CAZA GOLD CORP.

Second Quarter Report

Condensed Consolidated Interim Financial Statements

(stated in Canadian dollars)

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

SHAREHOLDER UPDATE

Review of the Second Quarter and Outlook for the Third 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 the Second Quarter and its plans for the Third Quarter of fiscal 2011.

Q2 Review

- Donald Cameron, M.Sc. Geology appointed as Caza's new Vice President of Exploration
- Phase 1 drill program commenced at the Santiago gold project in Chihuahua, Mexico - 2000 meters of core drilling was completed on the low grade bulk tonnage Road Zone - the high grade multiple vein Cliff Zone will be drilled after the rain season
- Phase 1 drill program now underway at the Moris gold project in Chihuahua, Mexico - 4000 meters of core drilling has been completed on the bulk tonnage Balleza Zone
- Reconnaissance exploration work identified several new gold target areas at the Los Andes gold project, Nicaragua
- Regional exploration in Nicaragua led to the identification and acquisition of 7 additional high sulfidation epithermal gold systems similar to Los Andes.

The appointment of Don Cameron as VP Exploration was very timely for Caza as the Phase 1 drill programs got underway on both of its Mexican projects. Mr. Cameron brings to Caza 35 years of experience in the mining industry, specializing in the exploration, evaluation and development of mineral deposits world-wide. Don has worked in exploration and mining as a senior geologist for major companies such as Hecla Mining, Bema Gold and Kinross Gold in North and South America and Asia. He was most recently with Kinross Gold as Director of Technical Services, responsible for providing mine geology and engineering oversight for the Company's gold mines and exploration projects.

The first phase of drilling began in May on the Santiago gold property located 12 km east of the town of Batopilas, a famous high-grade silver district, and 20 km east of Goldcorp's El Sauzal Gold Mine. A total of 2000 meters of core drilling has now been completed in the bulk tonnage Road Zone target higher in elevation and along trend to the west from the high grade Cliff Vein. Drilling tested the low grade, bulk mineable target of silicified andesite at an intrusive granodiorite contact in the Road Zone. Drill results should be available by late in the Third Quarter. Difficult road access to the Cliff Vein target area required revision of the proposed drilling to a helicopter supported program. This Cliff Vein drilling has been re-scheduled for late 2011 following the rain season and depending on drill and helicopter availability.

Phase 1 drilling began in July at Caza's Balleza gold target on the Moris property in Chihuahua, Mexico. Approximately 4,000 meters of core drilling has been completed to test about 300 meters of strike length along the prospective gold zone. The target is an altered and mineralized zone 1200 meter long and up to 400 meter wide within silicified and potassically altered volcanic rocks adjacent to a dacite dike. This mineralized zone is one portion of a 7 km long regional mineralized structure.

Reconnaissance work on the Los Andes project in Nicaragua continued to delineate the different alteration types and associated trace element geochemical anomalies in order to prioritize gold targets for drilling in 2012. Eight gold targets associated with strongly altered hydrothermal breccia have been identified to date.

Further regional mapping and sampling is underway on the new high-sulfidation type gold systems outside of the Los Andes property in order to prioritize the prospects for more detailed work in 2012. Approximately 130,000 hectares have been acquired covering seven high-sulfidation systems similar to Los Andes. Property acquisition and reconnaissance work on the newly acquired gold properties in Nicaragua will continue.

<u>Q3 Outlook</u>

The outlook for Q3 will include:

- The reporting of Phase 1 drilling results from the Santiago and Balleza projects in Chihuahua, Mexico.
- Evaluation of mapping and sampling results at Los Andes and selection of top priority gold targets.

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

Caza Gold Corp., is a growth-oriented gold exploration company listed on the TSX-V: CZY, 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 August 16, 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 of No Auditor Review of

Unaudited Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended June 30, 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 unaudited condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the unaudited condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Caza Gold Corp. (the “Company”) for the three and six months ended June 30, 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 Accounting Standard 34 (“IAS 34”) and International Financial Reporting Standards 1 (“IFRS 1”) which are based on the principles of International Financial Reporting Standards (“IFRS”).

CAZA GOLD CORP.

