CAZA GOLD CORP.

Consolidated Financial Statements

(stated in Canadian dollars)

Years ended December 31, 2010 and 2009

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 balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles 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' judgment, 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 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, Canada
April 28, 2011

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 Balance Sheets
(Stated in Canadian dollars)

	December 31, 2010	2009
ASSETS		
Current Assets		
Cash	**$ 1,427,459**	$ 122,410
Receivables and prepaids	**168,097**	154,549
	1,595,556	276,959
Non-Current Assets		
Mineral property interests (Note 5)	**939,883**	460,710
Equipment (Note 6)	**11,772**	1,954
	951,655	462,664
	$ 2,547,211	$ 739,623
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	**$ 182,493**	$ 476,539
Shareholders' Equity		
Share capital (Note 7)	**5,742,727**	2,174,964
Contributed surplus	**535,675**	-
Deficit	**(3,913,684)**	(1,911,880)
	2,364,718	263,084
	$ 2,547,211	$ 739,623

Nature of operations (Note 1)
Commitments (Note 5)
Subsequent events (Notes 5(e), 7(c) and (d), and 11)

Approved on behalf of the Board:

/s/ Bradford Cooke
Director

/s/ Anthony Hawkshaw
Director

Refer to the accompanying notes to the consolidated financial statements.

CAZA GOLD CORP.

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

	Years ended December 31, 2010	2009
Expenses:		
Accounting and audit	**$ 56,706**	$ 25,400
Amortization	**802**	802
Employee remuneration (Note 8)	**447,040**	205,990
Legal (Note 8)	**218,248**	25,752
Office and sundry (Note 8)	**103,173**	78,807
Property investigation	**153,613**	42,457
Regulatory	**92,672**	27,215
Shareholder relations	**169,789**	35,685
Stock-based compensation (Note 7(c))	**223,324**	-
Loss before the undernoted	**(1,465,367)**	(442,108)
Foreign exchange loss	**(23,256)**	(7,846)
Interest expense (Note 8)	**(14,053)**	-
Interest and other income	**-**	127
Write-off of value added tax receivables	**(167,666)**	-
Write-off of mineral property interests (Note 5(b))	**(95,969)**	(81,623)
Net loss and comprehensive loss for the year	**$ (1,766,311)**	$ (531,450)
Basic and diluted loss per share	**$ (0.06)**	$ (0.02)
Weighted average number of common shares outstanding	**27,175,171**	22,158,464

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)

	Years ended December 31,			
	2010		2009	
	Shares	**Amount**	Shares	Amount
Common shares:				
Balance, beginning of year	**23,049,423**	**$ 2,174,964**	21,849,423	$ 1,882,692
Issued:				
Shares for debt (Notes 5(b) and 7(b)(i))	**690,000**	**179,745**	-	-
Initial public offering, net of share issue costs (Note 7(b)(i))	**8,000,000**	**2,390,955**	-	-
Private placement, net of share issue costs (Note 7(b))	**2,830,501**	**660,541**	800,000	192,272
Property acquisition (Notes 5(d) and 7(b)(ii))	**-**	**-**	400,000	100,000
Exercise of warrants (Note 7(d))	**1,707,688**	**336,522**	-	-
Balance, end of year	**36,277,612**	**5,742,727**	23,049,423	2,174,964
Contributed surplus:				
Balance, beginning of year		**-**		-
Fair value of stock options		**223,324**		-
Fair value from warrant modification (Note 7(d))		**235,493**		-
Fair value of finders fee warrants		**114,689**		-
Exercise of modified warrants		**(34,661)**		-
Exercise of finders fee warrants		**(3,170)**		-
Balance, end of year		**535,675**		-
Deficit:				
Balance, beginning of year		**(1,911,880)**		(1,380,430)
Fair value from warrant modification (Note 7(d))		**(235,493)**		-
Loss for the year		**(1,766,311)**		(531,450)
Balance, end of year		**(3,913,684)**		(1,911,880)
Total Shareholders' Equity		**$ 2,364,718**		$ 263,084

