CAZA GOLD CORP.

First Quarter Report

Condensed Consolidated Interim Financial Statements

(stated in Canadian dollars)

Three Months ended March 31, 2011

(Unaudited – Prepared by Management)

SHAREHOLDER UPDATE

Review of First Quarter and Outlook for the Second Quarter of Fiscal 2011

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

Q1 Review

- Assay results from the rock sampling program at the Balleza-La Cienega project in Mexico effectively doubled the size of the Balleza gold target area
- Caza's geological team identified several strong trace element anomalies associated with elevated gold values and high sulfidation alteration on the Los Andes gold property in Nicaragua
- Management closed a non-brokered private placement equity financing of CA$8.15 million to complete the first phase of drilling on the Balleza Project in Chihuahua, Mexico. Funds will also be used for work on the Los Andes property in Nicaragua in order to delineate drill targets and general working capital.
- Eleven new properties were staked in Nicaragua. These properties cover multiple large hydrothermal alteration zones similar in size and nature to the high sulfidation gold alteration system found on the Los Andes gold property

In Q1, Caza was very encouraged by the initial assay results from its Balleza-La Cienega project at its Moris property in Chihauhau, Mexico. The Balleza gold target area is now over 1200 meters long and up to 400 meters wide, which doubles the area of the previously known mineralized zone. A total of 310 samples from the Balleza zone have been collected by Caza, Exmin, and Hochschild in recent years and 134 of these samples assay higher than 0.3 gpt Au and average 1.6 gpt gold.

Since the acquisition of the Los Andes high sulfidation gold project in Nicaragua, several strong trace element anomalies associated with elevated gold values have been identified. The high sulfidation gold system is exposed on surface as an extensive alteration zone of hydrothermal vuggy quartz, pervasive silification, and alunite associated with anomalous gold, and trace element anomalies in copper, molybdenum, bismuth, barium, selenium, tellurium, mercury, arsenic, and antimony. The alteration zone covers at least a 45 square kilometer area and measures over 12 kilometers long by up to 6 kilometers wide. It is similar in size, intensity, and trace element geochemistry to the alteration zones of world class gold deposits such as Yanacocha and Pierina in Peru.

In addition, the Company has identified eleven new properties covering multiple large hydrothermal alteration zones similar in size and nature to the high sulfidation gold alteration system found on the Los Andes gold property. The new claims are strategically located within the Central Nicaragua Gold Belt between the El Limon and La Libertad gold mines of B2 Gold.

Caza now holds approximately 100,000 hectares spanning 77 km long by 25 km wide within this newly identified high sulfidation epithermal gold trend. Caza has commenced reconnaissance mapping and sampling of these alteration systems to prioritize them for detailed gold exploration. The alteration zones occur in the same Tertiary volcanic belt that hosts multiple epithermal precious metal deposits from North America, through Mexico and Central America, to the southern tip of South America.

Finally, Caza closed a non-brokered private placement equity financing of CA$8.15 million. The net proceeds of the unit private placement will be used to complete the first phase of drilling on the Balleza Project in Chihuahua, Mexico. Funds will also be used to continue soil sampling, trenching and detailed mapping on the Los Andes property in Nicaragua in order to delineate drill targets and for general working capital.

Q2 Outlook

The outlook for Q2 will include Phase 1 drilling programs at the Santiago and Balleza projects in Chihauhau, Mexico, a continuation of detailed mapping and sampling of the Los Andes Property in Nicaragua, and further reconnaissance work on the newly acquired gold properties also in Nicaragua.

At Santiago, sampling of the Cliff Zone discovered a previously unidentified gold bearing vein occurrence along the mineralized fault structure. The discovery of the high-grade vein outcrop 400 meters northeast of the Cliff Zone is important as this extends the mineralized structure significantly. Previous sampling had identified the mineralized Road Zone extension, 700 meters to the southwest of the Cliff Zone. The overall mineralized structure and high-grade veins have now been identified in discontinuous surface sampling over 1.2 kilometers of strike length.

A drilling company has been contracted for the commencement of the first phase of drilling at Santiago which will also be supported by helicopter to complete approximately 2000 meters testing the Cliff Zone and the Road Zone targets.

At Balleza, the first phase of drilling is approximately 3000 meters to test the Balleza gold zone target. The Balleza gold target lies within the much larger Balleza-La Cienega district on the Moris property that covers a mineralized structure zone over 7 kilometers long. The district hosts at least 14 historic mine workings and 30 additional mineralized zones discovered to date.

