CAZA GOLD CORP.

Consolidated Financial Statements

(stated in Canadian dollars)

Years ended December 31, 2011 and 2010

SHAREHOLDER UPDATE

Review of Fiscal 2011 and Outlook for Fiscal 2012

Greg Myers, Chief Executive Officer of Caza Gold Corp. (CZY: TSX-V and FSE: CZ6), is pleased to provide the following review of Caza's progress in fiscal 2011 and its plans for fiscal 2012.

Review of Fiscal 2011

Los Andes Project, Nicaragua

- Mapping has further defined 12 gold targets based on surface rock chip sampling.
- Three areas have been selected as phase one drill targets for early 2012.
- In general, high sulfidation epithermal gold and silver mineralization has been found to be associated with large fault zones, well developed silicification, argillic and advanced argillic alteration hosted by andesitic volcanic rocks in a caldera setting.
- Multiple breccia and intrusive-hosted mineralized zones at the Cerro Quisaltepe gold target contain gold values ranging from nil to 2.53 gpt Au in an area approximately 2.5 km long and up to 2.5 km wide.
- The Pedregal silver target has been exposed along the entire 250 meter long breccia outcrop with continuous rock chip channel samples ranging from nil to 196 gpt Ag. The silver anomaly continues in discontinuous exposures for at least 300 meters before it disappears under soil cover.

Nicaragua Regional Program

- The Nicaragua regional program has now acquired 9 individual high sulfidation gold prospect zones similar in size, alteration, and geochemistry to the Los Andes Project over an area 120 kilometers long and 45 kilometers wide.
- Mapping, rock chip, and soil sampling has identified significant gold bearing zones on the San Francisco target to the south of the Los Andes Claim and the Las Lajas target to the northwest of Los Andes.
- San Francisco hand trenching has defined gold mineralization in a wide fault zone with strong silicification. Individual 2 meter long, rock chip channel samples across the structure returned assays ranging from nil to 6.5 gpt gold.

Balleza Project, Moris Property, Mexico

- In 2011, Caza completed a Phase One, 12 hole, 3,519 meter drilling program at the Balleza gold target on the Moris property.
- Gold mineralization was intersected in all 12 drill holes defining a broad zone of silica-alunite alteration and gold-pyrite mineralization.
- Mineralization occurs from the surface to an average depth of approximately 100 meters and the overall weighted grade averages 0.53 grams per tonne (gpt) gold.
- The mineralized zone was drill tested over 300 meters of strike length, is up to 350 meters wide, and remains open in all directions
- The thickest intercept of gold mineralization was 137.8 m grading 0.64 grams per tonne (gpt) Au in drill hole 2011-08 which included 24 m grading 1.02 gpt Au.
- The mineralized zone is hosted in tuffaceous andesitic volcanics intruded by a dacite sill. Gold mineralization is associated with disseminated pyrite, strong silica flooding, adularia and illite alteration, and quartz stock-work veining.

Santiago Project, Mexico

- A Phase One, 4 hole, 1194 meter drill program was completed to test the low grade Road Zone porphyry target using existing road access. Drilling intersected potassically altered quartz monzonite and breccia containing minor copper and zinc mineralization, and low concentrations of gold.
- Road construction could not access the high grade Cliff Zone gold veins for drilling so two drill pads were constructed for a helicopter supported drill program in 2012.

- Given Caza's success in Nicaragua and at the Balleza project in Mexico, Caza is seeking a partner to continue drilling at Santiago.

<u>Outlook for Fiscal 2012</u>

- **Los Andes Project**: Three of the initial eight gold target areas within the Los Andes project in Nicaragua will be drill tested in 2012. Caza's Los Andes budget is approximately $2 million for 2012. The proposed drill program will complete at least 5000 meters.
- **Nicaragua Regional**: Property mapping and sampling has begun on outlying claims in order to prioritize the 8 regional targets defined and acquired during 2011. Exploration work will initially focus on a significant area of gold mineralization recently discovered at the El Pochote Property (San Francisco target), south of the Los Andes property.
- **Balleza-Cienega**: The 2012 exploration program at Balleza will focus on mapping, sampling and possible property acquisitions along the 7 km long mineralized trend in order to define and prioritize additional drill targets. Caza's initial budget for the Balleza-Cienega program is approximately $250,000 in preparation for a second phase drill program.

Further to earlier news releases dated March 18, 2011 and December 14, 2010, the Company advises that, pending final TSX Venture Exchange approval, it will issue a total of up to 631,145 common shares to Inversiones Ecologicas S.A. pursuant to the terms of a formal option agreement between the Parties dated January 31, 2011 (the "Agreement"). Under the terms of the Agreement, 300,000 shares will be issued for the initial Los Andes gold properties, and an additional 331,145 shares will be issued for additional staked property held in the area of mutual interest, on the basis of 1.6 shares for each additional hectare retained on behalf of the Company. The shares will be subject to a four month plus one day hold period from the date of issuance.

Additionally, a total of 60,000 incentive stocks options have been granted to our senior geologists in Mexico. These stock options have an exercise price of $0.30, expire in 5 years and are subject to vesting provisions in which 20% are exercisable immediately and 20% every 6 months thereafter.

Greg Myers, Ph.D. P. Geo, is the Qualified Person who reviewed and approved the contents of this Shareholders Update.

Caza Gold Corp. is a growth-oriented gold exploration company listed on the TSX-V: CZY, FSE: CZ6, and OTCQX: CZGDF. The Company is focused on the acquisition and exploration of strategic gold properties in Mexico and Latin America.

CAZA GOLD CORP.
Per:

/s/ Greg Myers

Greg Myers
President and CEO April 26, 2012

CAUTIONARY DISCLAIMER – FORWARD LOOKING STATEMENTS

Certain statements contained herein constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. All statements that are not historical facts, including without limitation statements regarding future estimates, plans, objectives, assumptions or expectations of future performance, are "forward-looking statements". We caution you that such "forward-looking statements" involve known and unknown risks and uncertainties, as discussed in the Company's filings with Canadian and United States securities agencies. The Company expressly disclaims any obligation to update any forward-looking statements other than as required by applicable law. We seek safe harbour.

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF CAZA GOLD CORP.

We have audited the accompanying consolidated financial statements of Caza Gold Corp., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, shareholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Caza Gold Corp. as at December 31, 2011, December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, Canada
April 26, 2012

7th Floor 355 Burrard St
Vancouver, BC V6C 2G8

Tel: 604 687 1231
Fax: 604 688 4675
smytheratcliffe.com

CAZA GOLD CORP.

(An Exploration Stage Company)
Consolidated Statements of Financial Position
(Stated in Canadian dollars)

	Notes	2011 December 31	2010 December 31	2010 January 1
ASSETS				
Current Assets				
Cash		**$ 4,747,814**	$ 1,427,459	$ 122,410
Receivables and prepaids		**309,947**	168,097	154,549
Total Current Assets		**5,057,761**	1,595,556	276,959
Non-Current Assets				
Mineral property interests	6	**3,711,360**	939,883	460,710
Equipment	7	**54,979**	11,772	1,954
Total Non-Current Assets		**3,766,339**	951,655	462,664
Total Assets		**$ 8,824,100**	$ 2,547,211	$ 739,623
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities	9	**$ 268,183**	$ 182,493	$ 476,539
Shareholders' Equity				
Share capital	8	**15,129,181**	5,742,727	2,174,964
Obligation to issue shares	6(d)	**151,596**	-	-
Reserve for share-based payments		**975,250**	535,636	-
Deficit		**(7,700,110)**	(3,913,645)	(1,911,880)
Total Shareholders' Equity		**8,555,917**	2,364,718	263,084
Total Liabilities and Shareholders' Equity		**$ 8,824,100**	$ 2,547,211	$ 739,623

Refer to the accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

/s/ Bradford Cooke
Director

/s/ Anthony Hawkshaw
Director

CAZA GOLD CORP.