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

		June 30, 2011		December 31, 2010 (Note 10)
ASSETS				
Current Assets				
Cash	**$**	**7,698,644**	$	1,427,459
Receivables and prepaids		**212,575**		168,097
Total Current Assets		**7,911,219**		1,595,556
Non-Current Assets				
Mineral property interests (Note 5)		**3,212,738**		939,883
Equipment (Note 6)		**57,850**		11,772
Total Non-Current Assets		**3,270,588**		951,655
Total Assets	**$**	**11,181,807**	$	2,547,211
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities (Note 8)	**$**	**748,448**	$	182,493
Shareholders' Equity				
Share capital (Note 7)		**15,031,537**		5,742,727
Reserve for share-based payments		**667,759**		535,636
Deficit		**(5,265,937)**		(3,913,645)
Total Shareholders' Equity		**10,433,359**		2,364,718
Total Liabilities and Shareholders' Equity	**$**	**11,181,807**	$	2,547,211

Nature of operations (Note 1)
Commitments (Note 5)
Subsequent events (Note 5(b))

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 June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Expenses:				
Accounting and audit	**$ -**	$ 19,674	**$ -**	$ 19,674
Amortization	**1,473**	267	**1,674**	401
Employee remuneration	**126,105**	57,385	**200,174**	225,160
Legal (Note 8)	**26,730**	19,800	**43,654**	26,651
Office and sundry (Note 8)	**95,352**	25,280	**135,754**	41,476
Property investigation	**32,709**	92,108	**47,424**	114,412
Regulatory	**21,466**	5,715	**46,025**	8,403
Shareholder relations	**82,309**	31,749	**270,117**	43,759
Share-based payments	**221,005**	-	**373,660**	-
Loss before the undernoted	**(607,149)**	(251,978)	**(1,118,482)**	(479,936)
Write-off of mineral property interests	**-**	-	**-**	(106,460)
Warrant modification expense	**-**	(106,460)	**-**	(115,500)
Foreign exchange loss	**(196,095)**	(542)	**(243,100)**	(11,066)
Net loss and comprehensive loss for the period	**$ (803,244)**	$ (358,980)	**$ (1,361,582)**	$ (712,962)
Basic and diluted loss per share	**$ (0.01)**	$ (0.01)	**$ (0.03)**	$ (0.03)
Weighted average number of common shares outstanding	**55,869,520**	26,246,792	**47,729,980**	25,073,514

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)

	Six Months ended June 30, 2011		Fiscal Year ended December 31, 2010			
			Six Months ended December 31, 2010		Six Months ended June 30, 2010	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common shares:						
Balance, beginning of period	**36,277,612**	**$ 5,742,727**	27,179,924	$ 2,988,031	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**	**7,851,906**	-	3,474	2,830,501	657,067
Exercise of stock options (Note 7(c))	**9,000**	**5,596**	-	-	-	-
Exercise of warrants (Note 7(d))	**2,817,788**	**1,237,808**	407,688	180,522	1,300,000	156,000
Property acquisition (Note 5(d))	**450,000**	**193,500**	-	-	-	-
Balance, end of period	**56,029,400**	**15,031,537**	36,277,612	5,742,727	27,179,924	2,988,031
Reserve for share-based payments:						
Balance, beginning of period		**535,636**		115,500		-
Fair value of stock options		**373,660**		223,285		-
Fair value from warrant modification (Note 7(d))		**-**		119,993		115,500
Fair value of finders fee warrants		**21,783**		114,689		-
Exercise of stock options		**(2,446)**		-		-
Exercise of modified warrants		**(200,832)**		(34,661)		-
Exercise of finders fee warrants		**(50,750)**		(3,170)		-
Expiry of stock options		**(9,292)**		-		-
Balance, end of period		**667,759**		535,636		115,500
Deficit:						
Balance, beginning of period		**(3,913,645)**		(2,624,842)		(1,911,880)
Fair value from warrant modification (Note 7(d))		**-**		(235,493)		-
Expiry of stock options		**9,290**		-		-
Loss for the period		**(1,361,582)**		(1,053,310)		(712,962)
Balance, end of period		**(5,265,937)**		(3,913,645)		(2,624,842)
Total Shareholders' Equity		**$ 10,433,359**		$ 2,364,718		$ 478,689