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, 2010	2009
Cash provided from (used by):		
Operations:		
Loss for the year	**$ (1,766,311)**	$ (531,450)
Items not involving cash:		
Amortization	**802**	802
Stock-based compensation	**223,324**	-
Write-off of value-added tax receivables	**167,666**	-
Foreign exchange translation gain	**(4,004)**	(4,144)
Write-off of mineral property interests	**95,969**	81,623
	(1,282,554)	(453,169)
Changes in non-cash working capital items:		
Receivables and prepaids	**(181,215)**	(30,810)
Accounts payable and accrued liabilities	**(265,647)**	238,397
Cash used by operating activities	**(1,729,416)**	(245,582)
Financing:		
Issuance of common shares, net of share issue costs	**3,464,877**	192,272
Investing:		
Mineral property interests	**(434,416)**	(236,325)
Foreign exchange gain on cash held in foreign currency	**4,004**	4,144
Increase (decrease) in cash	**1,305,049**	(285,491)
Cash, beginning of year	**122,410**	407,901
Cash, end of year	**$ 1,427,459**	$ 122,410

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, 2010	2009
Non-cash financing and investing activities:		
Accruals for:		
Mineral property interests	**$ 44,757**	$ -
Acquisition of equipment	**10,620**	-
Issuance of shares for:		
Property acquisition (Notes 5(d)(i) and 7(b)(ii))	**-**	100,000
Settlement of debt and demand notes (Notes 5(b) and 7(b)(i))	**179,745**	-
Fair values allocated to common shares issued on exercise of:		
Modified warrants with extended expiry dates (Note 7(d))	**34,661**	-
Finders fee warrants (Note 7(d))	**3,170**	-
Fair values from warrant modification (Note 9(d))	**235,493**	-
Fair values of finders fee warrants (Note 9(d))	**114,689**	-
Interest paid (Note 8)	**13,986**	-
Income taxes paid	**-**	-

Refer to the accompanying notes to the consolidated financial statements.

CAZA GOLD CORP.

(An Exploration Stage Company)

Consolidated Statements of Mineral Property Expenditures

(Stated in Canadian dollars)

	December 31, 2010							
	Mexico						Nicaragua	
	Santiago	Moris	Santiago Fraction	El Relampago	Oaxaca	Tecolote	Los Andes	Total
Acquisition Costs:								
Balance, beginning of year	$ 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, end of year	197,834	103,428	29,977	47,647	18,957	52,058	44,757	494,658
Deferred Exploration Expenditures:								
Balance, beginning of year	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, end of year	219,902	175,326	11,729	2,128	15,015	4,292	16,833	445,225
Mineral property interests, end of year	$ 417,736	$ 278,754	$ 41,706	$ 49,775	$ 33,972	$ 56,350	$ 61,590	$ 939,883

Refer to the accompanying notes to the consolidated financial statements.

CAZA GOLD CORP.

(An Exploration Stage Company)

Consolidated Statements of Mineral Property Expenditures

(Stated in Canadian dollars)

	December 31, 2009							
	Los Angeles	Santiago	Moris	Santiago Fraction	El Relampago	Oaxaca	Tecolote	Total
Acquisition Costs:								
Balance, beginning of year	$ 66,710	$ 93,235	$ -	$ 29,977	$ -	$ -	$ -	$ 189,922
Option payment	-	22,823	102,612	-	16,602	6,637	27,579	176,253
Write-off	(66,710)	-	-	-	-	-	-	(66,710)
Balance, end of year	-	116,058	102,612	29,977	16,602	6,637	27,579	299,465
Deferred Exploration Expenditures:								
Balance, beginning of year	14,463	1,623	-	-	-	-	-	16,086
Assays and surveys	-	39,639	-	3,515	-	-	-	43,154
Field supplies	-	697	-	-	-	-	-	697
Geochemical surveys	-	5,387	-	-	-	-	-	5,387
Geology and consultants	417	37,190	-	-	-	-	-	37,607
Local labour	-	8,232	-	-	-	-	-	8,232
Sundry	33	3,442	-	-	687	451	-	4,613
Surface taxes	-	-	40,633	-	348	4,781	799	46,561
Travel	-	12,913	-	-	454	454	-	13,821
Write-off	(14,913)	-	-	-	-	-	-	(14,913)
Balance, end of year	-	109,123	40,633	3,515	1,489	5,686	799	161,245
Mineral property interests, end of year	$ -	$ 225,181	$ 143,245	$ 33,492	$ 18,091	$ 12,323	$ 28,378	$ 460,710

Refer to the accompanying notes to the consolidated financial statements.