(An Exploration Stage Company)

Consolidated Statements of Comprehensive Loss

(Stated in Canadian dollars)

	Notes	Years ended December 31, 2011	2010
Expenses:			
Accounting and audit		**$ 40,770**	$ 56,706
Amortization		**10,401**	802
Employee remuneration	9	**453,266**	447,040
Legal	9	**68,306**	218,248
Office and sundry	9	**221,881**	103,173
Property investigation	9	**326,760**	153,613
Regulatory		**68,939**	92,672
Shareholder relations		**377,599**	169,789
Share-based payments	8(c) and 9	**686,292**	223,285
Loss before the undernoted		**(2,254,214)**	(1,465,328)
Foreign exchange loss		**(62,583)**	(23,256)
Interest income		**2,926**	-
Interest expense		**-**	(14,053)
Write-off of value-added tax receivables		**(189,971)**	(167,666)
Write-off of mineral property interests	6(a) and (b)	**(1,291,915)**	(95,969)
Net loss and comprehensive loss for the year		**$ (3,795,757)**	$ (1,766,272)
Basic and diluted loss per share		**$ (0.07)**	$ (0.06)
Weighted average number of common shares outstanding		**51,903,797**	27,175,171

Refer to the accompanying notes to the consolidated financial statements.

CAZA GOLD CORP.

(An Exploration Stage Company)

Consolidated Statements of Shareholders' Equity

(Stated in Canadian dollars)

	Notes	Share Capital Number of Shares	Amount	Reserve for Share-Based Payments	Obligation to Issue Shares	Deficit	Total
Balance, January 1, 2010		23,049,423	$ 2,174,964	$ -	$ -	$ (1,911,880)	$ 263,084
Shares for debt	6(a)	690,000	179,745	-	-	-	179,745
Initial public offering	8(b)(iii)	8,000,000	2,390,955	-	-	-	2,390,955
Private placement, net of share issue costs	8(b)(iii)	2,830,501	660,541	-	-	-	660,541
Exercise of warrants		1,350,000	173,500	-	-	-	173,500
Exercise of modified warrants		340,000	153,661	(34,661)	-	-	119,000
Exercise of finders fee warrants		17,688	9,361	(3,170)	-	-	6,191
Share-based payments		-	-	223,285	-	-	223,285
Fair value of warrant modification		-	-	235,493	-	(235,493)	-
Fair value of finders fee warrants		-	-	114,689	-	-	114,689
Net loss for the year		-	-	-	-	(1,766,272)	(1,766,272)
Balance, December 31, 2010		36,277,612	5,742,727	535,636	-	(3,913,645)	2,364,718
Private placement, net of share issue costs	8(b)(ii)	16,475,000	7,885,193	-	-	-	7,885,193
Property acquisition	6(d), 8(b)(ii)	450,000	274,500	-	-	-	274,500
Exercise of stock options		9,000	5,596	(2,446)	-	-	3,150
Exercise of warrants		564,584	197,604	-	-	-	197,604
Exercise of modified warrants		1,970,000	890,332	(200,832)	-	-	689,500
Exercise of finders fee warrants		283,204	149,872	(50,751)	-	-	99,121
Share-based payments		-	-	686,292	-		686,292
Expiry of stock options		-	-	(9,292)	-	9,292	-
Fair value of finders fee warrants		-	(16,643)	16,643	-	-	-
Obligation to issue shares		-	-	-	151,596	-	151,596
Net loss for the year		-	-	-	-	(3,795,757)	(3,795,757)
Balance, December 31, 2011		56,029,400	$ 15,129,181	$ 975,250	$ 151,596	$ (7,700,110)	$ 8,555,917

Refer to the accompanying notes to the consolidated financial statements.

CAZA GOLD CORP.

(An Exploration Stage Company)

Consolidated Statements of Cash Flows

(Stated in Canadian dollars)

	Years ended December 31,	
	2011	2010
Cash provided from (used for):		
Operations:		
Loss for the year	**$ (3,795,757)**	$ (1,766,272)
Items not involving cash:		
Amortization	**10,401**	802
Foreign exchange translation loss (gain)	**8,608**	(4,004)
Share-based payments	**686,292**	223,285
Write-off of value-added taxes receivable	**189,971**	167,666
Write-off of mineral property interests	**1,291,915**	95,969
	(1,608,570)	(1,282,554)
Changes in non-cash working capital items:		
Receivables and prepaids	**(331,821)**	(181,215)
Accounts payable and accrued liabilities	**(11,188)**	(265,647)
Cash used by operating activities	**(1,951,579)**	(1,729,416)
Financing:		
Issuance of common shares, net of share issue costs	**7,885,192**	3,464,877
Exercise of stock options	**3,150**	-
Exercise of warrants	**986,225**	-
Cash provided from financing activities	**8,874,567**	3,464,877
Investing:		
Mineral property interests, net of recoveries	**(3,529,797)**	(434,416)
Acquisition of equipment	**(64,228)**	-
Cash used by investing activities	**(3,594,025)**	(434,416)
Foreign exchange (loss) gain on cash held in foreign currency	**(8,608)**	4,004
Increase in cash	**3,320,355**	1,305,049
Cash, beginning of year	**1,427,459**	122,410
Cash, end of year	**$ 4,747,814**	$ 1,427,459

Refer to the accompanying notes to the consolidated financial statements.

CAZA GOLD CORP.

(An Exploration Stage Company)
Consolidated Statements of Cash Flows
(Stated in Canadian dollars)

	Notes	Years ended December 31, 2011	2010
Non-cash financing and investing activities:			
Accruals for:			
Mineral property interests		**$ 152,255**	$ 44,757
Acquisition of equipment		**-**	10,620
Issuance of common shares for:			
Mineral property interests	6(d)	**274,500**	-
Settlement of debt and demand notes	6(a)	**-**	179,745
Obligation to issue common shares for mineral property interests	6(d)	**151,596**	-
Interest paid		**-**	13,986
Income taxes paid		**-**	-

Refer to the accompanying notes to the consolidated financial statements.

1. Nature and Continuance of Operations

Caza Gold Corp. (the "Company") was incorporated on November 15, 2007 under the laws of British Columbia. The common shares of the Company were listed for trading on the TSX Venture Exchange (the "TSX-V") on November 22, 2010 (the "Listing Date"), after completing its initial public offering (the "IPO").

The Company is in the mineral exploration business and has not yet determined whether its properties contain reserves. The recoverability of amounts capitalized for mineral property interests is dependent upon the ability of the Company to arrange appropriate financing as needed, the discovery of reserves, the development of its properties, confirmation and maintenance of the Company's interest in the underlying properties, the receipt of necessary permitting and upon future profitable production or proceeds from the disposition thereof.

The Company has incurred operating losses of approximately $3.8 million for the year ended December 31, 2011 (2010 - $1.8 million) and has a deficit of approximately $7.7 million as at December 31, 2011 (December 31, 2010 - $3.9 million; January 1, 2010 - $1.9 million). These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company has been successful at raising equity financing in the past. However there is no assurance that management will be successful at raising the necessary financing in the future when required. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern. Such adjustments could be material.