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

CAZA GOLD CORP.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

	Six Months Ended June 30, 2011		2010	
Cash provided from (used for):				
Operations:				
Loss for the period	**$**	**(1,361,582)**	$	(712,962)
Items not involving cash:				
Amortization		**1,674**		401
Share-based payments		**373,660**		-
Unrealized currency translation gain		**(2)**		
Write-off of mineral property interests		**-**		106,460
Warrant modification expense		**-**		115,500
		(986,250)		(490,601)
Changes in non-cash working capital items:				
Receivables and prepaids		**(44,478)**		(100,275)
Accounts payable and accrued liabilities		**33,668**		51,909
Cash used by operating activities		**(997,060)**		(538,967)
Financing:				
Issuance of common shares, net of share issue costs		**7,873,689**		657,067
Exercise of stock options		**3,150**		-
Exercise of warrants		**986,226**		156,000
Cash provided from financing activities		**8,863,065**		813,067
Investing:				
Mineral property interests, net of recoveries		**(1,547,068)**		(220,994)
Acquisition of equipment		**(47,752)**		-
Cash used by investing activities		**(1,594,820)**		(220,994)
Increase in cash		**6,271,185**		53,106
Cash, beginning of period		**1,427,459**		122,410
Cash, end of period	**$**	**7,698,644**	$	175,516

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

CAZA GOLD CORP.

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

	Six months ended June 30, 2011	2010
Non-cash financing and investing activities:		
Accrual of mineral property interests	**$ 532,287**	$ -
Issuance of common shares for mineral property interests	**193,500**	-
Fair values allocated to common shares issued on exercise of:		
Stock options	**2,446**	-
Modified warrants with extended expiry dates (Note 7(d))	**200,832**	-
Finders fee warrants (Note 7(d))	**50,750**	-
Fair values of finders fee warrants (Note 7(d))	**21,783**	-
Forfeiture of stock options (Note 7(c))	**9,290**	-
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)

	Six months ended June 30, 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	32,127	-	-	14,326	5,874	-	205,200	257,527
Balance, end of period	229,961	103,428	29,977	61,973	24,831	52,058	249,957	752,185
Deferred Exploration Expenditures:								
Balance, beginning of period	219,902	175,326	11,729	2,128	15,015	4,292	16,833	445,225
Advances	-	-	-	-	-	-	78,096	78,096
Aerial photos and mapping	-	-	-	-	-	-	42,439	42,439
Assays and surveys	26,447	63,975	-	-	-	-	66,999	157,421
Camp and field supplies	-	-	-	-	-	-	21,405	21,405
Drilling	161,432	296,010	-	-	-	-	-	457,442
Equipment and systems	140,022	61,612	-	-	-	-	19,906	221,540
Environmental	-	-	-	-	-	-	23,347	23,347
Geochemistry	-	-	-	-	-	-	60,006	60,006
Geology and consultants	147,048	111,860	-	-	-	-	249,303	508,211
Local labour	45,596	12,940	-	-	-	-	1,198	59,734
Roads and drill pads	59,542	-	-	-	-	-	16,214	75,756
Sundry	30,145	15,199	-	-	-	-	84,650	129,994
Surface taxes	591	23,123	-	302	4,177	1,387	-	29,580
Travel and transportation	49,749	36,829	-	-	-	-	63,779	150,357
Balance, end of period	880,474	796,874	11,729	2,430	19,192	5,679	744,175	2,460,553
Mineral property interests, end of period	$ 1,110,435	$ 900,302	$ 41,706	$ 64,403	$ 44,023	$ 57,737	$ 994,132	$ 3,212,738

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 approximately $1.4 million for the six month period ended June 30, 2011 (June 30, 2010 - $712,962) and has a deficit of approximately $5.3 million as at June 30, 2011 (December 31, 2010 - $3.9 million). These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company'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 Accounting Standards 34 – Interim Financial Reporting ("IAS 34") and International Financial Reporting Standards 1 - First- time Adoption of International Financial Reporting ("IFRS 1") with an adoption date of January 1, 2011 and a transition date of January 1, 2010, based on the principles of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These financial statements do not include all of the information required for annual financial statements. Therefore, these condensed consolidated interim financial statements should be read in conjunction with the Company's annual audited consolidated financial statements and the notes thereto for the year ended December 31, 2010 and the Company's unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2011. These unaudited condensed consolidated interim financial statements have been prepared consistently with the accounting policies and practices set out therein.

2. Significant Accounting Policies (continued)

(a) Basis of presentation: (continued)

These are the Company's second condensed consolidated interim financial statements for the second quarter of the period covered by the first consolidated annual financial statements to be presented in accordance with IFRS for the year ending December 31, 2011. 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, except for financial instruments which are classified as available-for-sale financial assets and derivative financial liability 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.

(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 net 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)

(c) Financial instruments: (continued)

(iii) Fair value hierarchy:

The Company categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate fair values. The fair value of 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.