1. Nature 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 that are economically recoverable. 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 economically recoverable 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 $1,766,311 in 2010 (2009 - $531,450) and has a deficit of $3,913,684 at December 31, 2010 (2009 - $1,911,880). 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's ability to continue as a going concern is dependent on the ability of the Company to raise equity or debt financings and/or the attainment of profitable operations. Management is actively seeking to raise the necessary capital to meet its planned business objectives. There can be no assurance that management's plans will be successful. 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. Subsequent to December 31, 2010, the Company closed a private placement for gross proceeds of $8.15 million (Note 11).

2. Significant Accounting Policies

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are stated in Canadian dollars.

These consolidated financial statements include the accounts of the Company and its wholly-owned integrated 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.

2. Significant Accounting Policies (continued)

(b) Financial instruments:

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in operations;

- Available-for-sale financial assets are measured at fair value based on quoted market prices. Investment in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet either by disposition or permanent impairment at which time the realized gain or loss is transferred to operations;

- Held-for-trading financial instruments are measured at fair value. All gains and losses are included in operations in the year in which they arise; and

- All derivative financial instruments are classified as held-for-trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in operations in the year in which they arise.

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 assets and liabilities included in level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. 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.

(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.

2. Significant Accounting Policies (continued)

(c) Mineral property interests: (continued)

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.

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 operations.

(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.

2. Significant Accounting Policies (continued)

(g) Stock-based compensation plan:

The Company accounts for stock-based compensation using a fair value-based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable, and such options are re-measured at each reporting date. For directors, employees and non-employees, the fair value of the options is accrued and charged to operations, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company does not incorporate an estimated forfeiture rate for options that will not vest, but rather accounts for actual forfeitures as they occur.

(h) Asset retirement obligations:

Any statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, are recognized if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset. The Company assessed its mineral property interests, and based upon such assessments, there were no known material asset retirement obligations.

(i) Loss per share:

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. 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 year. 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.

2. Significant Accounting Policies (continued)

(j) Foreign currency translation:

The functional 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 rate of exchange in effect as at the balance sheet date;
- non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- interest income and expenses (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange on the transaction date.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss for the year.

(k) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Significant areas requiring the use of management estimates relate to collectability of receivables, balances of accrued liabilities, impairment of mineral properties, recoverability of mineral properties, determination of reclamation obligations, valuation allowances for future income tax assets, and assumptions used in determining the fair value of non-cash stock-based compensation and warrants using the Black-Scholes option pricing model. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(l) Income taxes:

The Company follows the asset and liability method for accounting for income taxes. Under this method, future 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. Future 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 future tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the substantive enactment date. Future tax assets are recognized to the extent that they are considered more likely than not to be realized. The valuation of future income tax assets is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated realizable amount.

2. Significant Accounting Policies (continued)

(m) New accounting pronouncements:

(i) International Financial Reporting Standards ("IFRS"):

In 2008, the Canadian Accounting Standards Board confirmed that the transition to IFRS from Canadian GAAP will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements for its March 31, 2011 interim financial statements. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended December 31, 2010. The Company continues with its IFRS conversion and preparation of transition IFRS financial statements for its first quarter of fiscal 2011.

(ii) Business combinations:

In January 2009, the CICA issued Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

The new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

3. 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 economically recoverable ore 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 capital stock. The Company is not subject to any externally imposed capital requirements.

The Company defines its capital as capital stock. 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.

Although the Company has been successful at raising funds in the past from the issuance of capital stock, 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 a portion of its working capital needs at year-end but will rely on equity financings to continue exploration work on its mineral property interests and to meet its administrative overhead costs for the coming year.

There were no changes in the Company's approach to capital management during the year ended December 31, 2010.

4. Management of Financial Risk

The Company has classified its cash as held-for-trading, 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 and interest rate risk. The types of risk exposure and the way in which such exposure is managed are provided as follows.

4. Management of Financial Risk (continued)

(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 liquid financial assets including cash. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality Canadian financial institutions. Non-contractural 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 meet its short-term liabilities and administrative overhead costs, and to maintain its mineral property interests.

Accounts payable and accrued liabilities are due in accordance with normal terms of trade and are payable in 2011.

(c) Market risk:

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

4. Management of Financial Risk (continued)

(c) Market risk: (continued)

(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 Mexican peso would impact the earnings (losses) of the Company and the values of its assets and liabilities as the Company's reporting and functional currency is the Canadian dollar. The Canadian dollar fluctuates and floats with the Mexican peso.