2. Basis of Presentation

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These are the Company's first annual consolidated financial statements prepared in accordance with IFRS, and IFRS 1 - *First-time Adoption of International Financial Reporting* ("IFRS 1") has been applied. Prior consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Subject to certain IFRS 1 transition elections and exemptions as disclosed in Note 12, the Company has consistently applied the same accounting policies to its opening IFRS consolidated statement of financial position as at January 1, 2010, and for all years presented. The nature and effects of significant changes in accounting policies on the Company's financial position and comprehensive loss for the transition from Canadian GAAP to IFRS are disclosed in Note 12.

(b) Approval of consolidated financial statements:

These consolidated financial statements were approved by the Company's Board of Directors on April 26, 2012.

2. Basis of Presentation (continued)

(c) Basis of presentation:

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments which are measured at fair value, as disclosed in Note 5.

(d) Functional currency and presentation currency:

The functional and presentation currency of the Company is the Canadian dollar. Amounts recorded in a foreign currency are translated into Canadian dollars as follows:

- monetary assets and liabilities at the exchange rate at the statement of financial position date;
- non-monetary assets and liabilities at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rate in effect on the statement of financial position date; and
- revenue and expense items at the rate of exchange in effect on the transaction date.

Exchange gains and losses are recorded in the consolidated statements of comprehensive loss in the period in which they occur.

(e) Critical accounting estimates:

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements along with the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates and, as such, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates relate to determining the recoverability of mineral property interests; the determination of accrued liabilities; accrued site remediation; the variables used in the determination of the fair values of stock options granted, finders' fee warrants issued and warrants modified; and the recoverability of deferred tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements:

All of the new and revised standards described below may be early adopted.

(i) IAS 27 *Separate Financial Statements* (2011) ("IAS 27"):

This amended version of IAS 27 now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 *Consolidated and Separate Financial Statements*. Requirements for consolidated financial statements are now contained in IFRS 10 *Consolidated Financial Statements*.

The standard is applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, it must be adopted together with IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).

(ii) IAS 28 *Investments in Associates and Joint Ventures* (2011) ("IAS 28"):

This standard supersedes IAS 28 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The standard defines "significant influence" and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

The standard is applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, it must be adopted together with IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements: (continued)

(iii) IFRS 9 *Financial Instruments* (2009) ("IFRS 9 (2009)"):

IFRS 9 (2009) introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value is optional in some limited circumstances).
- Investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss.
- All other instruments (including all derivatives) are measured at fair value with changes recognized in profit or loss.
- The concept of "embedded derivatives" does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

This standard is applicable to annual reporting periods beginning on or after January 1, 2015.

(iv) IFRS 9 *Financial Instruments* (2010) ("IFRS 9 (2010)"):

A revised version of IFRS 9 (2010) incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

The standard applies to annual periods beginning on or after January 1, 2015. IFRS 9 (2010) supersedes IFRS 9 (2009).

2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements: (continued)

(v) IFRS 10 *Consolidated Financial Statements* ("IFRS 10"):

The standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities*.

The standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

The standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in "special purpose entities"). Under IFRS 10, control is based on whether an investor has power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the returns.

The standard is applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, it must be adopted together with IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

(vi) IFRS 11 *Joint Arrangements* ("IFRS 11"):

This standard replaces IAS 31 *Interests in Joint Ventures* ("IAS 31") and requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

Joint arrangements are either joint operations or joint ventures:

- A **joint operation** is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognize their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly).
- A **joint venture** is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 *Investments in Associates and Joint Ventures* (2011). Unlike IAS 31, the use of "proportionate consolidation" to account for joint ventures is not permitted.

The standard is applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, it must be adopted together with IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements: (continued)

(vii) IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12"):

The standard requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- **Significant judgments and assumptions** - such as how control, joint control, and significant influence have been determined.
- **Interests in subsidiaries** - including details of the structure of the group, risks associated with structured entities, and changes in control.
- **Interests in joint arrangements and associates** - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information).
- **Interests in unconsolidated structured entities** - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities, and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

The standard is applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, it must be adopted together with IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011).

(viii) IFRS 13 *Fair Value Measurement* ("IFRS 13"):

The standard replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.

This IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements: (continued)

(viii) IFRS 13 *Fair Value Measurement* ("IFRS 13"): (continued)

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a "fair value hierarchy" based on the nature of the inputs:

- **Level 1** - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- **Level 2** - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3** - unobservable inputs for the asset or liability.

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g., whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified.

The standard is applicable to annual reporting periods beginning on or after January 1, 2013.

(ix) Amendments to IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7"):

The amendments to IFRS 7 result from the IASB's comprehensive review of off balance sheet activities.

The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

The amendments apply to annual periods beginning on or after July 1, 2011.

2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements: (continued)

(x) Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12):

The amendments applies to IAS 12 *Income Taxes* ("IAS 12") to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 *Investment Property* will normally be through sale.

As a result of the amendments, SIC-21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

The amendments are applicable to annual periods beginning on or after January 1, 2012.

(xi) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1):

The amendments apply to IFRS 1 *First-time Adoption of International Financial Reporting Standards (IFRSs)* to:

- Replace references to a fixed date of "January 1, 2004" with "the date of transition to IFRSs", thus eliminating the need for companies adopting IFRSs for the first time to restate de-recognition transactions that occurred before the date of transition to IFRSs.
- Provide guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

The amendments are applicable to annual periods beginning on or after July 1, 2011.

2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements: (continued)

(xii) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1):

The amendments apply to IAS 1 *Presentation of Financial Statements* ("IAS 1") to revise the way other comprehensive income is presented.

The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and other comprehensive income to be presented together, i.e., either as a single "statement of profit or loss and comprehensive income", or a separate "statement of profit or loss" and a "statement of comprehensive income" – rather than requiring a single continuous statement as was proposed in the exposure draft.
- Require entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. i.e., those that might be reclassified and those that will not be reclassified.
- Require tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income either before tax or net of tax).

The amendments are applicable to annual reporting periods beginning on or after July 1, 2012.

(xiii) IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* ("IFRIC 20"):

IFRIC 20 clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognized as an asset, how the asset is initially recognized, and subsequent measurement.

The Interpretation requires stripping activity costs which provide improved access to ore are recognized as a non-current "stripping activity asset" when certain criteria are met. The stripping activity asset is depreciated or amortized on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, using the units of production method unless another method is more appropriate.

IFRIC 20 applies to annual periods beginning on or after January 1, 2013.

The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS consolidated statement of financial position at January 1, 2010 for purposes of the transition to IFRS.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Minera Caza S.A. de C.V. ("Minera Caza") and Minera Canarc de Mexico S.A. de C.V. ("Minera Canarc").

All significant intercompany transactions and balances have been eliminated.

(b) Financial instruments:

(i) Financial assets:

The Company classifies its financial assets in the following categories: fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity ("HTM") and available-for-sale ("AFS"). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Financial assets at FVTPL

Financial assets at FVTPL are initially recognized at fair value with changes in fair value recorded through profit or loss. Cash is included in this category of financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity dates. Loans and receivables are carried at amortized cost less any impairment. Loans and receivables comprise trade and other receivables.

Held to maturity

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. HTM investments are initially recognized on their trade-date at fair value, and subsequently measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statement of comprehensive loss. The Company does not have any assets classified as HTM investments.

3. Significant Accounting Policies (continued)

(b) Financial instruments: (continued)

(i) Financial assets: (continued)

Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets are recognized as other comprehensive income and classified as a component of equity. AFS financial assets include investments in equities of other entities.

Management assesses the carrying value of AFS financial assets at each reporting date and any impairment charges are recognized in profit or loss. When financial assets classified as AFS are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit and loss.

(ii) Financial liabilities:

The Company classifies its financial liabilities in the following categories: FVTPL, other financial liabilities, and derivative financial liabilities.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are initially recognized at fair value with changes in fair value recorded through profit or loss. The Company has no financial liabilities at FVTPL.