(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.

2. Significant Accounting Policies (continued)

(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.

(h) Share-based payments:

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.

2. Significant Accounting Policies (continued)

(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.

(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 profit or 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 deferred tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

2. Significant Accounting Policies (continued)

(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 its working capital needs at period-end but will rely on equity financings to continue exploration work on its mineral property interests.

There were no changes in the Company's approach to capital management during the six month period ended June 30, 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.

(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-contractual taxes receivables from government agencies are not considered financial instruments.

(b) Liquidity risk:

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

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

Accounts payable and accrued liabilities are due in 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 the 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 June 30, 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	$ 177,716
Receivables and prepaids	72,619
Accounts payable and accrued liabilities	(550,843)
Net financial assets (liabilities)	$ (300,508)

Based upon the above net exposure as at June 30, 2011 and assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar relative to the Mexican peso could result in a decrease/increase of $30,051 in the Company's net losses.

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

(ii) Interest rate risk:

In respect of financial assets, the Company's policy is to invest excess cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest rates impact on the value of cash equivalents. 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% net smelter return ("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 $106,460 (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 retains 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, April 2010 and then in April 2011, Minera Caza amended the option agreement to acquire a 100% interest in the property for US$2.02 million of which US$120,000 was previously paid, and thereafter further payments totalling US$100,000 from May 2009 to October 2010 were made by the Company, with a remaining balance of US$1.8 million payable over a 3 year period, and spending US$200,000 on exploration over a 1 year period which the Company had incurred by the end of fiscal 2010. In April 2011, the Company made a payment of US$34,000 to the vendor and US$33,000 in July 2011. 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 acquired a 100% interest in the Moris and Santiago Fraction properties from Exmin for 400,000 common shares of the Company which were issued with a value of $0.25 per share. Exmin retains a 1% NSR which is capped at US$1 million for the Moris properties and US$0.5 million for the Santiago Fraction property.

Underlying the mineral properties sale and purchase agreement dated September 24, 2009 with Exmin are option to purchase agreements for 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$6,000 for the six months ended June 30, 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, whereby the Company has earned a 100% interest.

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 per share to the vendors of the property.

(e) Mineral property commitments:

As at June 30, 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	Monthly Option Payments	Expenditure Commitments	Shares
	(US dollars)	(US dollars)	(US dollars)	
Santiago (Note 5(b)):				
July 27, 2011 (paid)	$ 33,000	$ -	$ -	-
August 27, 2011	33,000	-	-	-
June 5, 2012	120,000	-	-	-
June 5, 2013	1,580,000	-	-	-
El Relampago (Note 5(c)(ii)):				
November 18, 2011	15,000	-	-	-
May 18, 2012	15,000	-	-	-
November 18, 2012	15,000	-	-	-
Oaxaca (Note 5(c)(iii)):				
July 1, 2011 to June 2014	-	1,000	-	-
July 2014	726,000	-	-	-
Los Andes (Note 5(d)):				
December 15, 2011	100,000	-	-	300,000
December 15, 2012	125,000	-	243,125	300,000
December 15, 2013	300,000	-	800,000	300,000
December 15, 2014	600,000	-	1,200,000	300,000
	$ 3,662,000	$ 1,000	$ 2,243,125	1,200,000

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

(g) Realization of assets:

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

(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
Acquisition	47,752	-	47,752
Amortization for the period	-	1,674	(1,674)
Balance, June 30, 2011	$ 61,979	$ 4,129	$ 57,850

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 April 15, 2011, the Company issued 450,000 common shares at a value of $0.43 per share for the Los Andes property (Note 5(d)).

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 June 30, 2011, 956,363 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 six months ended June 30, 2011 is as follows:

	June 30, 2011	
	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	2,802,900	$0.35
Granted	1,790,000	$0.40
Exercised	(9,000)	$0.35
Expired	(40,000)	$0.35
Forfeited	(176,000)	$0.35
Outstanding, end of period	4,367,900	$0.37

The following table summarizes information about stock options exercisable and outstanding at June 30, 2011:

	Options Outstanding			Options Exercisable		
Exercise Prices	Number Outstanding at June 30, 2011	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices	Number Exercisable at June 30, 2011	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices
$0.35	2,390,000	4.4	$0.35	953,000	4.4	$0.35
$0.42	187,900	4.4	$0.42	75,160	4.4	$0.42
$0.57	200,000	4.8	$0.57	40,000	4.8	$0.57
$0.375	1,590,000	5.0	$0.375	318,000	5.0	$0.375
	4,367,900	4.6	$0.37	1,386,160	4.5	$0.37

(Stated in Canadian dollars)

7. Share Capital (continued)

(c) Stock option plan: (continued)

During the six months ended June 30, 2011, the Company recognized share-based payments of $373,600 based on the fair value of options that were earned by the provision of services during the period. Share-based payments are segregated between directors and officers, employees and consultants as follows:

		June 30, 2011
Directors and officers	$	294,055
Employees		40,484
Consultants		39,121
	$	373,660

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.