The Balleza Project is part of the Moris Property (16,209 hectares) located about 250 kilometers west of Chihuahua City. The property is situated within the Sierra Madre Gold-Silver Belt, a prolific mineralized region with multiple gold-silver epithermal vein deposits, including the Moris (Hochschild), Ocampo (Gammon Lake), Pinos Altos (Agnico Eagle) and Dolores (Minefinders) mines.

In Nicaragua, work on the Los Andes project will continue to outline the most favorable host rocks and mineralized zones and delineate the different alteration types and associated trace element geochemical anomalies in order to prioritize targets for drilling later this year or early in 2012.

Further reconnaissance mapping and sampling program is underway on the eleven new high-sulfidation type gold systems outside of the Los Andes property in order to prioritize the prospects for more detailed work in 2012.

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

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

CAZA GOLD CORP.
Per:

/s/ Greg Myers

Greg Myers
President and CEO June 24, 2011

CAUTIONARY DISCLAIMER – FORWARD LOOKING STATEMENTS

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

Notice to No Auditor Review of

Condensed Unaudited Consolidated Interim Financial Statements

For the Three Months Ended March 31, 2011

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

The accompanying condensed unaudited consolidated interim financial statements of Caza Gold Corp. (the "Company") for the three months ended March 31, 2011 (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 terms of Canadian dollars, unless otherwise indicated, and are prepared in accordance with 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)

				2010		
		March 31, 2011		December 31 (Note 10)		January 1 (Note 10)
ASSETS						
Current Assets						
Cash	**$**	**8,933,843**	$	1,427,459	$	122,410
Receivables and prepaids		**388,591**		168,097		154,549
Total Current Assets		**9,322,434**		1,595,556		276,959
Non-Current Assets						
Mineral property interests (Note 5)		**1,649,439**		939,883		460,710
Equipment (Note 6)		**8,871**		11,772		1,954
Total Non-Current Assets		**1,658,310**		951,655		462,664
Total Assets	**$**	**10,980,744**	$	2,547,211	$	739,623
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current Liabilities						
Accounts payable and accrued liabilities (Note 8)	**$**	**195,142**	$	182,493	$	476,539
Shareholders' Equity						
Share capital (Note 7)		**14,803,171**		5,742,727		2,174,964
Reserve for share-based payments		**446,482**		535,636		-
Deficit		**(4,464,051)**		(3,913,645)		(1,911,880)
Total Shareholders' Equity		**10,785,602**		2,364,718		263,084
Total Liabilities and Shareholders' Equity	**$**	**10,980,744**	$	2,547,211	$	739,623

Nature of operations (Note 1)
Commitments (Note 5)
Subsequent events (Notes 5(b), (c)(ii) and (d))

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)

	Three Months Ended March 31,	
	2011	2010
Expenses:		
Amortization	**$ 201**	$ 134
Employee remuneration	**74,069**	167,775
Legal (Note 8)	**16,924**	6,851
Office and sundry (Note 8)	**40,402**	16,196
Property investigation	**14,715**	22,304
Regulatory	**24,559**	2,688
Shareholder relations	**187,808**	12,010
Share-based payments	**152,655**	-
Loss before the undernoted	**(511,333)**	(227,958)
Warrant modification expense	**-**	(115,500)
Foreign exchange loss	**(47,005)**	(10,524)
Net loss and comprehensive loss for the period	**$ (558,338)**	$ (353,982)
Basic and diluted loss per share	**$ (0.01)**	$ (0.01)
Weighted average number of common shares outstanding	**39,500,002**	23,901,645

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)