Other financial liabilities

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include trade accounts payable and accrued liabilities.

3. Significant Accounting Policies (continued)

(b) Financial instruments: (continued)

(iii) Fair value hierarchy:

The Company categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate fair values. The fair value of financial assets and financial liabilities included in level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and liabilities in level 2 are valued using inputs other than quoted prices for which all significant inputs are based on observable market data. Level 3 valuations are based on inputs that are not based on observable market data.

(iv) Impairment of financial assets:

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An evaluation is made as to whether a decline in fair value is "significant" or "prolonged" based on indicators such as significant adverse changes in the market, economic or legal environment.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

(v) Derecognition of financial assets and liabilities:

Financial assets are derecognized when the investments mature or are sold, and substantially all the risks and rewards of ownership have been transferred. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Gains and losses on derecognition are recognized within other income and finance costs respectively.

(c) Mineral property interests:

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition or staking costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse.

All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

3. Significant Accounting Policies (continued)

(c) Mineral property interests: (continued)

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the property interests are abandoned or the claims are allowed to lapse.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable in the future are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credited to profit or loss.

(d) Equipment:

Equipment is recorded at cost. The Company calculates amortization using the declining balance method at rates varying from 10% to 30% annually.

(e) Proceeds on unit offerings:

Proceeds received on the issuance of units, consisting of common shares and warrants, are first allocated to the fair value of the common shares with any residual value then allocated to warrants.

(f) Non-monetary transactions:

Common shares issued for consideration other than cash are valued at their fair value at the date of issuance.

(g) Share-based payments:

The Company has a stock option plan that is described in Note 8(c). Share-based payments to employees are measured on the grant date at the fair value of the instruments issued using the Black-Scholes option pricing model and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to the reserve for share-based payments. Consideration received on the exercise of stock options is recorded as share capital and the related reserve for share-based payments is transferred to share capital. Upon expiry, the recorded fair value is transferred from reserve for share-based payments to deficit.

3. Significant Accounting Policies (continued)

(h) Environmental rehabilitation:

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to the profit or loss in the period incurred.

The costs of rehabilitation projects that were included in the rehabilitation provision are recorded against the provision as incurred. The cost of ongoing current programs to prevent and control pollution is charged against profit and loss as incurred.

(i) Loss per share:

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. The treasury stock method is used to calculate diluted loss per common share amounts. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of the diluted per common share amount assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, diluted loss per common share presented is the same as basic loss per common share as the effect of outstanding share options and warrants in the loss per common share calculation would be anti-dilutive.

3. Significant Accounting Policies (continued)

(j) Provisions:

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

(k) Income taxes:

The Company follows the asset and liability method for accounting for income taxes. Under this 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, and losses carried forward. 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the substantive enactment date. Deferred tax assets are recognized to the extent that recovery is considered probable.

4. Management of Capital

The Company is an exploration stage company and its activities involve a high degree of risk. The Company has not yet determined whether its properties contain reserves and currently has not earned any revenues from its mineral property interests and does not generate cash flows from operations. The Company's primary source of funds is from the issuance of share capital.

The Company defines its capital as share capital. Capital requirements are driven by the Company's exploration activities on its mineral property interests. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses on all exploration projects and overhead to manage its costs, commitments and exploration activities.

Management reviews the capital availability and needs on a regular basis to ensure the above-noted objectives are met. There have been no changes to the Company's approach to capital management during the year.

4. Management of Capital (continued)

Although the Company has been successful at raising funds in the past from the issuance of share capital, it is uncertain whether it would be able to continue this financing in the future. The Company has sufficient funds and additional receivables to satisfy its working capital needs at year-end but will need to rely on equity financings to continue exploration work on its mineral property interests in the future.

As at December 31, 2011, the Company was not subject to any externally imposed capital requirements.

5. Financial Instruments and Management of Financial Risk

The Company has classified its cash as FVTPL; receivables as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities.

The fair values of the Company's receivables and accounts payable and accrued liabilities approximate their carrying values due to the short terms to maturity. Cash is measured at fair values using level 1 inputs.

The Company is exposed in varying degrees to a variety of financial instrument related risks, including credit risk, liquidity risk, and market risk which includes foreign currency risk, interest rate risk and other price risk. The types of risk exposure and the way in which such exposure is managed are provided as follows.

(a) Credit risk:

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality Canadian financial institutions. Non-contractual taxes receivables from government agencies are not considered financial instruments.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise equity financings. The Company continues to rely upon additional funding to maintain and explore its mineral property interests.

Accounts payable and accrued liabilities are due in less than 90 days.

5. Financial Instruments and Management of Financial Risk (continued)

(c) Market risk:

The significant market risk exposures to which the Company is exposed are foreign currency risk, interest rate risk and other price risk.

(i) Foreign currency risk:

The Company's mineral property interests are in Mexico and Nicaragua, and a portion of its operations are in Mexico, resulting in expenditures subject to foreign currency fluctuations. Fluctuations in the Mexican peso would impact the losses of the Company and the values of its assets and liabilities as the Company's functional and presentation currency is the Canadian dollar. The Canadian dollar fluctuates and floats with the Mexican peso.

At December 31, 2011, the Company is exposed to currency risk for its Canadian dollar equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars as follows:

	Held in Mexican Pesos (stated in Canadian dollars)
Cash	$ 43,922
Receivables and prepaids	57,380
Accounts payable and accrued liabilities	(43,767)
Net financial assets	$ 57,535

Based upon the above net exposure as at December 31, 2011 and assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar relative to the Mexican peso could result in a decrease/increase of $5,754 in the Company's net losses.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

(ii) Interest rate risk:

In respect of financial assets, the Company's policy is to invest excess cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest rates impact on the value of cash equivalents.

The Company has invested in a guaranteed investment certificate of $1 million which bears interest at a 1.8% discount from the prime rate and is redeemable at any time.

(Stated in Canadian dollars)

5. Financial Instruments and Management of Financial Risk (continued)

(c) Market risk: (continued)

(iii) Other price risk:

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Company does not have any financial instruments which fluctuate with market prices.

6. Mineral Property Interests

	Year ended December 31, 2011							
	Mexico						Nicaragua	
	Santiago	Moris	Santiago Fraction	El Relampago	Oaxaca	Tecolote	Los Andes	Total
Acquisition Costs:								
Balance, beginning of year	$ 197,834	$ 103,428	$ 29,977	$ 47,647	$ 18,957	$ 52,058	$ 44,757	$ 494,658
Option payment	97,282	-	-	33,386	11,989	-	545,241	687,898
Write-off	(295,116)	-	-	-	-	-	-	(295,116)
Balance, December 31, 2011	-	103,428	29,977	81,033	30,946	52,058	589,998	887,440
Deferred Exploration Expenditures:								
Balance, beginning of year	219,902	175,326	11,729	2,128	15,015	4,292	16,833	445,225
Advances	-	-	-	-	-	-	45,025	45,025
Aerial photos and mapping	-	-	-	-	-	-	46,406	46,406
Assays and surveys	50,600	105,945	-	-	-	-	170,111	326,656
Camp and field supplies	-	-	-	-	-	-	92,043	92,043
Drilling	144,980	506,443	-	-	-	-	-	651,423
Equipment and systems	94,157	1,376	-	-	-	-	139,464	234,997
Environmental	-	-	-	-	-	-	45,492	45,492
Geochemistry	-	-	-	-	-	-	60,006	60,006
Geology and consultants	207,163	303,733	-	-	-	-	526,731	1,037,627
Local labour	67,884	82,805	-	-	-	-	4,933	155,622
Roads and drill pads	111,648	-	-	-	-	-	27,399	139,047
Sundry	37,427	33,483	3,798	-	-	-	117,524	192,232
Surface taxes	1,034	62,891	-	586	8,111	2,693	8,871	84,186
Travel and transportation	62,004	89,568	-	189	-	-	112,971	264,732
Write-off	(996,799)	-	-	-	-	-	-	(996,799)
Balance, December 31, 2011	-	1,361,570	15,527	2,903	23,126	6,985	1,413,809	2,823,920
Mineral property interests, December 31, 2011	$ -	$ 1,464,998	$ 45,504	$ 83,936	$ 54,072	$ 59,043	$ 2,003,807	$ 3,711,360