On April 29, 2011, the Company granted options to purchase 200,000 common shares at an exercise price of $0.57 and an expiry date of April 29, 2016. These options are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

On June 22, 2011, the Company granted options to purchase 1,590,000 common shares at an exercise price of $0.375 and an expiry date of June 22, 2016. 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.

(Stated in Canadian dollars)

7. Share Capital (continued)

(c) Stock option plan: (continued)

The weighted average fair value of stock options granted and the weighted average assumptions used to calculate share-based payments for stock option grants during the six months ended June 30, 2011 are estimated using the Black-Scholes option pricing model as follows:

	June 30, 2011
Number of stock options granted	1,790,000
Fair value of stock options granted	$0.28
Risk-free interest rate	2.21%
Expected dividend yield	0%
Expected stock price volatility	107%
Expected option life in years	4.93

(d) Warrants:

At June 30, 2011, the Company had outstanding warrants as follows:

Exercise Prices	Expiry Dates	Outstanding at December 31, 2010	Issued	Exercised	Expired	Outstanding at June 30, 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	-	(564,584)	-	800,667
$0.45	May 18, 2012 (2)	4,000,000	-	-	-	4,000,000
$0.35	May 18, 2012	622,312	-	(283,204)	-	339,108
$0.70	September 17, 2012	-	8,237,500	-	-	8,237,500
		8,357,563	8,237,500	(2,817,788)	-	13,777,275

(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%.

(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.

(Stated in Canadian dollars)

7. Share Capital (continued)

(d) Warrants: (continued)

Pursuant to the private placement which closed on March 17, 2011, the fair value of $21,783 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:

	June 30, 2011
Risk-free interest rate	1.61%
Expected dividend yield	0%
Expected stock price volatility	108.00%
Expected life in years	1.5

(e) Common shares reserved for issuance at June 30, 2011:

	June 30, 2011
Stock options (Note 7(c))	4,367,900
Warrants (Note 7(d))	13,777,275
Common shares reserved for issuance	18,145,175

8. Related Party Transactions

Related party transactions during the six months ended June 30, 2011 include:

- $187,186 in remuneration and salaries paid for key management compensation;
- $86,752 in legal fees to a law firm in which a director of the Company is a partner. As at June 30, 2011, the Company owed $11,655 to the law firm which is included in accounts payable and accrued liabilities; and
- $95,624 in office and sundry, rent and salary allocations from companies with one common director. As at June 30, 2011, the Company owed $3,646 to those companies which are included in accounts payable and accrued liabilities.

Transactions with 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.

(Stated in Canadian dollars)

9. Segment Disclosures

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

	June 30, 2011			
	Canada	Mexico	Nicaragua	Total
Mineral property interests	$ -	$ 2,218,606	$ 994,132	$ 3,212,738
Equipment	7,920	49,930	-	57,850
Total assets	7,686,675	2,500,998	994,134	11,181,807
Net loss	1,160,093	201,489	-	1,361,582

10. Transition to IFRS

These are the Company's second 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 period ended June 30, 2011 and the comparative financial information presented in these condensed consolidated interim financial statements for the period ended June 30, 2010 and as at December 31, 2010.

The Company's Canadian GAAP condensed consolidated interim statements comprehensive loss for the three and six months ended June 30, 2010, and condensed consolidated interim statement of financial position as at June 30, 2010 have been reconciled to IFRS. The Company's Canadian GAAP statement of comprehensive loss for the year ended December 31, 2010 and the statements of financial position as at December 31, 2010 and January 1, 2010 have been reconciled to IFRS in Note 10 to the March 31, 2011 condensed consolidated interim financial statements. These reconciliation differences are explained as follows.

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.

