	Copper (%)	Zinc (%)	Silver (gpt)
Indicated Resources	10.62	2.00	0.19	2.13	53.81
Inferred Resources	0.43	1.73	0.18	1.44	46.39

(Expressed in US Dollars)

The 2011 resource estimate which includes all drilling completed to the end of 2010, records 10% higher Indicated tonnage (10.6Mt) than the previous 2010 estimate (9.7Mt). This is due principally to the inclusion of 2010 drilling results allowing conversion of inferred resources to the indicated category. The difference is due in part to the elimination of all of the voids due to previous historic mining activity and to the adoption of smaller parent block size and tighter wireframe constraints. The results of the 2011 estimate are in close accord with those of Xtierra's own in-house manual estimate based on the same data.

The new resource report shows a 10% increase in Indicated Resources from the February 2010 estimate and represents a 6% increase in total metal content, as zinc equivalent, from 650,565 tonnes Zn_{eq} to 688,258 tonnes Zn_{eq}.

In the indicated category, sulphide resources represent 50% of the resource (up from 35% in the 2010 estimate), mixed oxide and sulphide resources represent 15% (down from 22%) and oxide resources represent 35% (down from 43%) of the total Indicated Resource

For the purpose of determining resources at various cut-off grades, zinc equivalent values were determined, based on the average LME metal prices during the 24 month period January 2009 to January 2011. Such average prices are given in the table below. When calculating zinc equivalent values, metallurgical recoveries and net smelter returns are assumed to be 100%.

Metal	Price US$	Unit
Silver	17.89	Ounce (oz)
Lead	0.88	Pound (lb)
Zinc	0.87	Pound (lb)
Copper	3.31	Pound (lb)

Potential to increase the Bilbao resource exists, particularly at depth to the south and southwest where drill-hole X81 on the margin of the drill grid, intersected 6.15 metres grading 6.66% Zn_{eq}.

Exploration Drilling

In June and July, 2011, Xtierra announced results of a preliminary program of drilling in the southern part of the Bilbao project to investigate two types of silver-rich targets located immediately to the south of the main Bilbao deposit. The targets, all with high grade silver content, comprised high angle hydrothermal veins and brecciated limestone horizons. Six separate mineralized veins and/or fault-fillings were identified. Four of the mineralized fault structures trend NNW-SSE while another two veins strike NNE-SSW. The former have strong base-metal values while the later contain silver values of up to 664g/t silver and have been traced over a strike length of at least 70m and remain open-ended.

The holes were targeted to assist in determining the characteristics and continuity of the high grade silver veins previously found in drill-hole X26 at the southern margin of, and beneath, the main Bilbao deposit. The width of these structures varies, with veins averaging about 1m true thickness and fault-fillings up to 12m in thickness.

The NNW-SSE structures typically contain higher base-metal values with combined zinc and lead values of 14.95% (4.85% lead and 10.10% zinc) including 0.31% copper and 97.9g/t silver over 4.65m in DDH X86-B; 21.39% combined zinc and lead (9.96% lead and 11.43% zinc) including 0.27% copper and 127.6g/t silver over 1.05m in DDH X86A; and in DDH X86B-1 there is an intersection of 12.10m with average grades of 9.08% combined zinc and lead (4.17% lead, 4.91% zinc) including 0.63% copper and 109.4g/t silver.

Drilling has shown that the richer silver veins trend NNE-SSW, a direction which accords with similar vein trends to the north of the Bilbao deposit, within the La Blanca granite. Discovery of this zone of silver-rich veins beneath and in addition to the main skarn-replacement zinc-silver-lead-copper mineral deposit at Bilbao is expected to contribute to both tonnage and silver content of the resource. However, additional drilling will be required before any new resource estimate can be made. This drilling program will commence in late Q3.

For additional information, please refer to the press release issued on July 21, 2011.

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 optimisation 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.

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 indigenous 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. Preliminary discussions have been initiated and are in progress.

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.