(Stated in Canadian dollars)

6. Mineral Property Interests (continued)

	Year ended December 31, 2010							
	Mexico						Nicaragua	
	Santiago	Moris	Santiago Fraction	El Relampago	Oaxaca	Tecolote	Los Andes	Total
Acquisition Costs:								
Balance, January 1, 2010	$ 116,058	$ 102,612	$ 29,977	$ 16,602	$ 6,637	$ 27,579	$ -	$ 299,465
Option payment	81,776	816	-	31,045	12,320	24,479	44,757	195,193
Balance, December 31, 2010	$ 197,834	$ 103,428	$ 29,977	$ 47,647	$ 18,957	$ 52,058	$ 44,757	$ 494,658
Deferred Exploration Expenditures:								
Balance, January 1, 2010	109,123	40,633	3,515	1,489	5,686	799	-	161,245
Assays and surveys	(6,143)	4,294	-	-	-	-	5,610	3,761
Geology and consultants	57,556	46,247	4,486	-	-	1,101	10,906	120,296
Local labour & field supplies	7,098	2,174	-	-	-	-	-	9,272
Roads and drill pads	17,129	-	-	-	-	-	-	17,129
Sundry	15,878	1,524	2,435	-	-	890	-	20,727
Surface taxes	575	64,946	-	639	9,329	1,486	-	76,975
Travel and transportation	18,686	15,508	1,293	-	-	16	317	35,820
Balance, December 31, 2010	$ 219,902	$ 175,326	$ 11,729	$ 2,128	$ 15,015	$ 4,292	$ 16,833	$ 445,225
Mineral property interests:								
Balance, January 1, 2010	$ 225,181	$ 143,245	$ 33,492	$ 18,091	$ 12,323	$ 28,378	$ -	$ 460,710
Balance, December 31, 2010	417,736	278,754	41,706	49,775	33,972	56,350	61,590	939,883

(a) Los Arrastres (Mexico):

In February 2007, Minera Canarc entered into an option agreement to acquire a 100% interest in the Los Arrastres property by making US$2.5 million in cash payments and spending US$2 million on exploration over a 3 year period. Minera Canarc wrote-off the property in fiscal 2008.

On September 30, 2010, the Company, Minera Canarc and the vendor of the Los Arrastres property entered into a debt settlement agreement whereby the vendor agreed to accept US$80,000 in cash which was paid in October 2010 and 690,000 common shares of the Company which were issued in September 2010 at a value of $0.2605 (US$0.25) per common share in full settlement of outstanding debts of US$175,000 plus surface taxes of approximately $85,000 related to the Los Arrastres property. This resulted in the additional recognition of a net write-off of mineral property interests of $95,969 in 2010.

6. **Mineral Property Interests** (continued)

(b) Santiago (Mexico):

In May 2007, Minera Canarc entered into an option agreement to acquire a 100% interest in the Santiago gold property by making US$2 million in cash payments over a 5 year period and spending US$200,000 on exploration over a 2 year period. The vendor retained a 2% NSR.

In May 2009, April 2010 and then in April 2011, Minera Caza amended the option agreement to acquire a 100% interest in the property for US$2.02 million of which US$120,000 was previously paid, and thereafter further payments totalling US$100,000 from May 2009 to October 2010 were made by the Company, with a remaining balance of US$1.8 million payable over a 3 year period, and spending US$200,000 on exploration over a 1 year period which the Company had incurred by the end of fiscal 2010. In April 2011, the Company made a payment of US$34,000 to the vendor and US$33,000 in July 2011 and US$33,000 in August 2011. The vendor retained a 2% NSR.

The Company wrote-off the Santiago property at December 31, 2011.

(c) Moris and Santiago Fraction, El Relampago, Oaxaca and Tecolote (Mexico):

(i) Moris and Santiago Fraction:

In September 2007, Minera Canarc entered into an option and joint venture agreement with Exmin Resources Inc. (“Exmin”) to acquire up to a 75% interest in the Santiago Fraction property.

On September 24, 2009, Minera Canarc cancelled the option and joint venture agreement with Exmin, and the Company and Minera Caza entered into a mineral properties sale and purchase agreement with Exmin. The Company and Minera Caza acquired a 100% interest in the Moris and Santiago Fraction properties from Exmin for 400,000 common shares of the Company which were issued with a value of $0.25 per share. Exmin retains a 1% NSR which is capped at US$1 million for the Moris properties and US$0.5 million for the Santiago Fraction property.

Underlying the mineral properties sale and purchase agreement dated September 24, 2009 with Exmin are option to purchase agreements for the El Relampago, Oaxaca and Tecolote properties.

6. Mineral Property Interests (continued)

(c) Moris and Santiago Fraction, El Relampago, Oaxaca and Tecolote (Mexico): (continued)

(ii) El Relampago:

On November 17, 2009, the Company amended the option to purchase agreement for the El Relampago concession, in which the Company can earn a 100% interest by making cash payments of US$105,000 over a 3 year period. Cash payments of US$30,000 were paid in 2011 (2010 – US$30,000; 2009 – US$15,000).

(iii) Oaxaca:

On November 17, 2009, the Company amended the option to purchase agreement for the Oaxaca property concessions, in which the Company can earn a 100% interest by making cash payments of US$786,000 over a 5 year period. Cash payments of US$12,000 were paid in 2011 (2010 – US$12,000; 2009 – US$6,000).

(iv) Tecolote:

The Company can earn a 100% interest by making cash payments of US$25,000 in September 2009 which was accrued at December 31, 2009 and US$25,000 in March 2010. In March 2010, the option agreement was amended whereby total cash option payments of US$50,000 (paid) were due and payable during fiscal 2010. In 2010, the Company had earned a 100% interest.

(d) Los Andes property (Nicaragua):

In December 2010, as amended in January 2011, the Company entered into an option agreement to acquire a 100% interest in the Los Andes property by making US$1.17 million in cash payments, issuing 1.5 million common shares and spending US$2.97 million on exploration over a 4 year period. The Company also agreed to issue 150,000 common shares for the staking of additional properties to the vendors in January 2011, and thereafter the Company shall issue that number of common shares equal to 1.6 multiplied by the number of hectares staked in the area of mutual interest as defined, subject to regulatory approvals. The vendor retains a 2% NSR, and the Company has the right to reduce the NSR to 1% by paying US$1 million and to acquire the remaining 1% NSR by paying an additional US$2 million. At December 31, 2010, the Company accrued US$45,000 which was due to the vendor and which was paid in January 2011. On April 15, 2011, the Company issued 450,000 common shares at a value of $0.61 per share to the vendors of the property. In December 2011, the Company paid US$100,000, and at December 31, 2011 the Company recognized an obligation to issue 631,645 common shares, which were issuable for the Los Andes property and the staking of additional properties, at a value of $0.24 per common share which were issued on January 17, 2012.