10. Transition to IFRS (continued)

(a) 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:

		June 30, 2010
Contributed Surplus under Canadian GAAP	$	115,500
Transferred to reserve for share-based payments		(115,500)
Contributed Surplus under IFRS	$	-

		June 30, 2010
Reserve for share-based payments:		
Adjustments to transition to IFRS:		
Transferred from contributed surplus for unexercised share-based payments	$	115,500
Reserve for share-based payments under IFRS	$	115,500

(Stated in Canadian dollars)

10. Transition to IFRS (continued)

(a) 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)

	June 30, 2010
Deficit under Canadian GAAP	$ (2,624,842)
Adjustments to transition to IFRS:	
Share-based payments for the period	-
Deficit under IFRS	$ (2,624,842)

	Six months ended June 30, 2010	Three months ended June 30, 2010
Comprehensive loss under Canadian GAAP	$ (712,962)	$ (358,980)
Adjustments to transition to IFRS:		
Share-based payments	-	-
Comprehensive loss under IFRS	$ (712,962)	$ (358,980)

10. Transition to IFRS (continued)

(b) 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.

Consolidated Interim Statement of Financial Position Reconciliation – June 30, 2010
Consolidated Interim Statement of Comprehensive Loss Reconciliation – Three months ended June 30, 2010
Consolidated Interim Statement of Comprehensive Loss Reconciliation – Six months ended June 30, 2010

(Stated in Canadian dollars)

10. Transition to IFRS (continued)

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

(i) The June 30, 2010 Canadian GAAP consolidated interim statement of financial position has been reconciled to IFRS as follows:

		June 30, 2010		
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash		$ 175,516	$ -	$ 175,516
Receivables and prepaids		254,824		254,824
Total Current Assets		430,340	-	430,340
Non-Current Assets				
Mineral property interests		681,704		681,704
Equipment		1,553		1,553
Total Non-Current Assets		683,257	-	683,257
Total Assets		$ 1,113,597	$ -	$ 1,113,597
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities		$ 634,908	$ -	$ 634,908
Shareholders' Equity				
Share capital		2,988,031		2,988,031
Contributed surplus		115,500	(115,500)	-
Reserve for share-based payments		-	115,500	115,500
Deficit		(2,624,842)		(2,624,842)
Total Shareholders' Equity		478,689	-	478,689
Total Liabilities and Shareholders' Equity		$ 1,113,597	$ -	$ 1,113,597

(Stated in Canadian dollars)

10. Transition to IFRS (continued)

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

(ii) The Canadian GAAP consolidated interim statement of comprehensive loss for the three months ended June 30, 2010 has been reconciled to IFRS as follows:

	Notes	Three months ended June 30, 2010 Canadian GAAP	Effect of Transition to IFRS	IFRS
Expenses:				
Accounting and audit		$ 19,674	$ -	$ 19,674
Amortization		267		267
Employee remuneration		57,385		57,385
Legal		19,800		19,800
Office and sundry		25,280		25,280
Property investigation		92,108		92,108
Regulatory		5,715		5,715
Shareholder relations		31,749		31,749
Loss before the undernoted		(251,978)	-	(251,978)
Foreign exchange loss		(542)		(542)
Write-off of mineral property interests		(106,460)		(106,460)
Net loss and comprehensive loss for the period		$ (358,980)	$ -	$ (358,980)
Basic and diluted loss per share		$ (0.01)		$ (0.01)
Weighted average number of common shares outstanding		26,246,792		26,246,792

(Stated in Canadian dollars)

10. Transition to IFRS (continued)

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

(iii) The Canadian GAAP consolidated interim statement of comprehensive loss for the six months ended June 30, 2010 has been reconciled to IFRS as follows:

		Six months ended June 30, 2010		
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
Expenses:				
Accounting and audit		$ 19,674	$ -	$ 19,674
Amortization		401		401
Employee remuneration		225,160		225,160
Legal		26,651		26,651
Office and sundry		41,476		41,476
Property investigation		114,412		114,412
Regulatory		8,403		8,403
Shareholder relations		43,759		43,759
Loss before the undernoted		(479,936)	-	(479,936)
Foreign exchange loss		(11,066)		(11,066)
Write-off of mineral property interests		(106,460)		(106,460)
Warrant modification expense		(115,500)		(115,500)
Net loss and comprehensive loss for the period		$ (712,962)	$ -	$ (712,962)
Basic and diluted loss per share		$ (0.03)		$ (0.03)
Weighted average number of common shares outstanding		25,073,514		25,073,514

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