



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 Chihuahua, 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 Chihuahua, 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		Nine Months ended		Three Months ended	
	March 31, 2011		December 31, 2010		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		Total
	Santiago	Moris	Santiago Fraction	El Relampago	Oaxaca	Tecolote	Los Andes		
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.

CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months ended March 31, 2011

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

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.

CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months ended March 31, 2011

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

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.

CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months ended March 31, 2011

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

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.

CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months ended March 31, 2011

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

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.

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(An Exploration Stage Company)

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Three Months ended March 31, 2011

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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.

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(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months ended March 31, 2011

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

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.

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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.

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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-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 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.

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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:

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

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.

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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.

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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.

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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

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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.

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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.

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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:

Exercise Prices	Options Outstanding			Options Exercisable		
	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

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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

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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

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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

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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.

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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.

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(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	\$ -	\$ -

CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months ended March 31, 2011

(Unaudited – Prepared by Management)

(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)

CAZA GOLD CORP.

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Notes to the Condensed Consolidated Interim Financial Statements

Three Months ended March 31, 2011

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

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

CAZA GOLD CORP.

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Notes to the Condensed Consolidated Interim Financial Statements

Three Months ended March 31, 2011

(Unaudited – Prepared by Management)

(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		IFRS
		Canadian GAAP	Effects of Transition to 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

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Notes to the Condensed Consolidated Interim Financial Statements

Three Months ended March 31, 2011

(Unaudited – Prepared by Management)

(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:

	Notes	March 31, 2010		IFRS
		Canadian GAAP	Effect of Transition to 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

CAZA GOLD CORP.

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Notes to the Condensed Consolidated Interim Financial Statements

Three Months ended March 31, 2011

(Unaudited – Prepared by Management)

(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:

	Notes	March 31, 2010		IFRS
		Canadian GAAP	Effect of Transition to 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

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Three Months ended March 31, 2011

(Unaudited – Prepared by Management)

(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		IFRS
		Canadian GAAP	Effects of Transition to 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

CAZA GOLD CORP.

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Notes to the Condensed Consolidated Interim Financial Statements

Three Months ended March 31, 2011

(Unaudited – Prepared by Management)

(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:

	Note	December 31, 2010		
		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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Anthony Hawkshaw
Stewart Lockwood
Philip Yee

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Bradford Cooke ~ Chairman
Greg Myers ~ Chief Executive Officer and President
Don Cameron ~ Vice-President, Exploration
Gregg Wilson ~ Vice-President, Shareholder Communications
Philip Yee ~ Chief Financial Officer
Stewart Lockwood ~ Secretary

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CAZA GOLD CORP.

First Quarter Report

Management Discussion and Analysis

(stated in Canadian dollars)

Three Months ended March 31, 2011

CAZA GOLD CORP.

(the “Company”)

Management’s Discussion and Analysis For the Three Months Ended March 31, 2011

CAUTION – FORWARD LOOKING STATEMENTS

Certain statements contained herein regarding the Company and its operations constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995 or “forward-looking information” under Canadian securities legislation. 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 or information”. We caution you that such “forward looking statements or information” involve known and unknown risks and uncertainties that could cause actual results and future events to differ materially from those anticipated in such statements. Such risks and uncertainties include fluctuations in precious metal prices, unpredictable results of exploration activities, uncertainties inherent in the estimation of mineral reserves and resources, fluctuations in the costs of goods and services, problems associated with exploration and mining operations, changes in legal, social or political conditions in the jurisdictions where the Company operates, lack of appropriate funding and other risk factors, as discussed in the Company’s filings with Canadian securities regulatory agencies. The Company expressly disclaims any obligation to update any forward-looking statements or information, except as may be required by law.

1.0 Preliminary Information

The following Management’s Discussion and Analysis (“MD&A”) of Caza Gold Corp. (the “Company”) should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements for the three months ended March 31, 2011, which are available at the SEDAR website at www.sedar.com.

All financial information in this MD&A is prepared in accordance with International Financial Reporting Standards (“IFRS”), and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

All information contained in the MD&A is as of June 24, 2011 unless otherwise indicated.