6. Mineral Property Interests (continued)

(e) Mineral property commitments:

As at December 31, 2011, to maintain the Company's interest and to fully exercise the options under various property agreements covering its properties, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

	Option Payments (US dollars)	Monthly Option Payments (US dollars)	Expenditure Commitments (US dollars)	Number of Shares
El Relampago (Note 6(c)(ii)):				
May 18, 2012	$ 15,000	$ -	$ -	-
November 18, 2012	15,000	-	-	-
Oaxaca (Note 6(c)(iii)):				
January 1, 2012 to June 2014	-	1,000	-	-
July 2014	726,000	-	-	-
Los Andes (Note 6(d)):				
December 15, 2012	125,000	-	-	300,000
December 15, 2013	300,000	-	340,612	300,000
December 15, 2014	600,000	-	1,200,000	300,000
	$ 1,781,000	$ 1,000	$ 1,540,612	900,000

These amounts may be reduced in the future as the Company determines which properties to continue to explore and which to abandon.

(f) Title to mineral property interests:

The Company has investigated rights of ownership of all of its mineral properties/concessions and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, all properties/concessions may be subject to prior claims, agreements or transfers, and rights of ownership may be affected by undetected defects.

(g) Realization of assets:

The Company's investment in and expenditures on its mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful commercial production or from the proceeds of their disposal. The recoverability of the amounts shown for mineral property interests is dependent upon the existence of reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or proceeds from the disposition thereof.

(Stated in Canadian dollars)

6. Mineral Property Interests (continued)

(h) Environmental matters:

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous materials and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former mineral property interests that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation of the Company's operation may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

7. Equipment

	Cost	Accumulated Amortization	Net Book Value
Balance, January 1, 2010	$ 3,607	$ 1,653	$ 1,954
Acquisitions	10,620	-	10,620
Amortization for the year	-	802	(802)
Balance, December 31, 2010	14,227	2,455	11,772
Acquisitions	53,608	-	53,608
Amortization for the year	-	10,401	(10,401)
Balance, December 31, 2011	$ 67,835	$ 12,856	$ 54,979

8. Share Capital

(a) Authorized:

The authorized share capital of the Company is comprised of an unlimited number of common shares without par value.

(b) Issued:

(i) On January 17, 2012, the Company issued 631,645 common shares, which were issuable for the Los Andes property and the staking of additional properties, at a value of $0.24 per common share (Note 6(d)).

(ii) On March 17, 2011, the Company closed a private placement for 16.3 million units at $0.50 per unit for gross proceeds of $8.15 million. Each unit was comprised of one common share and one-half of a whole common share purchase warrant; each full common share purchase warrant is exercisable to acquire one common share at $0.70 until September 17, 2012. Finders' fees were comprised of $193,725 in cash and 175,000 units with the same terms as the units in the private placement.

On April 15, 2011, the Company issued 450,000 common shares at a value of $0.61 per share for the Los Andes property (Note 6(d)).

(iii) On April 30, 2010, the Company closed a private placement for 2,830,501 units at $0.25 per unit for gross proceeds of $707,625. Each unit was comprised of one common share and one-half of a whole common share purchase warrant; each full common share purchase warrant is exercisable to acquire one common share at $0.35 until October 31, 2011. The Company incurred share issue expenses of $47,084.

On September 29, 2010, the Company issued 690,000 common shares at $0.2605 (US$0.25) per common share pursuant to a debt settlement agreement for the Los Arrastres property. Note 6(a) provides further details.

On November 18, 2010, the Company closed its IPO for 8 million units at $0.35 per unit for gross proceeds of $2.8 million. Each unit was comprised of one common share and one-half of a whole share purchase warrant. Each warrant is exercisable to purchase one common share at an exercise price of $0.45 per share and with an expiry date of May 18, 2012. The warrants are subject to early expiry in the event that the volume weighted average trading price of the Company's common shares on the TSX-V exceeds $0.70 for a period of 20 consecutive trading days.

The Company paid $224,000 to the agent as the cash commission which is equal to 8% of the gross proceeds from the IPO. The Company issued to the agent non-transferable share purchase warrants to acquire up to 640,000 common shares of the Company which is equal to 8% of the number of units sold pursuant to the IPO exercisable at an exercise price of $0.35 per share and with an expiry date of May 18, 2012. The Company also paid $30,000 to the agent as a corporate finance fee related to the IPO and $40,359 to the agent for expenses in connection with the IPO, including legal expenses and the agent's out-of-pocket expenses.

(Stated in Canadian dollars)

8. Share Capital (continued)

(b) Issued: (continued)

(iv) Pursuant to the escrow agreement dated October 19, 2010, 1,912,727 shares of the Company were held in escrow (the "Escrowed Shares") at that time. The Escrowed Shares are subject to be released under the following schedule:

November 22, 2010	1/4 of the Escrow Shares
May 22, 2011	1/3 of the remaining Escrow Shares
November 22, 2011	1/2 of the remaining Escrow Shares
May 22, 2012	the remaining Escrow Shares

As at December 31, 2011, 478,181 (December 31, 2010 - 1,434,545; January 1, 2010 – Nil) common shares were held in escrow.

(c) Stock option plan:

The Company has a stock option plan that allows it to grant options to its directors, officers, employees and consultants, provided that the aggregate number of options granted shall not at any time exceed 10% of the total number of issued and outstanding common shares of the Company. The exercise price of each option shall be based on the market price of the Company's shares as traded on a stock exchange at the time of grant. Options have a maximum term of ten years and terminate 30 days following the termination of the optionee's employment, except in the case of death, in which case they terminate one year after the event. Vesting of options is made at the discretion of the Board at the time the options are granted.

The continuity of stock options for the years ended December 31, 2011 and 2010 is as follows:

	2011		2010	
	Number of Shares	Weighted average exercise price	Number of Shares	Weighted average exercise price
Outstanding balance, beginning of year	2,802,900	$0.35	-	-
Granted	1,790,000	$0.40	2,802,900	$0.35
Exercised	(9,000)	$0.35	-	-
Expired	(40,000)	$0.35	-	-
Forfeited	(176,000)	$0.35	-	-
Outstanding balance, end of year	4,367,900	$0.37	2,802,900	$0.35
Exercise price range	$0.35 - $0.57		$0.35 - $0.42	

(Stated in Canadian dollars)

8. Share Capital (continued)

(c) Stock option plan: (continued)

The following table summarizes information about stock options exercisable and outstanding at December 31, 2011:

	Options Outstanding			Options Exercisable		
Exercise Prices	Number Outstanding at December 31, 2011	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices	Number Exercisable at December 31, 2011	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices
$0.35	2,390,000	3.89	$0.35	1,432,000	3.89	$0.35
$0.42	187,900	3.92	$0.42	112,740	3.92	$0.42
$0.57	200,000	4.33	$0.57	80,000	4.33	$0.57
$0.375	1,590,000	4.48	$0.375	636,000	4.48	$0.375
	4,367,900	4.13	$0.37	2,260,740	4.07	$0.37

During the year ended December 31, 2011, the Company recognized share-based payments of $686,292 (2010 - $223,285) based on the fair value of options that were earned by the provision of services during the year. Share-based payments are segregated between directors and officers, employees and consultants as follows:

	2011	2010
Directors (excludes directors who are officers)	$ 192,191	$ 62,224
Officers (includes directors who are officers)	369,024	88,887
Employees	69,961	40,822
Consultants	55,116	31,352
	$ 686,292	$ 223,285

(Stated in Canadian dollars)

8. Share Capital (continued)

(c) Stock option plan: (continued)

The weighted average fair value of stock options granted and the weighted average assumptions used to calculate share-based payments for stock option grants are estimated using the Black-Scholes option pricing model as follows:

	2011	2010
Number of stock options granted	1,790,000	2,802,900
Fair value of stock options granted	$0.28	$0.29
Market price of shares on grant date	$0.36	$0.37
Expected forfeiture rate	14.00%	0.00%
Risk-free interest rate	2.15%	2.33%
Expected dividend yield	0%	0%
Expected stock price volatility	107.97%	105.87%
Expected option life in years	5	5

Expected stock price volatility is based on the historical price volatility of the Company's common shares.

