CAZA GOLD CORP.

Second Quarter Report

Condensed Consolidated Interim Financial Statements

(stated in Canadian dollars)

Three and Six Months ended June 30, 2012

(Unaudited – Prepared by Management)

Notice of No Auditor Review of

Unaudited Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended June 30, 2012

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

The accompanying unaudited condensed consolidated interim financial statements of Caza Gold Corp. (the "Company") for the three and six months ended June 30, 2012 (the "Financial Statements") have been prepared by and are the responsibility of the Company's management, and have not been reviewed by the Company's auditors. The Financial Statements are stated in Canadian dollars, unless otherwise indicated, and are prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* ("IAS 34") based upon the principles of International Financial Reporting Standards ("IFRS").

CAZA GOLD CORP.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Financial Position

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

	Notes		**June 30, 2012**		December 31, 2011
ASSETS					
Current Assets					
Cash		**$**	**2,234,351**	$	4,747,814
Receivables and prepaids			**428,748**		309,947
Total Current Assets			**2,663,099**		5,057,761
Non-Current Assets					
Mineral property interests	6		**5,095,442**		3,711,360
Equipment	7		**52,709**		54,979
Total Non-Current Assets			**5,148,151**		3,766,339
Total Assets		**$**	**7,811,250**	$	8,824,100
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Accounts payable and accrued liabilities	9	**$**	**340,508**	$	268,183
Shareholders' Equity					
Share capital	8(b)		**15,279,878**		15,129,181
Obligation to issue shares	6(c) and 8(b)		**-**		151,596
Reserve for share-based payments			**1,079,268**		975,250
Deficit			**(8,888,404)**		(7,700,110)
Total Shareholders' Equity			**7,470,742**		8,555,917
Total Liabilities and Shareholders' Equity		**$**	**7,811,250**	$	8,824,100

Refer to the accompanying notes to the condensed consolidated interim financial statements.

CAZA GOLD CORP.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Comprehensive Loss

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

	Notes	Three Months Ended June 30, **2012**	Three Months Ended June 30, 2011	Six Months Ended June 30, **2012**	Six Months Ended June 30, 2011
Expenses:					
Accounting and audit		**$ 5,800**	$ -	**$ 5,800**	$ -
Amortization		**3,627**	1,473	**7,257**	1,674
Employee remuneration	9	**106,564**	126,105	**199,733**	200,174
Legal	9	**20,575**	26,730	**27,405**	43,654
Office and sundry	9	**66,534**	95,352	**140,870**	135,754
Property investigation	9 and 10	**176,920**	32,709	**488,653**	47,424
Regulatory		**41,405**	21,466	**76,539**	46,025
Shareholder relations		**76,164**	82,309	**133,353**	270,117
Share-based payments	8(c) and 9	**135,520**	221,005	**200,238**	373,660
Loss before the undernoted		**(633,109)**	(607,149)	**(1,279,848)**	(1,118,482)
Foreign exchange (loss) gain		**11,526**	(196,095)	**(9,601)**	(243,100)
Interest and other investment income		**2,992**	-	**5,984**	-
Write-off of mineral property interests	6(a)	**18**	-	**(1,049)**	-
Net loss and comprehensive loss for the period		**$ (618,573)**	$ (803,244)	**$ (1,284,514)**	$ (1,361,582)
Basic and diluted loss per share		**$ (0.01)**	$ (0.01)	**$ (0.02)**	$ (0.03)
Weighted average number of common shares outstanding		**56,661,045**	55,869,520	**56,602,045**	47,729,980

Refer to the accompanying notes to the condensed consolidated interim financial statements.

CAZA GOLD CORP.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Shareholders' Equity

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

	Notes	Share Capital Number of Shares	Share Capital Amount	Reserve for Share-Based Payments	Obligation to Issue Shares	Deficit	Total
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(c), 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
Property acquisition	6(c), 8(b)(i)	631,645	151,596	-	(151,596)	-	-
Share issue expenses		-	(899)	-	-	-	(899)
Share-based payments		-	-	200,238	-		200,238
Expiry of stock options		-	-	(35,452)	-	35,452	-
Expiry of finders fee warrants		-	-	(60,768)	-	60,768	-
Net loss for the period		-	-	-	-	(1,284,514)	(1,284,514)
Balance, June 30, 2012		56,661,045	$ 15,279,878	$ 1,079,268	$ -	$ (8,888,404)	$ 7,470,742

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	7,873,689	-	-	-	7,873,689
Property acquisition	6(c), 8(b)(ii)	450,000	193,500	-	-	-	193,500
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	(50,750)	-	-	99,122
Share-based payments		-	-	373,660	-		373,660
Expiry of stock options		-	-	(9,292)	-	9,290	(2)
Fair value of finders fee warrants		-	(21,783)	21,783	-	-	-
Net loss for the period		-	-	-	-	(1,361,582)	(1,361,582)
Balance, June 30, 2011		56,029,400	$ 15,031,537	$ 667,759	$ -	$ (5,265,937)	$ 10,433,359

Refer to the accompanying notes to the condensed consolidated interim financial statements.

