(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011, December 31, 2010 and January 1, 2010

(Expressed in Canadian Dollars - Unaudited)

April 11, 2012

Independent Auditor's Report

To the Shareholders of
Calibre Mining Corp.

We have audited the accompanying consolidated financial statements of Calibre Mining Corp., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of changes in shareholders' equity, loss and comprehensive loss and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Calibre Mining Corp. as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 1 in the financial statements which discloses matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Calibre Mining Corp.'s ability to continue as a going concern.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Calibre Mining Corp.

(An Exploration Stage Company)

Consolidated Balance Sheets

(Expressed in Canadian Dollars)

	Note	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS			(Note 4)	(Note 4)
Current				
Cash and cash equivalents		$ 1,944,574	$ 661,698	$ 1,737,271
Receivables		209,175	123,928	360,423
Marketable securities	7	24,000	-	246,015
Prepaid deposits and advances		103,227	67,437	105,959
		2,280,976	853,063	2,449,668
Non-current				
Property and equipment	8	234,093	294,737	305,794
Exploration and evaluation assets	9	9,739,305	8,448,732	8,114,519
		$ 12,254,374	$ 9,596,532	$ 10,869,981
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Trade and other payables		$ 444,234	$ 211,936	$ 306,712
Shareholders' equity				
Share capital	10	29,671,974	24,716,220	24,644,537
Contributed surplus		8,946,195	8,609,711	8,000,033
Accumulated other comprehensive income		-	-	38,740
Accumulated deficit		(26,808,029)	(23,941,335)	(22,120,041)
		11,810,140	9,384,596	10,563,269
		$ 12,254,374	$ 9,596,532	$ 10,869,981

Going Concern – Note 1

Commitments – Note 12

Subsequent Events – Note 15

On behalf of the Board:

"Douglas B. Forster" ____________________ Director

"Edward Farrauto" ____________________ Director

The accompanying notes are an integral part of these consolidated financial statements.

Calibre Mining Corp.

(An Exploration Stage Company)

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

	Common Shares										
	Number		Amount		Contributed Surplus		Accumulated other comprehensive income		Accumulated deficit		Total
Balance – January 1, 2010	122,005,082	$	24,644,537	$	8,000,033	$	38,740	$	(22,120,041)	$	10,563,269
Issuance of common shares:											
- on exercise of warrants	448,336		52,968		(5,801)		-		-		47,167
- on exercise of options	62,500		18,715		(9,340)		-		-		9,375
Stock based compensation	-		-		624,819		-		-		624,819
Net loss for the year	-		-		-		-		(1,821,294)		(1,821,294)
Other comprehensive loss	-		-		-		(38,740)		-		(38,740)
Balance – December 31, 2010	122,515,918		24,716,220		8,609,711		-		(23,941,335)		9,384,596
Issuance of common shares:											
- on private placement	35,000,000		3,386,254		-		-		-		3,386,254
- on exercise of warrants	9,325,000		1,535,210		(136,460)		-		-		1,398,750
- on exercise of options	125,000		34,290		(15,540)		-		-		18,750
Stock based compensation	-		-		488,484		-		-		488,484
Net loss for the year	-		-		-		-		(2,866,694)		(2,866,694)
Balance – December 31, 2011	166,965,918	$	29,671,974	$	8,946,195	$	-	$	(26,808,029)	$	11,810,140

The accompanying notes are an integral part of these consolidated financial statements.

Calibre Mining Corp.
(An Exploration Stage Company)
Consolidated Statements of Loss and Comprehensive Loss
Years Ended December 31
(Expressed in Canadian Dollars)

	Note	2011	2010 (Note 4)
Expenses			
Amortization		$ 24,332	$ 40,563
Audit and accounting fees		50,247	86,667
Bank charges and interest		2,759	3,002
Consulting fees		226,516	263,972
Insurance		36,036	38,765
Legal fees		28,945	34,638
Marketing		31,017	6,853
Office, postage and printing		43,000	56,315
Rent		80,256	119,199
Salaries and wages		533,655	447,613
Share based compensation	10d	347,832	536,762
Shareholder relations		16,230	8,485
Telephone and utilities		2,833	3,837
Trade shows and conferences		64,613	70,516
Transfer agent and regulatory fees		14,551	25,068
Travel		17,128	31,014
		(1,519,950)	(1,773,269)
Other Income (Expenses)			
Foreign exchange gain (loss)		(71,606)	18,964
Write off of exploration and evaluation assets	9c	(1,271,933)	-
Loss on disposal of property and equipment		(10,990)	(5,193)
Loss on disposal of marketable securities		-	(67,309)
Interest income		7,785	5,513
		(1,346,744)	(48,025)
Net Loss and Comprehensive Loss for the Year		$ (2,866,694)	$ (1,821,294)
Net Loss per Share - Basic and Diluted		$ (0.02)	$ (0.01)
Weighted Average Shares Outstanding		142,943,726	122,443,960

The accompanying notes are an integral part of these consolidated financial statements.