1.1 Background

The Company was incorporated on November 15, 2007 under the laws of British Columbia and is engaged in the evaluation, acquisition, exploration, development and exploitation of precious metal properties in Mexico and Nicaragua. The Company currently owns or holds, directly or indirectly, interests in precious metal properties, known as Moris, Santiago Fraction, El Relampago, Oaxaca and Tecolote, and Santiago, in Mexico, and Los Andes in Nicaragua.

On November 22, 2010 (the “Listing Date”), the Company listed its common shares and the underlying warrants in the units in the initial public offering for trading on the TSX Venture Exchange (“TSX-V”).

CAZA GOLD CORP.

(An Exploration Stage Company)

Management's Discussion and Analysis

Three Months Ended March 31, 2011

(Stated in Canadian dollars)

1.2 Overall Performance

As the Company is focused on its mineral exploration activities, there is no mineral production, sales or inventory in the conventional sense. 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 in its mineral properties, the development of its properties, confirmation and maintenance of the Company's interest in the underlying properties, the receipt of necessary permits and upon future profitable production or proceeds from the disposition thereof. Such exploration and development activities normally take years to complete and the amount of resulting income, if any, is difficult to determine with any certainty at this time. Many of the key factors are outside of the Company's control. The sales value of any mineralization discovered and developed by the Company is largely dependent upon factors beyond the Company's control such as the market prices of the metals produced.

Los Arrastres property

In February 2007, Minera Canarc de Mexico SA de CV ("Minera Canarc), which was a wholly-owned subsidiary of Canarc Resource Corp. ("Canarc") but become a wholly-owned subsidiary of the Company pursuant to a plan of arrangement in 2008, 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 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 payment of US\$75,000 in August 2007 and then another payment of US\$25,000 in February 2008. The property was written-off in fiscal 2008. As at December 31, 2009, Minera Canarc accrued US\$75,000 which is due to the vendor and then in June 2010, accrued an additional 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 cash payments 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.

Santiago property

In May 2007, Minera Canarc entered into an option agreement to acquire a 100% interest in the Santiago gold property by making US\$2 million in cash payments over a 5 year period and spending US\$200,000 on exploration over a 2 year period. The vendor retained a 2% NSR. Canarc made an initial payment of US\$30,000 upon the signing of the option agreement and further cash payments of US\$30,000 in November 2007 and US\$60,000 in May 2008.

In May 2009 and then in April 2010 and April 2011, the Company's wholly-owned subsidiary, Minera Caza SA de CV ("Minera Caza"), amended the option agreement to acquire 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 4 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.

Drilling program began in early May 2011 for 3,000 meters of Phase 1 core drilling.

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Management's Discussion and Analysis

Three Months Ended March 31, 2011

(Stated in Canadian dollars)

Moris, Santiago Fraction, El Relampago, Oaxaca and Tecolote properties

In September 2007, Minera Canarc entered into an option and joint venture agreement with Exmin Resources Inc. ("Exmin") to acquire up to a 75% interest in the Santiago Fraction property by issuing 15,000 common shares, paying US\$25,000 in cash after 1 year, and spending up to US\$1 million in exploration over a 5-year period. Canarc issued 15,000 common shares at a value of \$0.45 per share in 2007. The Company made a cash payment of US\$25,000 in September 2008.

In September 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 by the issuance of 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, as amended, for El Relampago, Oaxaca and Tecolote properties.

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.

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

For the Tecolote property concession, the Company can earn a 100% interest by making cash payments of US\$25,000 in September 2009 and US\$25,000 in March 2010 of which US\$25,000 was accrued at December 31, 2009. 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.

Drilling program began in late May 2011 for 4,000 meters of core drilling.

Los Andes property

In December 2010 as amended in January 2011, the Company entered into an option agreement to acquire a 100% interest in the Los Andes property by making US\$1.17 million in cash payments, issuing 1.5 million common shares and spending US\$2.97 million on exploration over a 4 year period. The Company also agreed to issue 150,000 common shares for the staking of additional properties to the vendors in January 2011, and thereafter the Company shall issue that number of common shares equal to 1.6 multiplied by the number of hectares staked in the area of mutual interest as defined. The vendor will retain a 2% NSR, and the Company has the right to reduce the NSR to 1% by paying US\$1 million and to acquire the remaining 1% NSR by paying an additional US\$2 million. At December 31, 2010, the Company accrued US\$45,000 which was due to the vendor and which was subsequently paid in January 2011. In April 2011, 450,000 common shares at a value of \$0.43 per share were issued to the vendors.