Stock options granted in 2011 and 2010 are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

On January 17, 2012, the Company granted options to purchase 60,000 common shares at an exercise price of $0.30 and an expiry date of January 17, 2017. These options are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

On April 10, 2012, the Company granted options to purchase 100,000 common shares at an exercise price of $0.26 and an expiry date of April 10, 2015. These options are subject to vesting provisions in which 25% of the options vest three months from the grant date and 25% vest every three months thereafter.

(Stated in Canadian dollars)

8. Share Capital (continued)

(d) Warrants:

At December 31, 2011, the Company had outstanding warrants as follows:

Exercise Prices	Expiry Dates	Outstanding at December 31, 2010	Issued	Exercised	Expired	Outstanding at December 31, 2011
$0.35	March 30, 2011	1,970,000	-	(1,970,000)	-	-
$0.30	April 2, 2012 [1]	400,000	-	-	-	400,000
$0.35	October 31, 2011	1,365,251	-	(564,584)	(800,667)	-
$0.45	May 18, 2012	4,000,000	-	-	-	4,000,000
$0.35	May 18, 2012	622,312	-	(283,204)	-	339,108
$0.70	September 17, 2012	-	8,237,500	-	-	8,237,500
		8,357,563	8,237,500	(2,817,788)	(800,667)	12,976,608

(1) These warrants expired unexercised.

At December 31, 2010, the Company had outstanding warrants as follows:

Exercise Prices	Expiry Dates	Outstanding at December 31, 2009	Issued	Exercised	Expired	Outstanding at December 31, 2010
$0.12	January 31, 2010	1,400,000	-	(1,300,000)	(100,000)	-
$0.35	March 30, 2011 [1]	2,310,000	-	(340,000)	-	1,970,000
$0.30	April 2, 2012	400,000	-	-	-	400,000
$0.35	October 31, 2011	-	1,415,251	(50,000)	-	1,365,251
$0.45	May 18, 2012 [2]	-	4,000,000	-	-	4,000,000
$0.35	May 18, 2012	-	640,000	(17,688)	-	622,312
		4,110,000	6,055,251	(1,707,688)	(100,000)	8,357,563

(1) On February 8, 2010, the original expiry date of March 30, 2010 was extended to March 30, 2011. As a result of the extension of the expiry date, a fair value of $235,493 was recorded to deficit with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 122%, risk-free interest rate 1.25%, expected life 1.17 years, and expected dividend yield 0%.

(2) The underlying warrants in the units in the IPO were listed for trading on the TSX-V on November 22, 2010.

(Stated in Canadian dollars)

8. Share Capital (continued)

(d) Warrants: (continued)

Pursuant to the equity financings in 2011 and 2010, the fair values of finders' fee warrants which were included as a reduction to share capital were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	2010
Number of finders' fee warrants issued	87,500	640,000
Fair value of finders' fee warrants issued	$16,643	$114,689
Risk-free interest rate	1.61%	1.63%
Expected dividend yield	0%	0%
Expected stock price volatility	108.04%	111.68%
Expected life in years	1.5	1.5

(e) Common shares reserved for issuance at December 31, 2011:

	December 31, 2011
Stock options (Note 8(c))	4,367,900
Warrants (Note 8(d))	12,976,608
Common shares reserved for issuance	17,344,508

(Stated in Canadian dollars)

9. Related Party Transactions

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services is disclosed in the table below.

Except as disclosed elsewhere in the consolidated financial statements, the Company had the following general and administrative costs with related parties during 2011 and 2010:

	Years ended December 31,				Net balance receivable (payable) as at December 31,			
		2011		2010		2011		2010
Key management compensation:								
Executive salaries and remuneration [1]	$	574,877	$	330,255	$	(13,996)	$	-
Share-based payments		315,792		124,248		-		-
	$	890,669	$	454,503	$	(13,996)	$	-
Legal fees incurred to a law firm in which a senior officer of the Company is a partner [2]	$	117,369	$	278,786	$	(4,006)	$	(9,387)
Net office, sundry, rent and salary allocations recovered from (incurred to) company(s) sharing certain common director(s)	$	195,161	$	214,903	$	(23,507)	$	(13,288)

(1) Includes key management compensation which are included in mineral property interests.

(2) Includes legal fees which are included in share issuance expenses.

The above transactions are incurred in the normal course of business.

(Stated in Canadian dollars)

10. Segment Disclosures

The Company has one operating segment, being mineral exploration, with assets located in Canada, Mexico and Nicaragua, as follows:

	2011				2010			
	Canada	Mexico	Nicaragua	Total	Canada	Mexico	Nicaragua	Total
Mineral property interests	$ -	$ 1,707,553	$ 2,003,807	$ 3,711,360	$ -	$ 878,293	$ 61,590	$ 939,883
Equipment	5,544	49,435	-	54,979	10,620	1,152	-	11,772
Total assets	4,962,001	1,858,292	2,003,807	8,824,100	1,568,685	916,936	61,590	2,547,211
Net loss	2,059,663	1,736,094	-	3,795,757	1,454,924	311,348	-	1,766,272

11. Deferred Income Taxes

(a) A reconciliation of income tax provision computed at Canadian statutory rates to the reported income tax provision is provided as follows:

	2011	2010
Loss for the year	$ (3,795,757)	$ (1,766,272)
Canadian statutory tax rate	26.5%	28.5%
Income tax benefit computed at statutory rates	$ (1,005,876)	$ (503,388)
Foreign tax rates different from statutory rates	(82,857)	(9,670)
Items non-deductible for income tax purposes	360,233	(52,459)
Effect of change in tax rate	71,014	58,592
Change in timing differences	(225,700)	75,223
Unused tax losses and tax offsets not recognized in tax asset	883,186	431,702
	$ -	$ -

Effective January 1, 2011, the Canadian federal corporate tax rate decreased from 18.0% to 16.5% and the British Columbia provincial tax rate decreased from 10.5% to 10.0%. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rate from 28.5% to 26.5%.

In 2009, the Mexican government approved tax reform that includes a 2% increase in the income tax rate in Mexico from 28% to 30% for a three-year period starting in 2010.

(Stated in Canadian dollars)

11. Deferred Income Taxes (continued)

(b) The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income liabilities at December 31, 2011 and 2010 are presented below:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets			
Non-capital losses carried forward	$ 490,757	$ 259,947	$ 128,999
Deferred tax liabilities			
Book value over tax value of equipment	(1,386)	(2,656)	-
Book value over tax value of mineral properties	(489,371)	(257,291)	(128,999)
Deferred tax liabilities	(490,757)	(259,947)	(128,999)
Net deferred tax assets	$ -	$ -	$ -

(c) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	December 31, 2011	December 31, 2010	January 1, 2010
Non-capital losses	$ 6,134,249	$ 2,950,116	$ 1,588,273
Share issue costs	441,456	286,248	18,868
Tax value over book value of equipment	4,671	1,789	-
Unrecognized deferred tax assets	$ 6,580,376	$ 3,238,153	$ 1,607,141

(Stated in Canadian dollars)

11. Deferred Income Taxes (continued)

(c) (continued)

The Company's unrecognized unused non-capital losses have the following expiry dates

	Canada	Mexico	**Total**
2027	$ 27,623	$ 314,346	$ 341,969
2028	278,062	503,331	781,393
2029	467,363	342,960	810,323
2030	1,305,702	472,563	1,778,265
2031	1,593,807	2,586,613	4,180,420
	$ 3,672,557	$ 4,219,813	$ 7,892,370

12. Transition to IFRS

The accounting policies as disclosed in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements as at and for the year ended December 31, 2010 and the preparation of an opening IFRS balance sheet at January 1, 2010 (the Company's date of transition).