Calibre Mining Corp.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
Years Ended December 31
(Expressed in Canadian Dollars)

	Note	2011	2010
			(Note 4)
Operating Activities			
Net loss for the year		$ (2,866,694)	$ (1,821,294)
Items not affecting cash:			
Amortization		24,332	40,563
Loss on disposal of marketable securities		-	67,309
Loss on disposal of equipment		10,990	5,193
Stock-based compensation		347,832	536,762
Unrealized foreign exchange gain (loss)		71,644	-
Write off of exploration and evaluation assets		1,271,933	-
Net changes in non-cash working capital:			
Receivables		(9,809)	(5,269)
Accounts payable and accrued liabilities		7,278	(128,177)
Prepaid expenses		(35,790)	38,522
Decrease in Cash and Cash Equivalents from Operating		(1,178,284)	(1,266,391)
Investing Activities			
Proceeds on disposal of marketable securities		-	139,966
Purchases of property and equipment		(24,390)	(61,359)
Proceeds on disposal of furniture and equipment		30,957	12,491
Exploration and evaluation expenditures, net of recoveries		(2,349,161)	43,178
Increase (Decrease) in Cash and Cash Equivalents from Investing		(2,342,594)	134,276
Financing Activities			
Proceeds from share issuances		4,803,754	56,542
Increase in Cash and Cash Equivalents from Financing		4,803,754	56,542
Net Increase (Decrease) in Cash and Cash Equivalents		1,282,876	(1,075,573)
Cash and cash equivalents - Beginning of Year		661,698	1,737,271
Cash and cash equivalents - End of Year		$ 1,944,574	$ 661,698
Supplemental Disclosure of Non-Cash Financing and Investing Activities			
Reimbursement of exploration and evaluation costs included in exploration and evaluation assets		$ 180,674	$ 105,236
Amortization included in exploration and evaluation assets		$ 18,756	$ 14,169
Stock based compensation included in exploration and evaluation assets		$ 140,652	$ 88,057
Exploration and evaluation costs included in accounts payable		$ 358,382	$ 133,363

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of Operations and Going Concern

Calibre Mining Corp. (the "Company") *(an Exploration Stage Company)* is incorporated under the laws of British Columbia, Canada and maintains its corporate head office at Suite 1620, 1066 West Hastings St., Vancouver, British Columbia, Canada. The Company's common shares are listed on the TSX Venture Exchange (TSX.V: CXB) in Canada.

The Company engages principally in the acquisition, advancement and development of precious and base metal assets and mineral properties in Nicaragua. The recovery of the Company's investment in resource properties and the attainment of profitable operations are dependent upon the discovery and development of economic precious and base metal reserves and the ability to arrange sufficient financing to bring these reserves into production. The ultimate outcome of these matters cannot presently be determined.

These financial statements have been prepared by the Company on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Several adverse conditions cast significant doubt on the validity of this assumption.

The Company has a history of losses and no operating revenue and had an accumulated deficit of $26,808,029 as at December 31, 2011 (as at December 31, 2010 - $23,941,335; as at January 1, 2010 - $22,120,041). The ability of the Company to carry out its planned business objectives is dependent on the ability to raise adequate financing from lenders, shareholders, and other investors, by generating operating profitability and positive cash flow, and/or by optioning its mineral properties for cash and/or expenditure commitments. There can be no assurances that the Company will be successful in these initiatives. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations, exploration and development activities.

If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the balance sheet classification used. Such adjustments may be material.

2. Basis of Preparation and Statement of Compliance

The Company prepared its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and required publicly accountable enterprises to apply such standards for financial years beginning on or after January 1, 2011. The accounting policies applied in these financial statements are based on IFRS as issued by the International Standards Board ("IASB") and the IFRS Interpretations Committee. The Board of Directors authorized the issuance of these financial statements on April 11, 2012.

These financial statements have been prepared in accordance with IFRS 1, "*First-time Adoption of IFRS*" ("IFRS 1"). Subject to certain transition elections described in Note 4, the Company has consistently applied the same accounting policies used to prepare its opening IFRS statement of financial position as at January 1, 2010 (the "Transition Date") throughout all periods presented, as if these policies have always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the year ended December 31, 2010.

The consolidated financial statements have been prepared in accordance with IFRS, as issued by the IASB, under the historical cost convention except for available for sale financial assets (marketable securities).