	Three Months ended March 31, 2011		Nine Months ended December 31, 2010		Three Months ended March 31, 2010	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common shares:						
Balance, beginning of period	**36,277,612**	**$ 5,742,727**	24,349,423	$ 2,330,964	23,049,423	$ 2,174,964
Issued:						
Shares for debt (Notes 5(a))	-	-	690,000	179,745	-	-
Initial public offering, net of share issue costs	-	-	8,000,000	2,390,955	-	-
Private placement, net of share issue costs (Note 7(b))	**16,475,000**	**7,873,479**	2,830,501	660,541	-	-
Exercise of stock options (Note 7(c))	**9,000**	**5,596**	-	-	-	-
Exercise of warrants (Note 7(d))	**2,661,800**	**1,181,369**	407,688	180,522	1,300,000	156,000
Balance, end of period	**55,423,412**	**14,803,171**	36,277,612	5,742,727	24,349,423	2,330,964
Common share subscription:						
Balance, beginning of period		-		406,251		-
Common share subscription		-		-		406,251
Closing of private placement		-		(406,251)		-
Balance, end of period		-		-		406,251
Reserve for share-based payments:						
Balance, beginning of period		**535,636**		115,500		-
Fair value of stock options		**152,655**		223,285		-
Fair value from warrant modification (Note 7(d))		-		119,993		115,500
Fair value of finders fee warrants		**18,309**		114,689		-
Exercise of stock options		**(2,446)**		-		-
Exercise of modified warrants		**(200,832)**		(34,661)		-
Exercise of finders fee warrants		**(48,907)**		(3,170)		-
Forfeiture of stock options		**(7,933)**		-		-
Balance, end of period		**446,482**		535,636		115,500
Deficit:						
Balance, beginning of period		**(3,913,645)**		(2,265,862)		(1,911,880)
Fair value from warrant modification (Note 7(d))		-		(235,493)		-
Forfeiture of stock options		**7,933**		-		-
Loss for the period		**(558,339)**		(1,412,290)		(353,982)
Balance, end of period		**(4,464,051)**		(3,913,645)		(2,265,862)
Total Shareholders' Equity		**$ 10,785,602**		$ 2,364,718		$ 586,853

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)

	Three Months Ended March 31, 2011	2010
Cash provided from (used for):		
Operations:		
Loss for the period	**$ (558,339)**	$ (353,982)
Items not involving cash:		
Amortization	**201**	134
Share-based payments	**152,655**	-
Warrant modification expense	**-**	115,500
	(405,483)	(238,348)
Changes in non-cash working capital items:		
Receivables and prepaids	**(220,494)**	(19,579)
Accounts payable and accrued liabilities	**2,776**	20,059
Cash used by operating activities	**(623,201)**	(237,868)
Financing:		
Subscriptions for common shares	**-**	406,251
Issuance of common shares, net of share issue costs	**8,826,568**	156,000
Cash provided from financing activities	**8,826,568**	562,251
Investing:		
Mineral property interests, net of recoveries	**(696,983)**	(62,529)
Cash used by investing activities	**(696,983)**	(62,529)
Increase in cash	**7,506,384**	261,854
Cash, beginning of period	**1,427,459**	122,410
Cash, end of period	**$ 8,933,843**	$ 384,264

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)

	Three months ended March 31,	
	2011	2010
Non-cash financing and investing activities:		
Accruals for:		
Mineral property interests	**$ 12,573**	$ -
Acquisition of equipment	**(2,700)**	-
Fair values allocated to common shares issued on exercise of:		
Stock options	**2,446**	-
Modified warrants with extended expiry dates (Note 7(d))	**200,832**	-
Finders fee warrants (Note 7(d))	**48,907**	-
Fair values of finders fee warrants (Note 7(d))	**18,309**	-
Forfeiture of stock options (Note 7(c))	**7,933**	-
Interest paid	**-**	-
Income taxes paid	**-**	-

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

CAZA GOLD CORP.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Mineral Property Expenditures

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

	March 31, 2011							
	Mexico						Nicaragua	
	Santiago	Moris	Santiago Fraction	El Relampago	Oaxaca	Tecolote	Los Andes	Total
Acquisition Costs:								
Balance, beginning of period	$ 197,834	$ 103,428	$ 29,977	$ 47,647	$ 18,957	$ 52,058	$ 44,757	$ 494,658
Option payment (adjustment)	-	-	-	-	2,980	-	(186)	2,794
Balance, end of period	197,834	103,428	29,977	47,647	21,937	52,058	44,571	497,452
Deferred Exploration Expenditures:								
Balance, beginning of period	219,902	175,326	11,729	2,128	15,015	4,292	16,833	445,225
Advances	-	-	-	-	-	-	14,596	14,596
Aerial photos and mapping	-	-	-	-	-	-	31,634	31,634
Assays and surveys	30,376	41,395	-	-	-	-	8,739	80,510
Camp and field supplies	-	-	-	-	-	-	29,112	29,112
Equipment and systems	-	-	-	-	-	-	14,593	14,593
Geochemistry	-	-	-	-	-	-	60,006	60,006
Geology and consultants	40,431	63,876	-	-	-	-	84,571	188,878
Local labour	10,606	1,716	-	-	-	-	29,598	41,920
Roads and drill pads	46,591	142	-	-	-	-	-	46,733
Road rehabilitation	-	-	-	-	-	-	8,113	8,113
Sundry	1,218	8,213	-	300	-	-	6,814	16,545
Surface taxes	588	23,008	-	-	4,156	1,380	-	29,132
Travel and transportation	12,446	67,527	-	-	-	-	65,017	144,990
Balance, end of period	362,158	381,203	11,729	2,428	19,171	5,672	369,626	1,151,987
Mineral property interests, end of period	$ 559,992	$ 484,631	$ 41,706	$ 50,075	$ 41,108	$ 57,730	$ 414,197	$ 1,649,439