At December 31, 2010, 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	$ 33,267
Receivables and prepaids	4,224
Accounts payable and accrued liabilities	(25,107)
Net financial assets	$ 12,384

Based upon the above net exposure as at December 31, 2010 and assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar relative to the Mexican pesos could result in a decrease/increase of $1,238 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 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. Interest rate risk is not significant to the Company as it has no cash equivalents at year-end.

5. Mineral Property Interests

Mexico property interests:

(a) Los Angeles:

In April 2008, the Company and Minera Canarc, which were both wholly-owned subsidiaries of Canarc Resource Corp. ("Canarc") at that time, entered into an option agreement to acquire a 100% interest in the La Escondida / Los Angeles properties by making US$1 million in cash payments over a 4 year period and issuing US$50,000 in shares of the Company over a 12 month period. The vendors retained a 3% net smelter return ("NSR"). An initial payment of US$15,000 was made upon the signing of the option agreement. In October 2008, the Company issued 82,796 shares to the vendors at a value of $0.25 per share and also made a cash payment of US$25,000 to the vendors. The Company wrote-off the property in 2009.

(b) Los Arrastres:

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. The vendor retained a 2% NSR and Canarc had the right to reduce the NSR to 1% by paying US$1 million at any time. Canarc made an initial payment of US$50,000 upon the signing of the option agreement, a cash payment of US$75,000 in August 2007 and then another cash payment of US$25,000 in February 2008. The Company wrote-off the property in fiscal 2008. As at December 31, 2009, Minera Canarc accrued US$75,000 which was due to the vendor and then in June 2010, incurred an additional $106,130 (US$100,000).

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 recognition of a net write-off of mineral property interests of $95,969.

(c) Santiago:

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 will retain a 2% NSR. Canarc made an initial payment of US$30,000 upon signing of the option agreement, a cash payment of US$30,000 in November 2007, and then another cash payment of US$60,000 in May 2008.

In May 2009 and then in April 2010, 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 did incur by the end of fiscal 2010. The vendor retains a 2% NSR.

5. Mineral Property Interests (continued)

Mexico property interests: (continued)

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

(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 by issuing 15,000 common shares, paying US$25,000 in cash after 1 year, and spending up to US$1 million in exploration over a 5-year period. Canarc issued 15,000 common shares at a value of $0.45 per share in 2007. The Company made a cash payment of US$25,000 in September 2008.

On September 24, 2009, Canarc and 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 shall acquire a 100% interest in the Moris and Santiago Fraction properties from Exmin for 400,000 common shares (issued) of the Company. 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 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 payments of US$15,000 were paid in fiscal 2009 and US$30,000 in fiscal 2010.

(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 in fiscal 2009 and US$12,000 for fiscal 2010.

(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 are due and payable during fiscal 2010. Cash payments of US$20,000 were paid in April 2010, US$15,000 in July 2010 and then US$15,000 in September 2010.

5. Mineral Property Interests (continued)

Nicaragua property interests:

(e) Los Andes property:

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. The vendor will retain 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 US$2 million. At December 31, 2010, the Company accrued US$45,000 which was due to the vendor and which was subsequently paid in January 2011. On April 15, 2011, the Company issued 450,000 common shares at a value of $0.43 to the vendors of the property.

(f) Expenditure options:

As at December 31, 2010, 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)	Shares
Santiago (Note 5(c)):				
June 5, 2011	$ 100,000	$ -	$ -	-
June 5, 2012	120,000	-	-	-
June 5, 2013	1,580,000	-	-	-
El Relampago (Note 5(d)(ii)):				
May 18, 2011	15,000	-	-	-
November 18, 2011	15,000	-	-	-
May 18, 2012	15,000	-	-	-
November 18, 2012	15,000	-	-	-
Oaxaca (Note 5(d)(iii)):				
January 1, 2011 to June 2014	-	1,000	-	-
July 2014	726,000	-	-	-
Los Andes (Note 5(e)):				
December 21, 2010 (1)	45,000	-	-	-
April 6, 2011 (2)	-	-	-	300,000
December 15, 2011	100,000	-	353,289	300,000
December 15, 2012	125,000	-	600,000	300,000
December 15, 2013	300,000	-	800,000	300,000
December 15, 2014	600,000	-	1,200,000	300,000
	$ 3,756,000	$ 1,000	$ 2,953,289	1,500,000

(1) The cash payment of US$45,000 was made in January 2011.
(2) The Company issued 300,000 common shares in April 2011. Note 5(e) provides further details.