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these financial statements are as follows:

a) *Principles of Consolidation*

These financial statements include the accounts of the Company and its wholly-owned subsidiaries, Cybele Resources Inc. (“Cybele”), which was incorporated under the laws of British Columbia in 2005 and owns 100% of Calibre Mining (Australia) Pty. Ltd. (an inactive Australian company incorporated in 2005). The financial statements also include the accounts of the Company’s wholly owned 100% interest in Yamana Nicaragua Ltd. Yamana Nicaragua Ltd. is a holding company incorporated in 2006, in Belize, which owns 100% of CXB Nicaragua S.A. (formerly known as Yamana Nicaragua S.A. – incorporated in Nicaragua in 2006).

All material intercompany transactions and balances have been eliminated on consolidation.

b) *Cash and Cash Equivalents*

Cash and cash equivalents include cash on account, demand deposits and money market investments with maturities from the date of acquisition of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant changes in value.

c) *Marketable Securities*

Investments in entities that are not subsidiaries, joint ventures or associates are designated as available-for-sale investments. These investments are measured at fair value on acquisition and at each reporting date. Any unrealized holding gains and losses related to these investments are excluded from net earnings and are included in Accumulated Other Comprehensive Income (“AOCI”) until an investment is sold and gains or losses are realized, or there is objective evidence that the investment is impaired. When there is evidence that an investment is impaired, the cumulative loss that was previously recognized in AOCI is reclassified from AOCI to the consolidated statement of loss.

d) *Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of loss or capitalized to exploration and evaluation assets, as appropriate, during the period in which it is incurred.

The major categories of property and equipment are depreciated using the following rates and methods:

Category	Rate and method
Buildings and structures	5% declining balance basis
Furniture and office equipment	20% declining balance basis
Computer equipment and software	30% declining balance basis
Leasehold improvements	straight-line basis over the term of the lease
Vehicles	20% declining balance basis

Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other income (expenses) in the statement of loss.

3. Significant Accounting Policies – *continued*

e) Loss Per Share

Loss per share is based on the weighted average number of common shares of the Company outstanding during the period. The dilutive loss per share reflects the potential dilution of common share equivalents, such as outstanding options and warrants, in the weighted average number of common shares outstanding during the period.

f) Exploration and Evaluation Assets

Once a license to explore an area has been secured or an option agreement is signed and binding, expenditures on exploration and evaluation activities are capitalized to exploration and evaluation costs. Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Management reviews the carrying value of capitalized exploration costs at least annually. In the case of undeveloped projects, there may be no defined resources or reserves to form a basis for the impairment review. The review is based on a status report regarding the Company's intentions for development of the undeveloped property.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are reclassified to construction-in-progress within property and equipment.

g) Impairment of Long-Term Assets

Property and equipment and exploration and evaluation assets are reviewed quarterly for indicators that the carrying value of an asset or cash-generating unit ("CGU") may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or cash-generating unit is estimated. If the carrying value of the asset or CGU exceeds the recoverable amount, the asset or CGU is written down with an impairment recognized in net earnings.

Exploration and evaluation costs are aggregated into CGUs based on their ability to generate largely independent cash flows.

The recoverable amount of an asset or CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction.

Fair value less costs to sell may be determined using discounted future net cash flows and forecast prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

Reversals of impairments are recognized when there has been a subsequent increase in the recoverable amount. In this event, the carrying amount of the asset or CGU is increased to its revised recoverable amount with an impairment reversal recognized in net loss. The recoverable amount is limited to the original carrying amount less depreciation, depletion and amortization as if no impairment had been recognized for the asset or CGU for prior periods.

3. Significant Accounting Policies – *continued*

h) Share Capital

The Company records proceeds from share issuances net of issue costs. The Company records proceeds from the exercise of stock options and warrants as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Share capital issued for non-monetary consideration is recorded at an amount based on fair market value. The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis on a relative fair value basis, whereby, the fair value of the common shares is based on the market close on the date the units are issued; and the fair value of the common share purchase warrants is determined using the Black-Scholes pricing model.

i) Share-based Payments

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 that the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus amount is transferred to share capital.

j) Current and Deferred Income Tax

Current tax expense is calculated using income tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary differences arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transition affects neither accounting nor taxable profit or loss.

Any carrying amount of any deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on income tax rates and income tax laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3. Significant Accounting Policies – *continued*

k) Foreign Currency Translation

Functional and presentation currency: Items included in the financial statements of the Company and its subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in Canadian dollars which is the Company's functional currency.