CAZA GOLD CORP.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

	Six Months Ended June 30, **2012**	2011
Cash provided from (used for):		
Operations:		
Loss for the period	**$ (1,284,514)**	$ (1,361,582)
Items not involving cash:		
Amortization	**7,257**	1,674
Share-based payments	**200,238**	373,660
Unrealized currency translation gain	**-**	(2)
	(1,077,019)	(986,250)
Changes in non-cash working capital items:		
Receivables and prepaids	**(118,801)**	(44,478)
Accounts payable and accrued liabilities	**126,606**	33,668
Cash used by operating activities	**(1,069,214)**	(997,060)
Financing:		
Issuance of common shares, net of share issue costs	**-**	7,873,689
Exercise of stock options	**-**	3,150
Exercise of warrants	**-**	986,226
Cash provided from financing activities	**-**	8,863,065
Investing:		
Mineral property interests, net of recoveries	**(1,439,262)**	(1,547,068)
Acquisition of equipment	**(4,987)**	(47,752)
Cash used by investing activities	**(1,444,249)**	(1,594,820)
(Decrease) increase in cash	**(2,513,463)**	6,271,185
Cash, beginning of period	**4,747,814**	1,427,459
Cash, end of period	**$ 2,234,351**	$ 7,698,644

Refer to the accompanying notes to the condensed consolidated interim financial statements.

CAZA GOLD CORP.

(An Exploration Stage Company)
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited – Prepared by Management)
(Stated in Canadian dollars)

	Six months ended June 30, 2012	2011
Non-cash financing and investing activities:		
Accrual for mineral property interests	**$ 97,974**	$ 532,287
Issuance of common shares for:		
Obligation to issue common shares	**151,596**	-
Mineral property interests	**-**	193,500
Fair values allocated to common shares issued on exercise of:		
Stock options	**-**	2,446
Modified warrants with extended expiry dates	**-**	200,832
Finders fee warrants	**-**	50,750
Fair values of finders fee warrants	**-**	21,783
Fair values from the expiration of:		
Stock options	**35,452**	9,290
Finders fee warrants	**60,768**	-
Interest paid	**-**	-
Income taxes paid	**-**	-

Refer to the accompanying notes to the condensed consolidated interim 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, Canada. The Company's registered and corporate offices are in Vancouver, BC, Canada.

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 $1.28 million for the six months ended June 30, 2012 (June 30, 2011 - $1.36 million) and has a deficit of approximately $8.89 million as at June 30, 2012 (December 31, 2011 - $7.7 million). These condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") using accounting policies and practices consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and the interpretations of the International Financial Reporting Standards Interpretations Committee. These unaudited condensed consolidated interim financial statements do not include all of the information and disclosures required for full and complete annual financial statements, and accordingly should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2011. The Company has consistently applied the same accounting policies and practices for all periods as presented. Certain of the prior periods' comparative figures have been reclassified to conform to the presentation adopted in the current period.

(b) Approval of condensed consolidated interim financial statements:

These condensed consolidated interim financial statements were approved by the Company's Board of Directors on August 17, 2012.

2. Basis of Presentation (continued)

(c) Basis of presentation:

These condensed consolidated interim 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) incorporates revised requirements for the classification and measurement of financial liabilities, and carries 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 condensed consolidated interim financial statements.

(a) Basis of consolidation:

These condensed consolidated interim 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.

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 period.

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 period-end but will need to rely on equity financings to continue exploration work on its mineral property interests in the future.

As at June 30, 2012, 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.

(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.

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

(c) Market risk: (continued)

(i) Foreign currency risk: (continued)

At June 30, 2012, 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	$ 109,547
Receivables and prepaids	153,085
Accounts payable and accrued liabilities	(153,557)
Net financial assets	$ 109,075

Based upon the above net exposure as at June 30, 2012 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 $10,908 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. At June 30, 2012, the prime rate was 3%.

(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.