Refer to the accompanying notes to the condensed consolidated interim 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. 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 $558,338 for the three months ended March 31, 2011 (March 31, 2010 - $353,982) and has a deficit of $4,464,051 at March 31, 2011 (December 31, 2010 - $3,913,645). 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'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 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. Significant Accounting Policies

(a) Basis of presentation:

These condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") with an adoption date of January 1, 2011 and a transition date of January 1, 2010.

These are the Company's first IFRS condensed consolidated interim financial statements for the first quarter of the period covered by the first IFRS consolidated annual financial statements to be presented in accordance with IFRS for the year ending December 31, 2011 and IFRS 1 First-Time Adoption of IFRS has been applied. The impact of the transition from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS is explained in Note 10.

These condensed consolidated interim financial statements have been prepared on a historical cost basis, which are stated at their fair values. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2. Significant Accounting Policies (continued)

(a) Basis of presentation: (continued)

The condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements.

The accounting policies in Note 2 have been applied in preparing the condensed consolidated interim financial statements for the three months ended March 31, 2011, the comparative financial information presented in these condensed consolidated interim financial statements for the three months ended March 31, 2010, the opening balance sheet under IFRS as at January 1, 2010 which is the date of the Company's date of transition from Canadian GAAP to IFRS, and at December 31, 2010. The accounting policies have been applied consistently by the Company and its subsidiaries.

(b) Basis of consolidation:

These condensed consolidated interim 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.

(c) Financial instruments:

(i) Financial assets:

The Company classifies its financial assets in the following categories: fair value through profit or loss, loans and receivables, and available-for-sale. 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 fair value through profit or loss

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded through income. Cash and cash equivalents are 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 date. Loans and receivables are carried at amortized cost less any impairment. Loans and receivables comprise trade and other receivables.

2. Significant Accounting Policies (continued)

(c) Financial instruments: (continued)

(i) Financial assets: (continued)

Available-for-sale financial assets

Available-for-sale (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 assets include investments in equities of other entities.

Management assesses the carrying value of AFS financial assets at least annually and any impairment charges are also recognized in profit or loss. When financial assets classified as available-for-sale 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: borrowings and other financial liabilities and derivative financial liabilities.

Borrowings and other financial liabilities

Borrowings and other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. 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.

Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include trade accounts payable, note payables, other payables, advances from non-controlling interest, deferred credits, and loans.

Derivative financial liabilities

Derivative financial liabilities are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit and loss. Derivative financial liabilities include warrants issued by the Company denominated in a currency other than the Company’s functional currency.

2. Significant Accounting Policies (continued)

(d) 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.

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.

(e) Equipment:

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

(f) 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.

(g) 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)

(h) Stock-based compensation plan:

The Company has a stock option plan that is described in Note 7(c). Share-based payments to employees are measured at the fair value of the instruments issued 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 value is transferred to deficit.

(i) 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.

(j) 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.

2. Significant Accounting Policies (continued)

(k) 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.

Foreign currency translation gains and losses arising from this translation of foreign currency are included in the condensed consolidated interim statement of comprehensive loss in the period in which they occur.

(l) Critical accounting estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, shareholders' equity 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 period. Significant areas requiring the use of management estimates relate to determining the recoverability of mineral property interests and property, plant and equipment, the determination of accrued liabilities and accrued site remediation, rates of amortization for property and equipment, the variables used in the determination of the fair value of stock options granted and warrants issued, and the determination of the valuation allowance for future 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.