Transactions and balances: Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recorded in the statement of loss.

l) Critical Accounting Judgments and Estimates

The preparation of these financial statements in accordance with IFRS requires the Company to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. The Company evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Company believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amount of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Significant areas of estimation uncertainty considered by management in preparing the financial statements are as follows:

Impairment of exploration and expenditure assets

The Company is required to review the carrying value of its exploration and evaluation properties for potential impairment. Impairment is indicated if the carrying value of the Company's exploration and evaluation is not recoverable. If impairment is indicated, the amount by which the carrying value of exploration and evaluation assets exceeds their estimated fair value is changed to the statement of loss.

Evaluating for recoverability during the exploration and evaluation phase requires judgment in determining whether it is likely that future economic benefits from future exploitation, sale or otherwise are likely. Evaluations may be more complex where activities have not reached a stage which permits a reasonable assessment of the existence of reserves or resources. Management must make certain estimates and assumptions about future events or circumstances including, but not limited to, the interpretation of geological, geophysical and seismic data, the Company's financial ability to continue exploration and evaluation activities, contractual issues with joint venture partners, the impact of government legislation and political stability in the region, and the impact of current and expected future metal prices to potential reserves.

Resource estimates

The Company estimates its ore mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101 *"Standards for Disclosure of Mineral Projects"*. Resource estimates may be used in the calculation of depreciation and amortization, impairment assessment, assessment of life of mine stripping ratios and for forecasting the timing of payment of mine closure, reclamation and rehabilitation costs.

There are numerous uncertainties inherent in estimating ore resources, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of resources and may, ultimately, result in the resources being restated.

3. Significant Accounting Policies – *continued*

l) Critical Accounting Judgments and Estimates – continued

Stock options and warrant valuations

Stock option and warrant valuation models require the input of highly subjective assumptions including expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options granted or vested during the period or the fair value of the Company's warrants at their date of issue.

m) Financial Instruments

Financial assets and liabilities are initially recognized at fair value and subsequently measured based on their classification as follows:

- Loans and receivables
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized initially at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective method less a provision for impairment. The Company classifies cash and cash equivalents and receivables as loans and equipment.

- Available for sale ("AFS")
  AFS financial assets are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. When an AFS investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of loss. The Company classifies marketable securities as AFS.

- Financial Liabilities – other financial liabilities
  This category includes trade and other payables which are initially measured at fair value and subsequently recognized at amortized cost.

The Company does not have any derivatives or embedded derivatives or use any hedges to manage various risks.

Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3. Significant Accounting Policies – *continued*

n) New standards and interpretations not yet adopted

i) IFRS 9, "*Financial Instruments*"

In November 2009, the IASB issued IFRS 9 which addresses the classification and measurement of financial assets. IFRS 9 is the first standard issued as part of a wider project to replace IAS 39, "*Financial Instruments: Recognition and Measurement*".

IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income.

Application of IFRS 9 is mandatory for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact that the application of this new standard may have on the presentation of its financial position and results of operations.

ii) Other IFRS pronouncements – not yet in effect

Certain new standards, interpretations, amendments and improvements to existing standards are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these financial statements:

- IFRS 10, *Consolidated Financial Statements*, builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company;
- IFRS 11, *Joint Arrangements*, establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled;
- IFRS 12, *Disclosure of Interest in Other Entities*, provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off-balance sheet entities;
- IFRS 13, *Fair Value Measurement*, defines fair value and requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards;
- IAS 28, *Investments in Associate and Joint Ventures*, revised the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associated joint ventures.
- IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine,* sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine.

Each standard is effective for annual periods beginning on or after January 1, 2013. The Company has not yet begun the process of assessing the impact of these new standards.

4. Adoption of International Financial Reporting Standards

a) First-time adoption of IFRS

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Company has elected to apply the following optional exemptions in its preparation of an opening IFRS consolidated statement of financial position as at January 1, 2010, the Company's "Transition Date":

- To apply IFRS 2, *"Share-based Payments"*, only to equity instruments that were issued after November 7, 2002 and that had not vested by the Transition Date;
- To apply IFRS 3, *"Business Combinations"*, prospectively from the Transition Date; and

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly estimates used in the preparation of the Company's opening IFRS consolidated financial position as at the Transaction Date are consistent with those of that were made under Canadian GAAP.

b) Share based payments

IFRS 2, "*Share-based payments*", requires the use of the attribution method for the grant of options which have vesting provisions. Stock options with vesting features must be accounted for using the graded vesting method which would give rise to an accelerated compensation expense. The Company has been using the straight-line method for the vesting of stock options which is acceptable under Canadian GAAP. IFRS 2 does not include the straight-line method as an alternative attribution method for stock options.

c) Deferred income tax ("DIT")

Under IFRS guidelines, the recognition of a deferred income tax asset or liability that arises from the initial recognition of assets and liabilities that do not impact profit or loss other than in a business combination is prohibited. The Company's DIT liability under Canadian GAAP is due to the difference between the carrying value and the tax value of the properties that the Company acquired as a result of an acquisition of assets, not a business combination.