In February 2011, the Company staked a 100% interest in 11 new properties. In the first quarter of fiscal 2011, the Company commenced reconnaissance mapping and sampling of alteration systems to prioritize them for detailed gold exploration.

Other:

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Management's Discussion and Analysis

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(Stated in Canadian dollars)

Effective April 2011, Dr. Greg Myers, Chief Executive Officer and President of the Company, was nominated to the Board of Directors. Mr. Donald Cameron was appointed Vice-President of Exploration, and was granted 200,000 stock options with an exercise price of \$0.57 and an expiry date of April 29, 2016 and which are subject to vesting provisions.

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.

At the Company's annual general meeting held in June 2011, Messrs. Bradford Cooke, Greg Myers, Anthony Hawkshaw, Stewart Lockwood and Philip Yee were re-elected to the Board of Directors for the ensuing year. Mr. Gregg Wilson was appointed Vice-President of Shareholder Communications. The Company's incentive stock option plan was also approved at the annual general meeting.

In June 2011, the Company granted 1,590,000 stock options with an exercise price of \$0.375 and an expiry date of June 22, 2016 and which are subject to vesting provisions over a two-year period.

1.3 Selected Annual Information

All financial information is prepared in accordance with IFRS, and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

	<u>Year ended December 31,</u>	
	<u>2010</u>	
Total revenues	\$	-
Loss before discontinued operations and extraordinary items:		
(i) Total	\$	(1,766,272)
(ii) Basic loss per share	\$	(0.06)
(iii) Fully diluted loss per share	\$	(0.06)
Net loss:		
(i) Total	\$	(1,766,272)
(ii) Basic loss per share	\$	(0.06)
(iii) Fully diluted loss per share	\$	(0.06)
Total assets	\$	2,547,211
Total long-term liabilities	\$	-
Dividends per share	\$	-

1.4 Results of Operations

First Quarter of Fiscal 2011 – Three months ended March 31, 2011 compared with March 31, 2010

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(An Exploration Stage Company)

Management's Discussion and Analysis

Three Months Ended March 31, 2011

(Stated in Canadian dollars)

The Company incurred a net loss of \$558,338 for the three months ended March 31, 2011, compared to the net loss of \$353,982 for the same period in fiscal 2010. Operating expenses increased in the current quarter relative to the comparative quarter for a variety of reasons. Employee remuneration decreased during the quarter even though the operating activities of the Company increased. In the first quarter of fiscal 2010, employment fees were incurred in the employment of two new senior management personnel to Company at that time. Also employee remuneration directly related to mineral exploration projects were allocated to those specific projects rather than to operations which was more applicable to the first quarter of 2011 as the Company implemented its exploration programs for Santiago, Moris and Los Andes projects at the beginning of the fiscal year. Higher legal fees were incurred for the property option agreement for the Los Andes property including regulatory approvals thereto.

Higher operating expenses for office and sundry were attributable to the vendor licenses and upgrades of existing systems to assist in financial reporting and modeling of financial valuation tools and support, and ancillary support for more active operating and exploration activities of the Company in the first quarter for 2011.

In 2010, increased expenditures specifically for property investigation reflect a concerted program of property evaluations in Mexico to identify exploration and acquisition targets. These costs were higher in 2010 as the Company's management proceeded with initiatives in Mexico and Central America. Corporate development goals for 2010 required heightened ongoing efforts toward property investigations and project generation during the year which culminated in the option agreement to acquire a 100% interest in the Los Andes property in Nicaragua in December 2010 and the staking of 11 additional properties in Nicaragua in February 2011. Such expenditures decreased in the first quarter of 2011 as the Company primarily focused on developing and implementing exploration programs on its mineral property interests.

As a listed company effective November 2010, the Company incurred annual sustaining listing fees, fees related to the issuance of shares for property acquisitions and exercise of warrants, all of which contributed to the increase in regulatory expenses in the first quarter of 2011.