El Dorado Gold Project

The El Dorado gold project located in the Pinos district of south-eastern Zacatecas State, Mexico. The project comprising 2,890 hectares of mining claims is located in the Pinos district of the Central Mexican Mineral Belt 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. Historic records suggest the average mined grade was 97 g/t silver and 58.26 g/t gold.

Work completed by Xtierra resulted in the discovery of an extensive gold-bearing stockwork encompassing the El Dorado vein and several other parallel structures. Sampling 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. Xtierra commenced initial drilling at the El Dorado project in January 2010 (five inclined holes for a total of 1,385 metres). The number of mineralized veins identified on the property was increased to twelve with a combined strike length in excess of 1,300m. 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. The mineralized zone extends well into the hangingwall as evidenced by the discovery of an additional high grade vein parallel to the El Dorado containing 189.0 g/t gold within a 6.0 m wide zone of mineralization.

Additional surface exploration work including geochemical sampling and trenching is being completed in Q3 ahead of a planned drill programme.

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 six month periods ended June 30, 2011 and 2010

	Bilbao		Laguna		El Dorado		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Expressed in US$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
Drilling	412	151	-	-	-	213	-	-	412	364
Geology, geophysics and geochemistry	83	39	-	-	2	65	-	-	86	104
Pilot plant	192	-	-	-	-	-	-	-	192	-
Salaries	138	137	-	-	-	14	-	-	138	151
Feasibility study and technical reports	255	316	-	-	-	1	-	-	255	317
Other field related expenses	56	19	10	-	1	42	(17)	-	49	61
Exploration rights	-	-	-	-	-	10	-	-	-	10
Mining tax concessions	4	5	-	-	2	2	16	16	22	23
Other	103	74	1	6	4	28	11	-	118	108
Total additions	1,243	741	11	6	9	375	10	16	1,273	1,138
Accretion expense	157	105	-	-	33	15	-		190	120
Net additions	1,400	846	11	6	42	390	10	16	1,463	1,258

Exploration Properties - Schedule of Deferred Exploration Expenditures

For the three month periods ended June 30, 2011 and 2010

	Bilbao		Laguna		El Dorado		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Expressed in US$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
Drilling	402	151	-	-	-	3	-	-	402	154
Geology, geophysics and geochemistry	42	32	-	-	1	21	-	-	42	53
Pilot plant	75	-	-	-	-	-	-	-	75	-
Salaries	67	87	-	-	-	-	-	-	67	87
Feasibility study and technical reports	202	218	-	(3)	-	1	-	-	202	216
Other field related expenses	36	(18)	-	-	-	(3)	-	-	36	(21)
Exploration rights	-	-	-	-	-	-	-	-	-	-
Mining tax concessions	-	1	-	-	-	-	-	-	-	1
Other	58	54	-	5	-	17	6	(1)	64	75
Sub-total	883	525	-	2	1	39	6	(1)	889	565
Accretion expense	73	53	-	-	15	15	-		88	68
Total additions	956	578	-	2	16	54	6	(1)	977	633

Future Plans

Management is currently focused on advancing the Zacatecas Projects, particularly the Bilbao Project, to production. The objective 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 task to conclude the feasibility study is the oxide ore and sulphide 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 about six months. Open cycle test work has been completed at the SGS Laboratory in Lakefield, Ontario. 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, the metallurgical test work on the oxide and sulphide ores will be completed in late Q3 2011. All other tasks are progressing on schedule. The estimated cost to complete all aspects of the Study is $2,400,000.

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 in Q3 2011. Once the data and information has been compiled and reviewed, and targets are confirmed, a second drill program will be considered for Q4 2011 or Q1 2012.

Subject to the successful outcome of discussions with local stakeholders, the Company will advance the Laguna Project through additional metallurgical testing and updating of an earlier feasibility study during 2011 at an estimated cost of $300,000.

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 $15,000,000 and $17,500,000 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.

On April 14, 2009, the Company and Pacific Road Group of Funds entered into an agreement whereby Pacific Road subscribed for $1,250,000 in non-interest bearing convertible notes issued by Orca Minerals Limited, a wholly-owned subsidiary of the Company.