As a result, the Company's DIT liability balance (and related foreign exchange component) is eliminated under IFRS. The decrease in DIT liability resulted in a decrease to the carrying value of exploration and evaluation assets by $1,718,855 and increased accumulated deficit by $116,241, as a result of changes to foreign exchange gain (loss).

d) Reconciliation to previously reported financial statements

A reconciliation of the above noted changes is included in these notes to the financial statements for the following schedules and statements:

- Consolidated Balance Sheet reconciliations as at January 1, 2010 and December 31, 2010; and
- Consolidated Statements of Loss and Comprehensive Loss for the year ended December 31, 2010

A reconciliation of the consolidated statements of cash flows has not been provided as there are no significant changes to total operating, financing, and investing cash flows upon transition to IFRS.

4. Adoption of International Financial Reporting Standards – *continued*

Balance Sheet as at		December 31, 2010			January 1, 2010		
	Note	Canadian GAAP	Adjustments	IFRS	Canadian GAAP	Adjustments	IFRS
Assets							
Current							
Cash and cash equivalents		$ 661,698	$ -	$ 661,698	$ 1,737,271	$ -	$ 1,737,271
Receivables		123,928	-	123,928	360,423	-	360,423
Marketable securities		-	-	-	246,015	-	246,015
Prepaid deposits and advances		67,437	-	67,437	105,959	-	105,959
		853,063	-	853,063	2,449,668	-	2,449,668
Non-current							
Property and equipment		294,737	-	294,737	305,794	-	305,794
Exploration and evaluation assets	**4 b & c**	10,472,972	(2,024,240)	8,448,732	9,823,584	(1,709,065)	8,114,519
		$ 11,620,772	$ (2,024,240)	$ 9,596,532	$ 12,579,046	$ (1,709,065)	$ 10,869,981
Liabilities and Shareholders' Equity							
Current liabilities							
Trade and other payables		$ 211,936	$ -	$ 211,936	$ 306,712	$ -	$ 306,712
Non-current							
Future income taxes	**4 c**	1,770,639	(1,770,639)	-	1,602,614	(1,602,614)	-
Shareholders' equity							
Share capital		24,716,220	-	24,716,220	24,644,537	-	24,644,537
Contributed surplus	**4 b**	8,499,153	110,558	8,609,711	7,886,906	113,127	8,000,033
AOCI		-	-	-	38,740	-	38,740
Accumulated deficit		(23,577,176)	(364,159)	(23,941,335)	(21,900,463)	(219,578)	(22,120,041)
		9,638,197	(253,601)	9,384,596	10,669,720	(106,451)	10,563,269
		$ 11,620,772	$ (2,024,240)	$ 9,596,532	$ 12,579,046	$ (1,709,065)	$ 10,869,981

4. Adoption of International Financial Reporting Standards – *continued*

Statement of Comprehensive Income		Year ended December 31, 2010		
	Note	Canadian GAAP	Adjustments	IFRS
Expenses				
Amortization		$ 40,563	$ -	$ 40,563
Audit and accounting fees		86,667	-	86,667
Bank charges and interest		3,002	-	3,002
Consulting fees		263,972	-	263,972
Insurance		38,765	-	38,765
Legal fees		34,638	-	34,638
Marketing		6,853	-	6,853
Office, postage and printing		56,315	-	56,315
Rent		119,199	-	119,199
Salaries and wages		447,613	-	447,613
Share based compensation	4 b	546,964	(10,202)	536,762
Shareholder relations		8,485	-	8,485
Telephone and utilities		3,837	-	3,837
Trade shows and conferences		70,516	-	70,516
Transfer agent and regulatory fees		25,068	-	25,068
Travel		31,014	-	31,014
		(1,783,471)	10,202	(1,773,269)
Other Income (Expenses)				
Foreign exchange (gain) loss	4 c	173,747	(154,783)	18,964
Loss on disposal of marketable securities		(67,309)	-	(67,309)
Loss on disposal of property and equipment		(5,193)	-	(5,193)
Interest and other income		5,513	-	5,513
		106,758	(154,783)	(48,025)
Net Loss for the Period		$ (1,676,713)	$ (144,581)	$ (1,821,294)
Unrealized loss on marketable securities		$ -	$ -	$ -
Net Comprehensive Loss for the Period		$ (1,676,713)	$ (144,581)	$ (1,821,294)
Net Loss per Share - Basic and Diluted		$ (0.01)		$ (0.01)
Weighted Average Shares Outstanding		122,443,960		122,443,960

5. Capital Management

The Company's objectives when managing capital are:

- To maintain and safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds, to support continued evaluation and maintenance at the Company's existing properties, and to acquire, explore, and develop other precious and base metal deposits in North and Central America.
- To invest cash on hand in highly liquid and highly rated financial instruments with high credit quality issuers, thereby minimizing the risk of loss of principal.
- To obtain the necessary financing to complete exploration and development of its properties, if and when it is required.