5. Mineral Property Interests (continued)

Nicaragua property interests: (continued)

(f) Expenditure options: (continued)

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

(g) Title to mineral property interests:

The Company has diligently 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.

(h) 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 economically recoverable 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.

(i) 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.

(Stated in Canadian dollars)

6. Equipment

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment	$ 14,227	$ 2,455	$ 11,772	$ 3,607	$ 1,653	$ 1,954

7. 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 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 5(b) 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.

(Stated in Canadian dollars)

7. Share Capital (continued)

(b) Issued: (continued)

(i) (continued)

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.

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

On the Listing Date	1/4 of the Escrow Shares
6 months after the Listing Date	1/3 of the remaining Escrow Shares
12 months after the Listing Date	1/2 of the remaining Escrow Shares
18 months after the Listing Date	the remaining Escrow Shares

As at December 31, 2010, 1,434,545 common shares were held in escrow.

(ii) On September 24, 2009, the Company issued 400,000 common shares to Exmin. Note 5(d) provides further details.

On October 2, 2009, the Company closed a private placement for 800,000 units at $0.25 per unit for gross proceeds of $200,000. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant is exercisable to acquire one common share at $0.30 until April 2, 2012.

(Stated in Canadian dollars)

7. 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 years ended December 31, 2010 and 2009 is as follows:

	Number of Shares	
	2010	2009
Outstanding, beginning of year	-	-
Granted	2,802,900	-
Outstanding, end of year	2,802,900	-

The following table summarizes information about stock options exercisable and outstanding at December 31, 2010:

	Options Outstanding			Options Exercisable		
Exercise Prices	Number Outstanding at Dec 31, 2010	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices	Number Exercisable at Dec 31, 2010	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices
$0.35	2,615,000	4.9	$0.35	523,000	4.9	$0.35
$0.42	187,900	4.9	$0.42	37,580	4.9	$0.42
	2,802,900	4.9	$0.35	560,580	4.9	$0.35

(Stated in Canadian dollars)

7. Share Capital (continued)

(c) Stock option plan: (continued)

During the year ended December 31, 2010, the Company recognized stock-based compensation of $223,324 (2009 - $Nil) based on the fair value of options granted that were earned by the provision of services during the year. Stock-based compensation is segregated between directors, employees and consultants as follows:

	2010	2009
Directors	$ 103,570	$ -
Employees	88,372	-
Consultants	31,382	-
	$ 223,324	$ -

On June 21, 2010, the Company granted options to purchase an aggregate of 2,415,000 common shares at an exercise price of $0.35 per share for a period expiring on November 22, 2015. The stock options are subject to a vesting provision in which 20% vest on November 22, 2010 and an additional 20% vest every 6 months thereafter.

On November 30, 2010, the Company granted options to purchase 200,000 common shares at an exercise price of $0.35 and an expiry date of November 30, 2015, and 187,900 common shares at an exercise price of $0.42 and an expiry date of November 30, 2015. 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.

The weighted average fair value of stock options granted and the weighted average assumptions used to calculate compensation expense are estimated using the Black-Scholes option pricing model as follows:

	2010	2009
Fair value of options granted during the year	$0.29	-
Risk-free interest rate	2.33%	-
Expected dividend yield	0%	-
Expected stock price volatility	106%	-
Expected option life in years	5	-

Subsequent to December 31, 2010, stock options for 9,000 common shares were exercised for gross proceeds of $3,150.

(Stated in Canadian dollars)

7. Share Capital (continued)

(d) Warrants:

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 contributed surplus 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%. These warrants were all exercised.

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

At December 31, 2009, the Company had outstanding warrants as follows:

Exercise Prices	Expiry Dates	Outstanding at December 31, 2008	Issued	Exercised	Expired	Outstanding at December 31, 2009
$0.12	January 31, 2010	1,400,000	-	-	-	1,400,000
$0.35	March 30, 2010 [(1)]	2,310,000	-	-	-	2,310,000
$0.30	April 2, 2012	-	400,000	-	-	400,000
		3,710,000	400,000	-	-	4,110,000

[(1)] In March 2010, the expiry date of March 30, 2010 was extended to March 30, 2011. These warrants were all exercised.