Following the closing of the offering and the listing of its common shares on the TSXV in November 2010, the Company initiated and implemented its plans and activities to raise the profile of the Company and the status and progress of its Mexican projects, thereby contributing to its increased expenses incurred for shareholder relations in fiscal 2010 especially in the fourth quarter. Sequentially, the listing of its common shares on the Frankfurt Stock Exchange in December 2010 was also of premier importance for the Company to create greater exposure in Europe. These efforts continued into the first quarter of 2011 for shareholder relations activities.

Share-based payments are for the granting and vesting of stock options. 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. These stock options are subject to vesting provisions in which 20% of the options vest on November 22, 2010 and 20% vest every six months thereafter. On November 30, 2010, the Company granted additional 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 stock 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. No stock options were granted in the first quarter of fiscal 2011 and such expenses would therefore relate to the vesting of previously granted stock options.

The foreign exchange loss is conducive of the Canadian dollar which strengthened relative to the Mexican peso for the Company's integrated Mexican subsidiaries during the quarter.

The Company has no source of operating revenues.

As at March 31, 2011, the Company has mineral property interests which are comprised of the following:

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(Stated in Canadian dollars)

	March 31, 2011								
	Mexico						Nicaragua		Total
	Santiago	Moris	Santiago Fraction	El Relampago	Oaxaca	Tecolote	Los Andes		
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	

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:

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	Option Payments (US dollars)	Monthly Option Payments (US dollars)	Expenditure Commitments (US dollars)	Shares
Santiago:				
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:				
May 18, 2011 (paid)	15,000	-	-	-
November 18, 2011	15,000	-	-	-
May 18, 2012	15,000	-	-	-
November 18, 2012	15,000	-	-	-
Oaxaca:				
April 1, 2011 to June 2014	-	1,000	-	-
July 2014	726,000	-	-	-
Los Andes:				
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

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

1.5 Summary of Quarterly Results

Quarterly financial information for fiscals 2011 and 2010 is prepared in accordance with IFRS and for fiscal 2009 in accordance with Canadian GAAP, and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

The following table provides selected financial information of the Company for each of the last eight quarters ended at the most recently completed quarter, March 31, 2011:

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	IFRS					Canadian GAAP		
	2011	2010			2009			
	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loss before discontinued discontinued operations and extraordinary items:								
(i) Total	\$ (558,338)	\$ (824,295)	\$ (229,015)	\$ (358,980)	\$ (353,982)	\$ (145,552)	\$ (179,002)	\$ (85,441)
(ii) Basic loss per share	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ -	\$ (0.01)	\$ -
(iii) Fully diluted loss per share	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ -	\$ (0.01)	\$ -
Net loss:								
(i) Total	\$ (558,338)	\$ (824,295)	\$ (229,015)	\$ (358,980)	\$ (353,982)	\$ (145,552)	\$ (179,002)	\$ (85,441)
(ii) Basic loss per share	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ -	\$ (0.01)	\$ -
(iii) Fully diluted loss per share	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ -	\$ (0.01)	\$ -
Total assets	\$ 10,980,744	\$ 2,547,211	\$ 1,150,152	\$ 1,113,597	\$ 1,083,451	\$ 739,623	\$ 588,606	\$ 627,980
Total long-term liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Dividends per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

1.6 Liquidity and Capital Resources

The Company is in the exploration stage and has not yet determined whether its mineral properties contain reserves. The recoverability of amounts capitalized for mineral property interests is entirely dependent upon the existence of reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and upon future profitable production. The Company knows of no trends, demands, commitments, events or uncertainties that may result in the Company's liquidity either materially increasing or decreasing at the present time or in the foreseeable future. Material increases or decreases in the Company's liquidity are substantially determined by the success or failure of the Company's exploration programs and overall market conditions for smaller mineral exploration companies. Since its incorporation in 2007, the Company has endeavored to secure mineral property interests that in due course could be brought into production to provide the Company with cash flow which would be used to undertake work programs on other projects. To that end, the Company has expended its funds on mineral property interests that it believes have the potential to achieve cash flow within a reasonable time frame. As a result, the Company has incurred losses during each of its fiscal periods since incorporation. This result is typical of smaller exploration companies and will continue unless positive cash flow is achieved.