(m) 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.

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 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 period.

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 period-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 period.

There were no changes in the Company's approach to capital management during the three months ended March 31, 2011.

4. Management of Financial Risk

The Company has classified its cash as financial assets at fair value through profit or loss, receivables as loans and receivables, and accounts payable and accrued liabilities as borrowings and 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 March 31, 2011, the Company is exposed to currency risk for its Canadian dollar equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars as follows:

	Held in Mexican Pesos (stated in Canadian dollars)
Cash	$ 89,778
Receivables and prepaids	28,440
Accounts payable and accrued liabilities	(16,872)
Net financial assets	$ 101,346

Based upon the above net exposure as at March 31, 2011 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 $10,135 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 period-end.

5. Mineral Property Interests

(a) Los Arrastres (Mexico):

In February 2007, Minera Canarc entered into an option agreement to acquire a 100% interest in the Los Arrastres property by making US$2.5 million in cash payments and spending US$2 million on exploration over a 3 year period. The vendor retained a 2% NSR and Canarc Resource Corp. ("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 in 2010.

(b) Santiago (Mexico):

In May 2007, Minera Canarc entered into an option agreement to acquire a 100% interest in the Santiago gold property by making US$2 million in cash payments over a 5 year period and spending US$200,000 on exploration over a 2 year period. The vendor 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 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 did incur by the end of fiscal 2010. In April 2011, the Company made a payment of US$34,000 to the vendor. The vendor retains a 2% NSR.

5. Mineral Property Interests (continued)

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

(i) Moris and Santiago Fraction:

In September 2007, Canarc and 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, US$30,000 in fiscal 2010 and US$15,000 in May 2011.

(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, US$12,000 for fiscal 2010 and US$3,000 for the three months ended March 31, 2011.

(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)

(d) Los Andes property (Nicaragua):

In December 2010 as amended in January 2011, the Company entered into an option agreement to acquire a 100% interest in the Los Andes property by making US$1.17 million in cash payments, issuing 1.5 million common shares and spending US$2.97 million on exploration over a 4 year period. The Company also agreed to issue 150,000 common shares for the staking of additional properties to the vendors in January 2011, and thereafter the Company shall issue that number of common shares equal to 1.6 multiplied by the number of hectares staked in the area of mutual interest as defined. 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 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 $0.43 to the vendors of the property.

(e) Expenditure options:

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

	Option Payments (US dollars)	Monthly Option Payments (US dollars)	Expenditure Commitments (US dollars)	Shares
Santiago (Note 5(b)):				
April 27, 2011 (paid)	$ 34,000	$ -	$ -	-
July 27, 2011	33,000	-	-	-
August 27, 2011	33,000	-	-	-
June 5, 2012	120,000	-	-	-
June 5, 2013	1,580,000	-	-	-
El Relampago (Note 5(c)(ii)):				
May 18, 2011 (paid)	15,000	-	-	-
November 18, 2011	15,000	-	-	-
May 18, 2012	15,000	-	-	-
November 18, 2012	15,000	-	-	-
Oaxaca (Note 5(c)(iii)):				
April 1, 2011 to June 2014	-	1,000	-	-
July 2014	726,000	-	-	-
Los Andes (Note 5(d)):				
April 6, 2011 (issued)	-	-	-	300,000
December 15, 2011	100,000	-	-	300,000
December 15, 2012	125,000	-	597,092	300,000
December 15, 2013	300,000	-	800,000	300,000
December 15, 2014	600,000	-	1,200,000	300,000
	$ 3,711,000	$ 1,000	$ 2,597,092	1,500,000

5. Mineral Property Interests (continued)

(e) 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.

(f) 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.

(g) Realization of assets:

The Company's investment in and expenditures on its mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful commercial production or from the proceeds of their disposal. The recoverability of the amounts shown for mineral property interests is dependent upon the existence of 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.

(h) Environmental matters:

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

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

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

(Stated in Canadian dollars)

6. Equipment

	Cost	Accumulated Amortization	Net Book Value
Balance, January 1, 2010	$ 3,607	$ 1,653	$ 1,954
Accrual for equipment acquisition	10,620	-	10,620
Amortization for the year	-	802	(802)
Balance, December 31, 2010	14,227	2,455	11,772
Adjustment to equipment accrual	(2,700)	-	(2,700)
Amortization for the period	-	201	(201)
Balance, March 31, 2011	$ 11,527	$ 2,656	$ 8,871

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:

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 $207,725 in cash and 175,000 units with the same terms as the units in the private placement.