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 the period ended June 30, 2011 or June 30, 2010.

For the three month period ended June 30, 2011, the Company incurred a loss of $14,000 ($0.000% per share), including a share-based payment expense of $1,729,000 and a positive change in fair value of warrants of $1,897,000.

For the six month period ended June 30, 2011, the Company incurred a loss of $2,060,000 ($0.024 per share), including the share-based payment expense of $1,729,000, a positive change in fair value of convertible notes liability of $483,000 and a negative change in fair value of the warrants liability of $612,000.

For the three and six months periods ended June 30, 2010, losses of $222,000 ($0.004 per share) and $141,000 ($0.002 per share) respectively were recorded.

The conversion of some Canadian assets and liabilities, primarily cash to US dollars, resulted in a foreign exchange gain of $148,000 for the six month period ended June 30, 2011, compared to a loss of $40,000 during the same period in 2010.

A share-based payment expense of $1,729,000 was recorded in the three and six month periods ended June 30, 2011, arising on the grant during the period of stock options to directors, officers and employees, compared to expenses of $12,000 and $359,000, respectively, for the three and six month periods ended June 30, 2010.

Administrative expenses (excluding share-based compensation and foreign exchange) for the three and six month periods ended June 30, 2011 amounted to $181,000 and $354,000 respectively, compared to $245,000 and $420,000 for the same periods in 2010.

Warrants and convertible notes denominated in a currency other than the Company's functional currency are classified under IFRS as derivative financial liabilities.

As a result of the change (decline) in the price of the Company's shares during the period, the loss for the three month period ended June 30, 2011 included a positive change in the fair value of the warrant liability of $1,897,000, compared to a negative change of $2,508,000 in the three month period ended March 31, 2011. This positive change in the three months ended June 30, 2011 reduced the negative change in the six month period to $612,000 (2010 - $76,000).

As a result of the change (decline) in the price of the Company's shares during the period, the loss for the three month period ended June 30, 2011 included a negative change in the fair value of the convertible notes liability of $30,000, compared to a positive change of $513,000 in the three month period ended March 31, 2011. This negative change in the three months ended June 30, 2011 reduced the positive change for the six month period to $483,000 (2010 – ($752,000).

Summary of Quarterly Results

	Sept. 30 2009 $000's	Dec. 31 2009 $000's	Mar. 31 2010 $000's	June 30 2010 $000's	Sept. 30 2010 $000's	Dec. 31 2010 $000's	Mar. 31 2011 $000's	June 30 2011 $000's
Net loss (gain)	165	2,698	(80)	(158)	(88)	2,869	2,046	14
Net loss (gain) per share	0.003	0.036	(0.002)	(0.003)	(0.001)	0.040	0.024	0.000
Total assets	22,784	18,584	20,282	19,744	19,629	22,720	27,724	28,100
Working Capital	1,763	1,609	4,574	4,716	3,244	5,452	10,172	9,329

- The loss incurred in the quarter ended December 31, 2009 included a write-down of $4,341,000 on the Laguna property and a reversal of future income taxes of $1,663,000.
- The gain incurred in the quarter ended March 31, 2010 included $348,000 stock-based compensation and ($976,000) change in fair value of financial liabilities.
- The decrease in total assets in the quarter ended March 31, 2010 is the result of the reversal of future income tax liability per IFRS.
- The gain generated in the quarter ended June 30, 2010 included $139,000 in foreign exchange, $120,000 professional fees and an adjustment of $271,000 in the fair value of the financial liabilities.
- The gain generated in the quarter ended September 30, 2010 included $28,000 in foreign exchange, $37,000 professional fees and an adjustment of $6,000 in the fair value of the financial liabilities.
- The loss incurred in the quarter ended December 31, 2010 included a foreign exchange recovery of ($99,000), $79,000 professional fees and $2,270,000 adjustment in the fair value of the financial liabilities.
- Total assets in the quarter ended December 31, 2010 reflect the receipt of a private placement financing.
- The loss incurred in the quarter ended March 31, 2011 included a foreign exchange recovery of ($121,000) and an adjustment in the fair value of the financial liabilities of $1,995,000.
- The loss incurred in the quarter ended June 30, 2011 included share-based payments of $1,729,000 and a positive change in the fair value of financial liabilities of ($1,867,000).