The following table contains selected financial information of the Company's liquidity:

	March 31, 2011	December 31, 2010
Cash	\$ 8,933,843	\$ 1,427,459
Working capital (deficiency)	9,127,292	1,413,063

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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.

During the three months ended March 31, 2011, the Company also received proceeds of \$3,150 from the exercise of stock options and \$931,630 from the exercise of warrants.

The Company has a number of option agreements for mineral property interests that involve payments in the form of cash and/or common shares of the Company as well as minimum exploration expenditure requirements. Under Item 1.4, further details of contractual obligations are provided as at March 31, 2011. The Company will continue to rely upon equity financing as its principal source of financing its projects.

1.7 Capital Resources

Item 1.6 provides further details.

1.8 Off-Balance Sheet Arrangements

There are no known off-balance sheet arrangements which have not been disclosed.

1.9 Transactions with Related Parties

Except as disclosed elsewhere in the MD&A, 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.

1.10 First Quarter

Items 1.2, 1.4, 1.5 and 1.6 provide further details for the three months ended March 31, 2011.

1.11 Proposed Transactions

There are no proposed material asset or business acquisitions or dispositions, other than those in the ordinary course and other than those already disclosed in this MD&A, before the board of directors for consideration, and other than those already disclosed in its regulatory and public filings.

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1.12 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.

Acquisition costs of mineral properties and exploration and development expenditures incurred thereto are capitalized and deferred. The costs related to a mineral property interest from which there is production will be amortized using the unit-of-production method over estimated reserves. Capitalized costs are written down to their estimated recoverable amount if the mineral property interest is subsequently determined to be uneconomic. The amounts shown for mineral property interests represent costs incurred to date, less recoveries and write-downs, and do not reflect present or future values.

1.13 Changes in Accounting Policies Including Initial Adoption

International Financial Reporting Standards ("IFRS")

The Company's First Quarter Report for fiscal 2011 includes 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.

IFRS 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:

(i) 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.

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(ii) 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.

(iii) 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.

(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 options 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.

(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:

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	2010		
	December 31,	March 31,	January 1,
Contributed Surplus under Canadian GAAP	\$ 535,675	\$ -	\$ -
Transferred to reserve for share-based payments	(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	\$ 535,675	\$ -	\$ -
Share-based payments for the period	(39)	-	-
Reserve for share-based payments under IFRS	\$ 535,636	\$ -	\$ -

	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	39	-	-
Deficit under IFRS	\$ (3,913,645)	\$ (2,265,862)	\$ (1,911,880)

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

(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

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

	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

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

	March 31, 2010		
	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	115,500	(115,500)	-
Reserve for share-based payments	-	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

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- (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		
	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

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

	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	535,675	(535,675)	-
Reserve for share-based payments	-	535,636	535,636
Deficit	(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

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- (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		
	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	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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1.14 Financial Instruments and Other Instruments

The Company classifies its financial instruments as follows:

- cash as fair value through profit or loss,
- receivables as loans and receivables, and
- accounts payable and accrued liabilities as borrowings and other financial liabilities.

Management of financial risk:

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. 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 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 attempts to ensure 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 on 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 exposure to which the Company is exposed is foreign currency risk and interest rate risk.

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.

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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:

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

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.

1.15 Other MD&A Requirements

1.15.1 Other MD&A Requirements

Additional information relating to the Company are as follows:

- (a) may be found on SEDAR at www.sedar.com; and
- (b) is also provided in the Company's unaudited condensed consolidated interim financial statements for the three ended March 31, 2011.

1.15.2 Outstanding Share Data

The Company's authorized share capital consists of unlimited common shares without par value.

Changes in the Company's share capital for the three months ended March 31, 2011 are as follows:

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	Number of Shares	Amount
Balance at December 31, 2010	36,277,612	\$ 5,742,727
Issued:		
Private placement, net of share issue costs	16,475,000	7,873,479
Exercise of stock options	9,000	5,596
Exercise of warrants	2,661,800	1,181,369
Balance at March 31, 2011	55,423,412	\$ 14,803,171

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

On 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.

At June 24, 2011, there were 56,029,400 common shares issued and outstanding.

At March 31, 2011, the Company had outstanding stock options to purchase an aggregate 2,577,900 common shares 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

At March 31, 2011, 2,577,900 options are outstanding of which 511,580 options are exercisable.