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

On November 22, 2010	1/4 of the Escrow Shares
6 months after November 22, 2010	1/3 of the remaining Escrow Shares
12 months after November 22, 2010	1/2 of the remaining Escrow Shares
18 months after November 22, 2010	the remaining Escrow Shares

As at March 31, 2011, 1,434,545 common shares were held in escrow.

(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 three months ended March 31, 2011 is as follows:

	March 31, 2011	
	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	2,802,900	$0.35
Exercised	(9,000)	$0.35
Cancelled / Forfeited	(216,000)	$0.35
Outstanding, end of period	2,577,900	$0.36

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

	Options Outstanding			Options Exercisable		
Exercise Prices	Number Outstanding at March 31, 2011	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices	Number Exercisable at March 31, 2011	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices
$0.35	2,390,000	4.6	$0.35	474,000	4.6	$0.35
$0.42	187,900	4.7	$0.42	37,580	4.7	$0.42
	2,577,900	4.6	$0.36	511,580	4.6	$0.36

(Stated in Canadian dollars)

7. Share Capital (continued)

(c) Stock option plan: (continued)

During the three months ended March 31, 2011, the Company recognized share-based payments of $152,655 based on the fair value of options granted that were earned by the provision of services during the period. Share-based payments are segregated between directors, employees and consultants as follows:

		March 31, 2011
Directors	$	73,647
Employees		48,636
Consultants		30,372
	$	152,655

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 during the three months ended March 31, 2011 are estimated using the Black-Scholes option pricing model as follows:

	March 31, 2011
Fair value of stock options vesting during the period	$0.29
Risk-free interest rate	2.35%
Expected dividend yield	0%
Expected stock price volatility	106%
Expected option life in years	4.97

(Stated in Canadian dollars)

7. Share Capital (continued)

(d) Warrants:

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

Exercise Prices	Expiry Dates	Outstanding at December 31, 2010	Issued	Exercised	Expired	Outstanding at March 31, 2011
$0.35	March 30, 2011 [(1)]	1,970,000	-	(1,970,000)	-	-
$0.30	April 2, 2012	400,000	-	-	-	400,000
$0.35	October 31, 2011	1,365,251	-	(502,084)	-	863,167
$0.45	May 18, 2012 [(2)]	4,000,000	-	-	-	4,000,000
$0.35	May 18, 2012	622,312	-	(189,716)	-	432,596
$0.70	September 17, 2012	-	8,237,500	-	-	8,237,500
		8,357,563	8,237,500	(2,661,800)	-	13,933,263

(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 initial public offering were listed for trading on the TSX Venture Exchange on November 22, 2010.

Pursuant to the private placement which closed on March 17, 2011, the fair value of $18,309 for the 87,500 finders' fee warrants which were included as a reduction to share capital was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	March 31, 2011
Risk-free interest rate	1.61%
Expected dividend yield	0%
Expected stock price volatility	113.00%
Expected option life in years	1.5

(Stated in Canadian dollars)

7. Share Capital (continued)

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

	March 31, 2011
Stock options (Note 7(c))	2,577,900
Warrants (Note 7(d))	13,933,263
Common shares reserved for issuance	16,511,163

8. Related Party Transactions

Related party transactions during the three months ended March 31, 2011 include:

- $38,108 in legal fees to a law firm in which a director of the Company is a partner. As at March 31, 2011, the Company owed $14,799 to the law firm which is included in accounts payable and accrued liabilities; and
- $48,674 in office and sundry, rent and salary allocations from companies with one common director. As at March 31, 2011, the Company owed $10,605 to the companies which is included in accounts payable and accrued liabilities.

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 transactions with 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.

9. Segment Disclosures

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

	March 31, 2011			
	Canada	Mexico	Nicaragua	Total
Mineral property interests	$ -	$ 1,235,242	$ 414,197	$ 1,649,439
Equipment	7,920	951	-	8,871
Total assets	9,212,136	1,354,409	414,199	10,980,744
Net loss	551,690	6,648	-	558,338

10. Transition to IFRS

These are the Company's first condensed consolidated interim financial statements for the period covered by the first annual consolidated financial statements to be presented in accordance with IFRS for the year to end December 31, 2011.