Liquidity and Capital Resources

At June 30, 2011, the Company held $9,211,000 in cash and cash equivalents. Total assets increased to $28,100,000 at June 30, 2011 from $22,720,000 at December 31, 2010 as a result of a private placement financing and the exercise of 12,998,929 warrants. Accounts payable and accrued liabilities decreased to $263,000 at June 30, 2011 from $306,000 at December 31, 2010. At June 30, 2011, the Company had a working capital surplus of $9,329,000, excluding the financial liabilities related to equity, compared to a surplus of $5,452,000 at December 31, 2010. The fair value of the financial liability related to warrants decreased to $2,080,000 from $4,128,000 at December 31, 2010.

At June 30, 2011, the Company had mineral properties with a total book value of $18,399,000. 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 $32,500,000, 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.

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.

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.

	June 30 2011 $000's	June 30 2010 $000's
Office and general	50	65
Legal fees	25	42
Professional fees	169	128
	243	235

Included in accounts payable and accrued liabilities at June 30, 2011 is $6,000 (2010-$16,000) payable to Steenberglaw Professional Corporation, a company controlled Neil J.F. Steenberg, Director, for legal fees.

During the period ended June 30, 2011, the Company made payments or accrued $243,000 (2010-$235,000) to related parties, including $25,000 to Steenberglaw Professional Corporation, for legal fees, $60,000 to T.N. McKillen, Director, for administration and geological services, $36,000 to Tim Gallagher, Director, for investor relations services, $102,000 to Gerald Gauthier, Officer, for consulting services and $20,000 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 International Financial Reporting Standards (IFRS) 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.

Adoption of New Accounting Standards
The Company has adopted IFRS effective January 1, 2011 with a transition date of January 1, 2010. For further details, please refer to note 2 of the March 31, 2011 condensed consolidated interim financial statements.

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 June 30, 2011, 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 June 30, 2011, the Company held cash and cash equivalents in Canadian accounts totaling approximately Cdn$2,098,000 and US$6,718,000.

Under Canadian GAAP the Company classified warrants to purchase common shares issued in Canadian dollars as part of private placements, 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. As at June 30, 2011, the Company had recorded $2,080,000 on the warrants outstanding.

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 was classified as a liability, and recorded as the present value of the Company's obligation to make future interest payments and settle the redemption value of the instrument. The carrying value of the debt component 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. The conversion option is recorded using the residual value approach. Under IFRS, the convertible notes are considered derivative financial instruments and are initially recognized at fair value at the date the derivative contract is entered into and subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognized in the profit or loss immediately. As at June 30, 2011, the Company had recorded $771,000 as the current portion of the derivative financial liability.

Outstanding Share Capital

The Company has unlimited authorized share capital of a single class of common shares of which, at June 30, 2011, 103,347,142 common shares were issued.

At June 30, 2011, the Company had 14,331,210 share purchase warrants outstanding and 8,905,000 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$1,493.000 ($1,481.000) at Cdn$0.28 per Unit. Between January 1, 2011 and April 14, 2011, the Company issued 12.998.929 common shares as a result of the exercise of 12.998.929 warrants at a weighted average exercise price of $0.30 per share for gross proceeds of Cdn$3,977,000.

As at August 19, 2011, the Company had 103,425,892 shares and 14,331,210 share purchase warrants outstanding. Upon conversion of the convertible notes, additional shares of the Company could be issued.

On April 27, 2011, the Company granted 4,225,000 stock options to directors, officers and employees pursuant to its Stock Option Plan.

On July 6, 2011, 78,750 stock options were exercised at an exercise price of $0.20 per share, resulting in the issuance of 78,750 common shares for total proceeds of Cdn$15,750. At August 19, 2011, 8,826,250 stock options were outstanding.

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: August 19, 2011