In the management of capital, the Company includes shareholders' equity and cash in the definition of capital. The Company is not exposed to any externally imposed capital requirements.

The Company manages the capital structure and makes adjustments to it, based on the level of funds required to manage its operations in light of changes in economic conditions and the risk characteristics of its underlying assets, especially with respect to exploration results on properties in which the Company has an interest.

In order to facilitate the management of capital and development of its mineral properties, the Company prepares annual expenditure budgets, which are updated as necessary and are reviewed and approved by the Company's Board of Directors. In addition, the Company may issue new equity, incur additional debt, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of certain assets. The Company's investment policy is to hold cash in interest bearing accounts at a major Canadian banking institution to maximize liquidity. In order to maximize ongoing development efforts, the Company does not pay dividends. Notwithstanding the risks described in Note 1, the Company seeks to continue to raise funds, from time to time, to continue meeting its capital management objectives (Note 10).

6. Financial Instruments

Fair Value and Hierarchy

The fair value of financial instruments that are measured subsequent to initial recognition at their fair value, is measured within a "fair value hierarchy" which has the following levels:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Fair values of assets and liabilities approximate amounts at which these items could be exchanged in transactions between knowledgeable parties. Fair value is based on available public market information or, when such information is not available, estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate credit risk. The calculation of estimated fair value is based on market conditions at the specific point in time and in the respective geographic locations and may not be reflective of future fair values.

Cash and cash equivalents are recorded at cost and are measured using Level 2. Marketable securities are recorded at fair value and are measured using Level 1. Receivables, deposits and advances and accounts payable and accrued liabilities approximate their fair values due to their short term to maturity.

6. Financial Instruments – *continued*

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full (Note 1). The Company manages liquidity risk through the management of its capital structure, as outlined in Note 5 of these financial statements. Trade and other payables are due within the current operating period.

Credit risk

Credit risk arises from the possibility that customers may experience financial difficulty and be unable to fulfill their commitments to the Company. The Company's credit risk is primarily attributable to its cash and cash equivalents and receivables. The carrying value of these instruments represents the Company's maximum exposure to credit risk. The Company limits exposure to credit risk by maintaining the significant majority of its cash with a large chartered Canadian banking institution. The significant majority of receivables are from B2Gold Corp. and relate to project expenditures in Nicaragua incurred during 2011 and 2010 (described in Note 9a). The remaining credit risk in receivables is considered low by management as they consist primarily of amounts owing from government authorities in relation to the refund of goods and services taxes in Canada applying to inputs for qualified expenditures.

The Company does not have financial assets that are invested in asset backed commercial paper.

Commodity price risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company's commodity inputs and outputs. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian dollar and other foreign currencies, especially the United States dollar. The Company monitors commodity prices to determine the appropriate course of action to be taken. However, as the Company has not developed commercial mineral interests, it is not exposed to significant commodity price risk at this time.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company's interest rate risk arises primarily from the interest received on its cash balances. The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. Based on cash balances held at December 31, 2011, the effect of a one basis point increase or decrease in interest rates on net loss is not considered significant. The Company's other financial assets and liabilities are not subject to interest rate risk, as they do not bear interest.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in the foreign exchange rates. The Company's functional and reporting currency is the Canadian dollar. The Company incurs foreign currency risk on purchases that are denominated in a currency other than the functional currency of the Company, which will have an impact on the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company's main risks are associated with fluctuations in the Nicaraguan Cordoba ("COR") and the US dollar ("USD"). The Company does not enter into any foreign exchange contracts to mitigate these risks. Based on management's analysis, the effect on these instruments held at December 31, 2011 of a five percent increase or decrease in foreign exchange rates on net loss is not considered significant.

7. Marketable Securities

During the year ended December 31, 2011, in accordance with an option agreement with Alder Resources Ltd. ("Alder") (described in Note 9a), the Company received a total of 200,000 common shares of Alder. The fair value of the shares at the time of receipt and as at December 31, 2011 was $24,000.