The accounting policies in Note 2 have been applied in preparing the condensed consolidated interim financial statements for the three months ended March 31, 2011, the comparative financial information presented in these condensed consolidated interim financial statements for the three months ended March 31, 2010, the opening balance sheet under IFRS as at January 1, 2010 which is the date of the Company's date of transition from Canadian GAAP to IFRS, and at December 31, 2010.

(a) IFRS 1 "First-time Adoption of International Financial Reporting Standards" (IFRS 1):

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

Business combinations

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

Fair value or revaluation as deemed cost

The Company has used the amount determined under a previous GAAP revaluation as the deemed cost for certain assets. The Company elected the exemption for certain assets which were written down under Canadian GAAP, as the revaluation was broadly comparable to fair value under IFRS. The carrying value of those assets on transition to IFRS is therefore consistent with the Canadian GAAP carrying value on the transition date.

Share-based payments

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

10. Transition to IFRS (continued)

(b) Adjustments on transition to IFRS:

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

(i) Warrants:

Under Canadian GAAP, the Company classified warrants which were exercisable in Canadian dollars as equity instruments. Under IFRS, warrants issued by the Company to purchase common shares at an exercise price which is stated in a currency other than the Company's functional currency are considered derivative financial liabilities. Such warrants are required to be measured and recognized at fair value with changes to initial recognition charged to operations. The exercise prices of the Company's warrants are stated in the same currency as the Company's functional currency and did not result in the recognition of derivative financial liabilities.

(ii) Share-based payments:

Under Canadian GAAP, the Company accounts for forfeitures of stock option as they occur. For IFRS, estimates of forfeitures are initially recognized when stock options are granted, and subsequently adjusted for actual forfeitures as they occur. The Company has recognized vesting of stock options on an accelerated grading basis which is similar to IFRS. On the transition date of January 1, 2010, the Company recognized IFRS transition provisions for unvested stock options.

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

(Stated in Canadian dollars)

10. Transition to IFRS (continued)

(c) The effect of the differences between Canadian GAAP and IFRS on select accounts in the statements of financial position and the statements of comprehensive loss is summarized as follows:

	2010		
	December 31,	March 31,	January 1,
Contributed Surplus under Canadian GAAP	$ 535,675	$ -	$ -
Transferred to reserve for share-based payments (Note 10(b)(ii))	(535,675)	-	-
Contributed Surplus under IFRS	$ -	$ -	$ -

	2010		
	December 31,	March 31,	January 1,
Reserve for share-based payments:			
Adjustments to transition to IFRS:			
Transferred from contributed surplus for unexercised share-based payments (Note 10(b)(ii))	$ 535,675	$ -	$ -
Share-based payments for the period (Note 10(b)(ii))	(39)	-	-
Reserve for share-based payments under IFRS	$ 535,636	$ -	$ -

(Stated in Canadian dollars)

10. Transition to IFRS (continued)

(c) The effect of the differences between Canadian GAAP and IFRS on select accounts in the statements of financial position and the statements of comprehensive loss is summarized as follows: (continued)

	2010		
	December 31,	March 31,	January 1,
Deficit under Canadian GAAP	$ (3,913,684)	$ (2,265,862)	$ (1,911,880)
Adjustments to transition to IFRS:			
Share-based payments for the period (Note 10(b)(ii))	39	-	-
Deficit under IFRS	$ (3,913,645)	$ (2,265,862)	$ (1,911,880)

	2010	
	December 31,	March 31,
Comprehensive loss under Canadian GAAP	$ (1,766,311)	$ (353,982)
Adjustments to transition to IFRS:		
Share-based payments (Note 10(b)(ii))	39	-
Comprehensive loss under IFRS	$ (1,766,272)	$ (353,982)

10. Transition to IFRS (continued)

(d) Reconciliation to previously reported financial statements:

A reconciliation of the above noted changes is included in these following Consolidated Statements of Financial Position and Consolidated Statements of Comprehensive Loss for the dates noted below. The effects of transition from Canadian GAAP to IFRS on the cash flow are not material; therefore a reconciliation of cash flows has not been presented.