(Stated in Canadian dollars)

6. Mineral Property Interests

	Six Months ended June 30, 2012							
	Mexico					Nicaragua		
	Moris	Santiago Fraction	El Relampago	Oaxaca	Tecolote	Los Andes	Other	Total
Acquisition Costs:								
Balance, December 31, 2011	$ 103,428	$ 29,977	$ 81,033	$ 30,946	$ 52,058	$ 589,998	$ -	$ 887,440
Option payment	-	-	15,718	5,854	-	-	-	21,572
Balance, June 30, 2012	103,428	29,977	96,751	36,800	52,058	589,998	-	909,012
Deferred Exploration Expenditures:								
Balance, December 31, 2011	1,361,570	15,527	2,903	23,126	6,985	1,413,809	-	2,823,920
Advances	-	-	-	-	-	(8,841)	-	(8,841)
Aerial photos and mapping	2,848	-	-	-	-	51,455	1,203	55,506
Assays and surveys	-	-	-	-	-	120,603	35,465	156,068
Camp and field supplies	6,043	380	380	380	380	195,139	-	202,702
Community and social	-	-	-	-	-	89,021	-	89,021
Equipment and systems	-	-	-	-	-	5,284	-	5,284
Environmental	-	-	-	-	-	24,557	-	24,557
Geology and remunerations	76,706	-	-	-	-	263,236	-	339,942
Local labour	20,814	-	-	-	-	126,675	-	147,489
Roads and drill pads	-	-	-	-	-	36,003	-	36,003
Sundry	8,788	-	-	-	-	52,162	-	60,950
Surface taxes	24,086	-	312	4,329	9,594	20,860	-	59,181
Transportation and travel	20,153	-	-	-	-	174,495	-	194,648
Balance, June 30, 2012	1,521,008	15,907	3,595	27,835	16,959	2,564,458	36,668	4,186,430
Mineral property interests:								
December 31, 2011	$ 1,464,998	$ 45,504	$ 83,936	$ 54,072	$ 59,043	$ 2,003,807	$ -	$ 3,711,360
June 30, 2012	1,624,436	45,884	100,346	64,635	69,017	3,154,456	36,668	5,095,442

6. Mineral Property Interests (continued)

(a) 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 2011, the Company made option payments totalling US$100,000. The vendor retained a 2% NSR.

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

(b) 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.

(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 payment of US$15,000 was paid in May 2012 (2011 - US$30,000).

6. Mineral Property Interests (continued)

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

(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$6,000 were paid during the six months ended June 30, 2012 (2011 - US$12,000).

(iv) Tecolote:

In 2010, the Company earned a 100% interest in the Tecolote property by making total cash option payments of US$50,000.

(c) 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)

(d) Mineral property commitments:

As at June 30, 2012, 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(b)(ii)):				
November 18, 2012	$ 15,000	$ -	$ -	-
Oaxaca (Note 6(b)(iii)):				
July 1, 2012 to June 2014	-	1,000	-	-
July 2014	726,000	-	-	-
Los Andes (Note 6(c)):				
December 15, 2012	125,000	-	-	300,000
December 15, 2013	300,000	-	-	300,000
December 15, 2014	600,000	-	392,917	300,000
	$ 1,766,000	$ 1,000	$ 392,917	900,000

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

(e) 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.

(f) 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)

(g) 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, 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
Acquisitions	4,987	-	4,987
Amortization for the period	-	7,257	(7,257)
Balance, June 30, 2012	$ 72,822	$ 20,113	$ 52,709

(Stated in Canadian dollars)

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(c)).

(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(c)).

(iii) 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 June 30, 2012, nil (December 31, 2011 - 478,181) common shares were held in escrow.

(Stated in Canadian dollars)

8. Share Capital (continued)

(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 six months ended June 30, 2012 is as follows:

	Number of Shares	Weighted average exercise price
Outstanding balance, December 31, 2011	4,367,900	$0.37
Granted	1,132,500	$0.26
Expired	(80,000)	$0.57
Forfeited	(120,000)	$0.57
Outstanding balance, June 30, 2012	5,300,400	$0.34
Exercise price range	$0.26 - $0.42	

The following table summarizes information about stock options exercisable and outstanding at June 30, 2012:

	Options Outstanding			Options Exercisable		
Exercise Prices	Number Outstanding at June 30, 2012	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices	Number Exercisable at June 30, 2012	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices
$0.26	100,000	2.78	$0.26	-	-	-
$0.35	2,390,000	3.39	$0.35	1,911,000	3.39	$0.35
$0.42	187,900	3.42	$0.42	150,320	3.42	$0.42
$0.375	1,590,000	3.98	$0.375	954,000	3.98	$0.375
$0.30	60,000	4.55	$0.300	12,000	4.55	$0.30
$0.26	972,500	4.83	$0.26	194,500	4.83	$0.26
	5,300,400	3.84	$0.34	3,221,820	3.66	$0.36