(a) IFRS 1:

In preparing the consolidated financial statements, the Company has applied IFRS 1 which provides guidance for an entity's initial adoption of IFRS. IFRS 1 gives entities adopting IFRS for the first time a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The following are the optional exemptions available under IFRS 1 that the Company has elected to apply:

(i) Business combinations:

The Company has elected to apply IFRS 3 *Business Combinations* ("IFRS 3") prospectively to business combinations that occur after the date of transition. The Company has elected this exemption under IFRS 1, which removes the requirement to retrospectively restate all business combinations prior to the date of transition to IFRS.

(ii) Share-based payments:

The Company elected to not apply IFRS 2 *Share-based Payments* ("IFRS 2") to equity instruments granted before November 7, 2002 and those granted but fully vested before the date of transition to IFRS. As a result, the Company has applied IFRS 2 for stock options granted after November 7, 2002 that are not fully vested at January 1, 2010.

12. Transition to IFRS (continued)

(b) 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. Although adoption of IFRS did not change the Company's actual cash flows, it did result in changes to the Company's consolidated statements of financial position, consolidated statements of comprehensive loss and consolidated statements of shareholders' equity as set out below:

(i) Share-based payments:

Under Canadian GAAP, the Company accounts for forfeitures of stock option as they occur. For IFRS, estimates of forfeitures are initially recognized when stock options are granted and subsequently adjusted for actual forfeitures as they occur. The Company has recognized vesting of stock options on an accelerated graded vesting basis which is similar to IFRS.

Under Canadian GAAP, expired unexercised stock options remained in contributed surplus. On transition to IFRS, the Company elected to change its accounting policy for the treatment of share-based payments whereby amounts included in the reserve for share-based payments for expired unexercised stock options are transferred from the reserve for share-based payments to deficit.

(ii) Income tax:

Under Canadian GAAP, deferred tax balances are calculated in the currency in which the taxes are paid and then converted to the accounting presentation currency at the current exchange rate, whereas IFRS requires that deferred taxes be determined in an entity's functional accounting currency by comparing the historic non-monetary accounting basis to the tax basis converted at the current exchange rate. Adjustments arise from this different treatment when an entity's functional currency differs from that in which the entity calculates and pays tax. The Company's functional and presentation currency is the Canadian dollar.

12. Transition to IFRS (continued)

(c) Reconciliation from Canadian GAAP to IFRS:

A reconciliation of the above noted changes is included in these following consolidated statements of financial position and consolidated statement of comprehensive loss for the dates noted below. The effects of transition from Canadian GAAP to IFRS on the cash flow are not material; therefore a reconciliation of cash flows has not been presented.

Transitional Consolidated Statement of Financial Position Reconciliation – January 1, 2010

Consolidated Statement of Financial Position Reconciliation – December 31, 2010
Consolidated Statement of Comprehensive Loss Reconciliation – December 31, 2010

(Stated in Canadian dollars)

12. Transition to IFRS (continued)

(c) Reconciliation from Canadian GAAP to IFRS: (continued)

(i) The January 1, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

		January 1, 2010		
	Notes	Canadian GAAP	Effects of Transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash		$ 122,410	$ -	$ 122,410
Receivables and prepaids		154,549		154,549
Total Current Assets		276,959	-	276,959
Non-Current Assets				
Mineral property interests		460,710		460,710
Equipment		1,954		1,954
Total Non-Current Assets		462,664	-	462,664
Total Assets		$ 739,623	$ -	$ 739,623
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities		$ 476,539	$ -	$ 476,539
Shareholders' Equity				
Share capital		2,174,964		2,174,964
Deficit		(1,911,880)		(1,911,880)
Total Shareholders' Equity		263,084	-	263,084
Total Liabilities and Shareholders' Equity		$ 739,623	$ -	$ 739,623

(Stated in Canadian dollars)

12. Transition to IFRS (continued)

(c) Reconciliation from Canadian GAAP to IFRS: (continued)

(iii) The December 31, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

		December 31, 2010		
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash		$ 1,427,459	$ -	$ 1,427,459
Receivables and prepaids		168,097		168,097
Total Current Assets		1,595,556	-	1,595,556
Non-Current Assets				
Mineral property interests		939,883		939,883
Equipment		11,772		11,772
Total Non-Current Assets		951,655	-	951,655
Total Assets		$ 2,547,211	$ -	$ 2,547,211
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities		$ 182,493	$ -	$ 182,493
Shareholders' Equity				
Share capital		5,742,727		5,742,727
Contributed surplus	12(b)(i)	535,675	(535,675)	-
Reserve for share-based payments	12(b)(i)	-	535,636	535,636
Deficit	12(b)(i)	(3,913,684)	39	(3,913,645)
Total Shareholders' Equity		2,364,718	-	2,364,718
Total Liabilities and Shareholders' Equity		$ 2,547,211	$ -	$ 2,547,211

(Stated in Canadian dollars)

12. Transition to IFRS (continued)

(c) Reconciliation from Canadian GAAP to IFRS: (continued)

(iv) The Canadian GAAP consolidated statement of comprehensive loss for the year ended December 31, 2010 has been reconciled to IFRS as follows:

		Year ended December 31, 2010		
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
Expenses:				
Accounting and audit		$ 56,706	$ -	$ 56,706
Amortization		802		802
Employee remuneration		447,040		447,040
Legal		218,248		218,248
Office and sundry		103,173		103,173
Property investigation		153,613		153,613
Regulatory		92,672		92,672
Shareholder relations		169,789		169,789
Stock-based compensation	12(b)(i)	223,324	(39)	223,285
Loss before the undernoted		(1,465,367)	39	(1,465,328)
Foreign exchange loss		(23,256)		(23,256)
Interest expense		(14,053)		(14,053)
Write-off of value-added tax receivables		(167,666)		(167,666)
Write-off of mineral property interests		(95,969)		(95,969)
Net loss and comprehensive loss for the year		$ (1,766,311)	$ 39	$ (1,766,272)
Basic and diluted loss per share		$ (0.06)		$ (0.06)
Weighted average number of common shares outstanding		27,175,171		27,175,171

HEAD OFFICE	#301 – 700 West Pender Street Vancouver, BC, Canada, V6C 1G8 Telephone: (604) 685-9750 Facsimile: (604) 685-9744
DIRECTORS	Bradford Cooke Greg Myers Anthony Hawkshaw Stewart Lockwood Philip Yee
OFFICERS	Bradford Cooke ~ Chairman Greg Myers ~ Chief Executive Officer and President Gregg Wilson ~ Vice-President, Investor Relations Philip Yee ~ Chief Financial Officer Stewart Lockwood ~ Secretary
REGISTRAR AND TRANSFER AGENT	Computershare Investor Services Inc. 3rd Floor, 510 Burrard Street Vancouver, BC, Canada, V6C 3B9
AUDITORS	Smythe Ratcliffe LLP 7th Floor, 355 Burrard Street Vancouver, BC, Canada, V6C 2G8
SOLICITORS	Vector Corporate Finance Lawyers #1040 – 999 West Hastings Street Vancouver, BC, Canada, V6C 2W2