Transitional Consolidated Statement of Financial Position – January 1, 2010

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

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

(Stated in Canadian dollars)

10. Transition to IFRS (continued)

(d) Reconciliation to previously reported financial statements: (continued)

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

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

(Stated in Canadian dollars)

10. Transition to IFRS (continued)

(d) Reconciliation to previously reported financial statements: (continued)

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

		March 31, 2010		
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash		$ 384,264	$ -	$ 384,264
Receivables and prepaids		174,128		174,128
Total Current Assets		558,392	-	558,392
Non-Current Assets				
Mineral property interests		523,239		523,239
Equipment		1,820		1,820
Total Non-Current Assets		525,059	-	525,059
Total Assets		$ 1,083,451	$ -	$ 1,083,451
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities		$ 496,598	$ -	$ 496,598
Shareholders' Equity				
Share capital		2,330,964		2,330,964
Common share subscription		406,251		406,251
Contributed surplus	10(b)(ii)	115,500	(115,500)	-
Reserve for share-based payments	10(b)(ii)	-	115,500	115,500
Deficit		(2,265,862)		(2,265,862)
Total Shareholders' Equity		586,853	-	586,853
Total Liabilities and Shareholders' Equity		$ 1,083,451	$ -	$ 1,083,451

(Stated in Canadian dollars)

10. Transition to IFRS (continued)

(d) Reconciliation to previously reported financial statements: (continued)

(iii) The Canadian GAAP consolidated interim statement of comprehensive loss for the three months ended March 31, 2010 has been reconciled to IFRS as follows:

		March 31, 2010		
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
Expenses:				
Amortization		$ 134	$ -	$ 134
Employee remuneration		167,775		167,775
Legal		6,851		6,851
Office and sundry		16,196		16,196
Property investigation		22,304		22,304
Regulatory		2,688		2,688
Shareholder relations		12,010		12,010
Loss before the undernoted		(227,958)	-	(227,958)
Warrant modification expense		(115,500)		(115,500)
Foreign exchange loss		(10,524)		(10,524)
Net loss and comprehensive loss for the period		$ (353,982)	$ -	$ (353,982)
Basic and diluted loss per share		$ (0.01)		$ (0.01)
Weighted average number of common shares outstanding		23,901,645		23,901,645

(Stated in Canadian dollars)

10. Transition to IFRS (continued)

(d) Reconciliation to previously reported financial statements: (continued)

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

	Notes	December 31, 2010 Canadian GAAP	Effects of Transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash		$ 1,427,459	$ -	$ 1,427,459
Receivables and prepaids		168,097		168,097
Total Current Assets		1,595,556	-	1,595,556
Non-Current Assets				
Mineral property interests		939,883		939,883
Equipment		11,772		11,772
Total Non-Current Assets		951,655	-	951,655
Total Assets		$ 2,547,211	$ -	$ 2,547,211
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities		$ 182,493	$ -	$ 182,493
Shareholders' Equity				
Share capital		5,742,727		5,742,727
Contributed surplus	10(b)(ii)	535,675	(535,675)	-
Reserve for share-based payments	10(b)(ii)	-	535,636	535,636
Deficit	10(b)(ii)	(3,913,684)	39	(3,913,645)
Total Shareholders' Equity		2,364,718	-	2,364,718
Total Liabilities and Shareholders' Equity		$ 2,547,211	$ -	$ 2,547,211

(Stated in Canadian dollars)

10. Transition to IFRS (continued)

(d) Reconciliation to previously reported financial statements: (continued)

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

		December 31, 2010		
	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
Expenses:				
Accounting and audit		$ 56,706	$ -	$ 56,706
Amortization		802		802
Employee remuneration		447,040		447,040
Legal		218,248		218,248
Office and sundry		103,173		103,173
Property investigation		153,613		153,613
Regulatory		92,672		92,672
Shareholder relations		169,789		169,789
Share-based payments	10(b)(ii)	223,324	(39)	223,285
Loss before the undernoted		(1,465,367)	39	(1,465,328)
Foreign exchange loss		(23,256)		(23,256)
Interest expense		(14,053)		(14,053)
Interest and other income		-		-
Write-off of value added tax receivables		(167,666)		(167,666)
Write-off of mineral property interests		(95,969)		(95,969)
Net loss and comprehensive loss for the year		$ (1,766,311)	$ 39	$ (1,766,272)
Basic and diluted loss per share		$ (0.06)		$ (0.06)
Weighted average number of common shares outstanding		27,175,171		27,175,171

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