At June 24, 2011, stock options for 4,367,900 common shares remain outstanding.

At March 31, 2011, the Company had outstanding warrants to purchase an aggregate of 13,933,263 common shares as follows:

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Exercise Prices	Expiry Dates	Outstanding at December 31, 2010	Issued	Exercised	Expired	Outstanding at March 31, 2011
\$0.35	March 30, 2011	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	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

At June 24, 2011, warrants for 13,327,275 common shares remain outstanding.

1.16 Outlook

The Company will continue to depend upon equity capital to finance its existing projects. There are no assurances that capital requirements will be met by this means of financing as inherent risks are attached therein including commodity prices, financial market conditions, and general economic factors. The Company does not expect to realize any operating revenues from its properties in the foreseeable future.

1.17 Risk Factors

The following is a brief discussion of those distinctive or special characteristics of the Company's operations and industry that may have a material impact on, or constitute risk factors in respect of, the Company's future financial performance.

Exploration and Development Risks

There is no assurance given by the Company that its exploration and development programs and properties will result in the discovery, development or production of a commercially viable ore body.

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any discoveries of bodies of commercial ore. The economics of developing gold and other mineral properties are affected by many factors including capital and operating costs, variations of the grades and tonnages of ore mined, fluctuating mineral market prices, costs of mining and processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Substantial expenditures are required to establish reserves through drilling and other work, to develop metallurgical processes to extract metal from ore, and to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that funds required for development can be obtained on a timely basis. The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be accurately foreseen or predicted, such as market fluctuations, the global marketing conditions for precious and base metals, the proximity and capacity of milling and smelting facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection. In order to commence

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exploitation of certain properties presently held under exploration concessions, it is necessary for the Company to apply for exploitation concessions. There can be no guarantee that such concessions will be granted.

Financing Risks

There is no assurance given by the Company that it will be able to secure the financing necessary to explore, develop and produce its mineral property interests.

The Company does not presently have sufficient financial resources or operating cash-flow to undertake by itself all of its planned exploration and development programs. The development of the Company's properties may therefore depend on the Company's joint venture partners and on the Company's ability to obtain additional required financing. There is no assurance the Company will be successful in obtaining the required financing, the lack of which could result in the loss or substantial dilution of its interests (as existing or as proposed to be acquired) in its properties as disclosed herein. The Company's ability to continue as a going concern is dependent on the ability of the Company to raise equity capital financings, the attainment of profitable operations, external financings, and further share issuance to satisfy working capital and operating needs.

Estimates of Mineral Deposits

There is no assurance given by the Company that any estimates of mineral deposits herein will not change.

No assurance can be given that any identified mineralized deposit will ever qualify as a commercially viable mineable ore body that can be legally and economically exploited. Estimates regarding mineralized deposits can also be affected by many factors such as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grades and tonnages of ore ultimately mined may differ from that indicated by drilling results and other work. There can be no assurance that gold recovered in small-scale laboratory tests will be duplicated in large-scale tests under on-site conditions. Material changes in mineralized tonnages, grades, dilution and stripping ratios or recovery rates may affect the economic viability of projects. The existence of mineralized deposits should not be interpreted as assurances of the future delineation of ore reserves or the profitability of future operations.

Mineral Prices

There is no assurance given by the Company that mineral prices will not change.

The mining industry is competitive and mineral prices fluctuate so that there is no assurance, even if commercial quantities of a mineral resource are discovered, that a profitable market will exist for the sale of same. Factors beyond the control of the Company may affect the marketability of any substances discovered. The prices of precious and base metals fluctuate on a daily basis, have experienced volatile and significant price movements over short periods of time, and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations (specifically, the U.S. dollar relative to other currencies), interest rates, central bank transactions, world supply for precious and base metals, international investments, monetary systems, and global or regional consumption patterns (such as the development of gold coin programs), speculative activities and increased production due to improved mining and production methods. The supply of and demand for gold are affected by various factors, including political events, economic conditions and production costs in major gold producing regions, and governmental policies with respect to gold holdings by a nation or its citizens. The exact effect of these factors cannot be accurately predicted, and the combination of these factors may result in the Company not receiving adequate returns on invested capital or the investments retaining their respective values. There is no assurance that the prices of gold and other precious and base metals will be such that the Company's properties can be mined at a profit.