(Stated in Canadian dollars)

7. Share Capital (continued)

(d) Warrants: (continued)

In 2010, the fair value of the 640,000 finders' fee warrants which were issued pursuant to the IPO in the amount of $114,689 and included as a reduction to share capital was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2010
Risk-free interest rate	1.63%
Expected dividend yield	0%
Expected stock price volatility	112.00%
Expected option life in years	1.5

No finders' fee warrants were issued in 2009.

Subsequent to December 31, 2010, warrants for 2,661,800 common shares were exercised for gross proceeds of $949,130.

(e) Common shares reserved for issuance at December 31, 2010:

	December 31, 2010
Stock options (Note 7(c))	2,802,900
Warrants (Note 7(d))	8,357,563
Common shares reserved for issuance	11,160,463

8. Related Party Transactions

Related party transactions during the years ended December 31, 2010 and 2009 include:

- $278,786 (2009 - $39,862) in legal fees to a law firm in which a director of the Company is a partner. As at December 31, 2010, the Company owed $9,387 (2009 - $56,014) to the law firm which is included in accounts payable and accrued liabilities; and
- $214,903 (2009 - $316,267) in office and sundry, rent and salary allocations from companies with one common director. As at December 31, 2010, the Company owed $13,288 (2009 - $46,807) to the companies which is included in accounts payable and accrued liabilities.

(Stated in Canadian dollars)

8. Related Party Transactions (continued)

Amounts which are incurred to related parties are in the normal course of business and measured at the exchange amount, which is the amount agreed upon by the transacting parties and on terms and conditions similar to non-related parties. The Company shares common office facilities, employee and administrative support, and office sundry amongst companies with one common director, and such allocations to the Company are on a full cost recovery basis.

In fiscal 2010, the Company received proceeds of $187,000 in demand loans from certain directors and officers of the Company. The demand loans bore an interest rate of 12% per annum and an early redemption bonus of 6% if the loans were repaid within six months from the Listing Date. The Company repaid the demand loans including interest of $2,766 and early redemption bonuses of $11,220 in November 2010.

9. Segment Disclosures

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

	2010				2009		
	Canada	Mexico	Nicaragua	Total	Canada	Mexico	Total
Mineral property interests	$ -	$ 878,293	$ 61,590	$ 939,883	$ -	$ 460,710	$ 460,710
Equipment	10,620	1,152	-	11,772	-	1,954	1,954
Total assets	1,568,685	916,936	61,590	2,547,211	111,404	628,219	739,623
Net loss	1,454,963	311,348	-	1,766,311	461,589	69,861	531,450

10. Income Taxes

The reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2010	2009
Income tax benefit	$ (503,399)	$ (176,126)
Non-deductible items	(52,448)	(77,191)
Change due to foreign tax rates	(9,670)	7,541
Change in timing difference	75,223	47,780
Change in effective tax rates	58,592	26,922
Change in valuation allowance	431,702	171,074
Income tax recovery (expense)	$ -	$ -

(Stated in Canadian dollars)

10. Income Taxes (continued)

The significant components of the Company's future income tax assets as at December 31, 2010 and 2009 are as follows:

	2010	2009
	27%	27%
Future income tax assets:		
Non capital loss	$ 1,057,449	$ 550,524
Share issue costs	71,562	4,717
Total future income tax assets	1,129,011	555,241
Valuation allowance	(869,290)	(437,588)
	259,721	117,653
Future income tax liabilities:		
Resource properties	(257,291)	(117,653)
Equipment	(2,430)	-
Total future income tax liabilities	(259,721)	(117,653)
Future income tax liabilities, net	$ -	$ -

Future income tax assets and liabilities are recognized for temporary differences between the carrying amounts of balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

At December 31, 2010, the Company has non-capital losses for tax purposes in Canada and Mexico, which expire in various years to 2030 as follows:

	Canada	Mexico
2017	$ -	$ 345,574
2018	-	553,333
2019	-	377,031
2020		644,639
2027	27,623	-
2028	278,062	-
2029	467,363	
2030	1,305,702	
	$ 2,078,750	$ 1,920,577

11. Subsequent Event

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.

HEAD OFFICE	#301 – 700 West Pender Street Vancouver, BC, Canada, V6C 1G8 Telephone: (604) 685-9750 Facsimile: (604) 685-9744
DIRECTORS	Bradford Cooke Anthony Hawkshaw Stewart Lockwood Philip Yee
OFFICERS	Bradford Cooke ~ Chairman Greg Myers ~ Chief Executive Officer and President Don Cameron ~ 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