In 2009, the Company sold its interest in the Trundle Property in Australia to Clancy Exploration Limited ("Clancy"), a publicly traded company in Australia (ASX: CLY). As consideration, the Company received 1,750,000 common shares of Clancy. The fair value of the shares received at that time was $207,275. In December 2010, the Company sold its entire position in Clancy for total proceeds of $139,966 resulting in a total loss of $67,309 for the year ended December 31, 2010.

8. Property and Equipment

	Computer Equipment and Software	Furniture and Equipment	Vehicles	Buildings and Structures	Leasehold Improvements	Total
Cost, Jan. 1, 2010	$ 150,052	$ 141,955	$ 87,406	$ 99,717	$ 14,385	$ 493,515
Additions	1,031	9,827	19,800	30,701	-	61,359
Disposals	(5,935)	-	(18,530)	-	-	(24,465)
Cost, Dec. 31, 2010	145,148	151,782	88,676	130,418	14,385	530,409
Additions	1,661	6,408	-	10,311	6,010	24,390
Disposals	-	(54,155)	(48,947)	-	(14,385)	(117,487)
Cost, Dec. 31, 2011	146,809	104,035	39,729	140,729	6,010	437,312
Acc. depreciation, Jan. 1, 2010	83,475	62,201	22,356	10,098	9,591	187,721
Charge for the year	20,372	17,112	8,803	5,248	3,197	54,732
Disposals	(4,824)	-	(1,957)	-	-	(6,781)
Acc. depreciation, Dec. 31, 2010	99,023	79,313	29,202	15,346	12,788	235,672
Charge for the year	14,854	11,099	8,876	6,089	2,169	43,087
Disposals	-	(32,508)	(28,647)	-	(14,385)	(75,540)
Acc. depreciation, Dec. 31, 2011	$ 113,877	$ 57,904	$ 9,431	$ 21,435	$ 572	$ 203,219
Net book value, Jan. 1, 2010	$ 66,577	$ 79,754	$ 65,050	$ 89,619	$ 4,794	$ 305,794
Net book value, Dec. 31, 2010	$ 46,125	$ 72,469	$ 59,474	$ 115,072	$ 1,597	$ 294,737
Net book value, Dec. 31, 2011	$ 32,932	$ 46,131	$ 30,298	$ 119,294	$ 5,438	$ 234,093

During the year ended December 31, 2011, the Company sold or disposed of various furniture, equipment, and vehicles with a net book value of $41,947 for total gross proceeds of $30,957 resulting in a loss of $10,990 during 2011. In addition, the Company wrote off leasehold improvements and the related accumulated amortization associated with the Company's previous office rental lease totalling $14,385.

During the year ended December 31, 2010, the Company sold or disposed of various furniture and equipment with a net book value of $17,684 for total gross proceeds of $12,491 resulting in a loss of $5,193 during 2010.

9. Exploration and Evaluation Assets

	Year Ended December 31, 2011	Year Ended December 31, 2010
Borosi, Nicaragua *(Note 9a)*		
Cost, beginning of year	$ 7,197,831	$ 6,884,651
Administration and maintenance	267,649	95,869
Amortization	18,755	14,169
Assaying	333,531	286,590
Camp and field supplies	100,237	69,380
Drilling and related	1,077,923	710,002
Geological consulting	153,580	301,214
Logistics and communications	201,858	175,484
Professional fees	12,454	18,328
Property maintenance	551,451	471,448
Salary and wages	985,728	780,734
Stock-based compensation	140,652	88,057
Travel	74,977	84,655
Recovery of costs	(1,377,321)	(2,782,750)
Total expenses during the year	2,541,474	313,180
Cost, end of year	9,739,305	7,197,831
Point Leamington, Canada *(Note 9b)*		
Cost, beginning of year	1,250,901	1,229,868
Administration and maintenance	21,032	21,033
Write off of exploration and evaluation assets	(1,271,933)	-
Cost, end of year	$ -	$ 1,250,901
Total Exploration and Evaluation Assets	$ 9,739,305	$ 8,448,732

a) *Borosi, Nicaragua, Central America*

On July 21, 2009, the Company completed the acquisition of a 100% equity interest in Yamana (Nicaragua) Ltd. ("Yamana Nicaragua"). Yamana Nicaragua's wholly owned subsidiary owns an undivided 100% interest in the Borosi Gold – Copper Project (the "Borosi Project"), consisting of a number of contiguous mining and exploration concessions located in the North Atlantic Autonomous Region of Nicaragua, Central America.