Conflicts of Interest

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There is no assurance given by the Company that its directors and officers will not have conflicts of interest from time to time.

The Company's directors and officers may serve as directors or officers of other public mineral exploration or mining companies or have significant shareholdings in other public mineral exploration or mining companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The interests of these companies may differ from time to time. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against any resolution involving any such conflict. From time to time several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. In accordance with the laws of the Province of British Columbia, Canada, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in any particular exploration or mining project at any given time, the directors will primarily consider the upside potential for the project to be accretive to shareholders, the degree of risk to which the Company may be exposed and its financial position at that time.

Uninsured Risks

There is no assurance given by the Company that it is adequately insured against all risks.

The Company may become subject to liability for cave-ins, pollution or other hazards against which it cannot insure or against which it has elected not to insure because of high premium costs or other reasons. The payment of such liabilities would reduce the funds available for exploration and mining activities.

Environmental and Other Regulatory Requirements

There is no assurance given by the Company that it has met all environmental or regulatory requirements.

The current or future operations of the Company, including exploration or, if any, development activities or, if any, commencement of production on its mineral property interests, require permits from various foreign, federal, state and local governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, exploration, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that approvals and permits required in order for the Company to commence exploration or, if any, production on its various property interests will be obtained. Additional permits and studies, which may include environmental impact studies conducted before permits can be obtained, are necessary prior to operation of the other properties in which the Company has interests and there can be no assurance that the Company will be able to obtain or maintain all necessary permits that may be required to commence exploration, or construction, development or operation of mining facilities at these properties on terms which enable operations to be conducted at economically justifiable costs.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. New laws or regulations or

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amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation of current laws, regulations or permits, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Reclamation

There is a risk that monies allotted for land reclamation may not be sufficient to cover all risks, due to changes in the nature of the waste rock or tailings and/or revisions to government regulations. Therefore additional funds, or reclamation bonds or other forms of financial assurance may be required over the tenure of the project to cover potential risks. These additional costs may have material adverse impact on the financial condition and results of the Company.

Foreign Countries and Regulatory Requirements

Certain of the Company's mineral property interests are located in countries outside of Canada, and mineral exploration and mining activities may be affected in varying degrees by political stability and government regulations relating to the mining industry. Any changes in regulations or shifts in political attitudes may vary from country to country and are beyond the control of the Company and may adversely affect its business. Such changes have, in the past, included nationalization of foreign owned businesses and properties. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income and other taxes and duties, expropriation of property, environmental legislation and mine safety. These uncertainties may make it more difficult for the Company and its joint venture partners to obtain any required production financing for its mineral properties.

Currency Fluctuation and Foreign Exchange Controls

The Company maintains a portion of its funds in U.S. dollar denominated accounts. Certain of the Company's property and related contracts are denominated in U.S. dollars. The Company's operations in countries other than Canada are normally carried out in the currency of that country and make the Company subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. In addition future contracts may not be denominated in U.S. dollars and may expose the Company to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. In addition, the Company is or may become subject to foreign exchange restrictions which may severely limit or restrict its ability to repatriate capital or profits from its properties outside of Canada to Canada. Such restrictions have existed in the past in countries in which the Company holds property interests and future impositions of such restrictions could have a materially adverse effect on the Company's future profitability or ability to pay dividends.

Third Party Reliance

The Company's rights to acquire interests in certain mineral properties have been granted by third parties who themselves hold only an option to acquire such properties. As a result, the Company may have no direct contractual relationship with the underlying property holder.

Possible Dilution to Current Shareholders based on Outstanding Options and Warrants

At March 31, 2011, the Company had 55,423,412 common shares and 2,577,900 share purchase options and 13,933,263 share purchase warrants outstanding. The resale of outstanding shares from the exercise of dilutive securities could have a depressing effect on the market for the Company's shares. At March 31, 2011, dilutive securities represented approximately 30% of the Company's issued shares. Certain of these dilutive securities were exercisable at prices below the March 31, 2011 closing market price of \$0.60 for the Company's shares, which would accordingly result in dilution to existing shareholders if exercised.