(Stated in Canadian dollars)

8. Share Capital (continued)

(c) Stock option plan: (continued)

During the six months ended June 30, 2012, the Company recognized share-based payments of $200,238 based on the fair value of options that were earned by the provision of services during the period. Share-based payments are segregated between directors and officers, employees and consultants as follows:

		June 30, 2012
Directors (excludes directors who are officers)	$	60,094
Officers (includes directors who are officers)		97,944
Employees		37,116
Consultants		5,084
	$	200,238

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:

	June 30, 2012
Number of stock options granted	1,132,500
Fair value of stock options granted	$0.19
Market price of shares on grant date	$0.25
Expected forfeiture rate	8.19%
Risk-free interest rate	1.51%
Expected dividend yield	0%
Expected stock price volatility	115.90%
Expected option life in years	5

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

(Stated in Canadian dollars)

8. Share Capital (continued)

(c) Stock option plan: (continued)

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.

On April 30, 2012, the Company granted options to purchase 972,500 common shares at an exercise price of $0.26 and an expiry date of April 30, 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.

(d) Warrants:

At June 30, 2012, the Company had outstanding warrants as follows:

Exercise Prices	Expiry Dates	Outstanding at December 31, 2011	Issued	Exercised	Expired	Outstanding at June 30, 2012
$0.30	April 2, 2012	400,000	-	-	(400,000)	-
$0.45	May 18, 2012	4,000,000	-	-	(4,000,000)	-
$0.35	May 18, 2012	339,108	-	-	(339,108)	-
$0.70	September 17, 2012	8,237,500	-	-	-	8,237,500
		12,976,608	-	-	(4,739,108)	8,237,500

(e) Common shares reserved for issuance at June 30, 2012:

	June 30, 2012
Stock options (Note 8(c))	5,300,400
Warrants (Note 8(d))	8,237,500
Common shares reserved for issuance	13,537,900

(Stated in Canadian dollars)

8. Share Capital (continued)

(f) Shareholder rights plan:

On June 12, 2012, the shareholders of the Company approved a shareholder rights plan (the "Plan"), which is still subject to regulatory approval. The Plan is intended to ensure that any entity seeking to acquire control of the Company makes an offer that represents fair value to all shareholders and provides the board of directors with sufficient time to assess and evaluate the offer, to permit competing bids to emerge, and, as appropriate, to explore and develop alternatives to maximize value for shareholders. Under the Plan, each shareholder at the time of the Plan's adoption was issued one Right for each common share of the Company held. Each Right entitles the registered holder thereof, except for certain "Acquiring Persons" (as defined in the Plan), to purchase from treasury one common share at a 50% discount to the prevailing market price, subject to certain adjustments intended to prevent dilution. The Rights are exercisable after the occurrence of specified events set out in the Plan generally related to when a person, together with affiliated or associated persons, acquires, or makes a take-over bid to acquire, beneficial ownership of 20% or more of the outstanding common shares of the Company. The Rights expire in three years.

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 condensed consolidated interim financial statements, the Company had the following general and administrative costs with related parties during the six months ended June 30, 2012:

	June 30, 2012	Net balance receivable (payable) as at June 30, 2012
Key management compensation:		
Executive salaries and remuneration [1]	$ 203,630	$ (14,005)
Share-based payments	102,046	-
	$ 305,676	$ (14,005)
Legal fees incurred to a law firm in which a senior officer of the Company is a partner [2]	$ 29,825	$ -
Net office, sundry, rent and salary allocations recovered from (incurred to) company(s) sharing certain common director(s)	$ (94,925)	$ (14,416)

(1) Includes key management compensation which is included in mineral property interests and property investigation.

(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. Property Investigation

	June 30, 2012
Property Investigation:	
Assays	$ 39,766
Employee and management remuneration	265,061
Field supplies	17,223
Geologists	86,973
Local labour	11,484
Mapping and surveys	19,899
Office and sundry	9,023
Transportation and travel	39,224
	$ 488,653

11. Segment Disclosures

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

	June 30, 2012			
	Canada	Mexico	Nicaragua	Total
Mineral property interests	$ -	$ 1,904,318	$ 3,191,124	$ 5,095,442
Equipment	4,713	47,996	-	52,709
Total assets	2,405,180	2,214,946	3,191,124	7,811,250
Net loss	950,723	333,791	-	1,284,514

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DIRECTORS	Bradford Cooke Greg Myers Anthony Hawkshaw Stewart Lockwood Philip Yee
OFFICERS	Bradford Cooke ~ Chairman Greg Myers ~ Chief Executive Officer and President Marco Montecinos ~ Vice-President, Exploration 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