In consideration, the Company issued 12 million common shares and paid $4.42 million in cash. In addition, if within five years from closing, and upon the Company incurring cumulative exploration expenditures aggregating at least $5 million, and upon completion and acceptance of a National Instrument ("NI") 43-101 Measured and Indicated resource within the existing Borosi Project boundary, the Company will pay a bonus of $5.00 per gold equivalent ounce, to a maximum total payment of $3.5 million (700,000 gold equivalent ounces) ('Bonus Payment"). This Bonus Payment will be payable in cash or common shares, at the sole option of the Company. The Company also issued 5 million warrants exercisable at $0.50 per share, and 5 million warrants exercisable at $1.00 per share (collectively the "Bonus Warrants"). The Bonus Warrants expire on July 21, 2014 and are only exercisable if the Company delineates at least 2.5 million NI 43-101 compliant ounces of gold equivalent in Measured and Indicated resource categories.

9. Exploration and Evaluation Assets – *continued*

a) Borosi, Nicaragua, Central America – continued

The existence of an NI 43-101 compliant Measured and Indicated resource is not determinable at this time, and management is not able to determine with any accuracy if such a resource will be identified in the exploration of the project, as a result no liability has been accrued for the Bonus Payment and no value has been assigned to the Bonus Warrants at the purchase date.

On July 21, 2009, the Company and B2Gold Corp. ("B2Gold") (TSX:BTO), executed an option agreement whereby B2Gold is entitled to acquire a 51% interest in the Borosi Project by expending $8 million on exploration and other work by July 1, 2012; of which C$2.5 million must be expended by July 1, 2010 (completed). B2Gold has the option to acquire an additional 14% interest in a Designated Project Area ("Project Area") as defined and agreed upon by both parties, within the Borosi Project Boundary, for a total 65% Project Area interest by completing a preliminary feasibility study on that Designated Project. The Company will be the operator of the work program in the first year of the agreement, with B2Gold having an option to assume operatorship afterwards. Upon B2Gold earning an interest in the project, the Company and B2Gold will be responsible for the pro rata share of expenditures and the Bonus Payment, if any, going forward.

In October 2010, the Company entered into an amendment to the above agreement with B2Gold, whereby the area of interest covering the Borosi option agreement was reduced. As a result, the Company retained a 100% interest in the past producing La Luz Gold Mine and Rosita Copper-Gold Mine, the high grade gold and silver Riscos de Oro project, the newly discovered extension of the La Luna gold vein system, and the on-strike extensions of the Bonanza Group of Gold Mines. Concession areas that will remain under the option agreement will be subject to B2Gold earning a 51% interest by completing $8 million in expenditures over an amended five year term. B2Gold may elect to carry an individual prospect within the amended concession area through to a Preliminary Economic Assessment for an additional 14% interest in the prospect.

As at December 31, 2011, a total of $4,483,071 has been recovered and/or receivable from B2Gold in connection with the exploration and evaluation at Borosi in connection with the joint venture agreement described above. As at December 31, 2011, $180,674 (December 31, 2010 - $105,236) of the above amount was included in accounts receivable and received subsequent to the year end.

In addition to the above, during the year ended December 31, 2011, the Company entered into an option agreement with Alder, whereby Alder can earn a 65% interest in the 3,356 hectare Rosita D concession located within the Company's 100%-owned Borosi concessions in northeast Nicaragua. Under the terms of the option agreement, Alder can earn a 65% interest in the Rosita D concession by expending a total of $4.0 million on exploration and other work on the concession and by issuing to the Company a total of 1,000,000 common shares of Alder over a 4 year period (of which 200,000 shares of Alder has been received by the Company – see Note 7). Alder will be acting as the project operator for all work conducted on the concession during the option period, with the first year exploration commitment being $500,000. Upon Alder earning a 65% interest in the Property a joint venture will be formed with the Company and Alder being responsible for their pro-rata share of all subsequent project expenditures.

b) Point Leamington, Newfoundland, Canada

The Company continues to own and keep in good standing a 100% interest in the Point Leamington mining lease in Newfoundland, Canada, originally acquired in 2004. The mining lease is subject to a 2% net smelter return royalty, which is held by a third party. The Company has no plans for further exploration or evaluation at Point Leamington and intends to focus entirely on its project in Nicaragua. As a result, the Company has written off the historical exploration and evaluation costs associated with the mining lease in Point Leamington, totalling $1,271,933 during the year ended December 31, 2011.

10. Share Capital

a) Authorized

The Company is authorized to issue an unlimited number of common shares.

b) Private Placements

During the year ended December 31, 2011, the Company completed a non-brokered private placement financing totalling $3,500,000 by issuing a total of 35,000,000 common shares at a price of $0.10 per share. In connection with this private placement, the Company paid finder's fees totalling $86,400 and $27,346 in transaction fees in connection with the private placement. Total net proceeds amounted to $3,386,254.

c) Stock options

The Company has a stock option plan (the "Plan"), whereby the Company has reserved a number of common shares for issuance pursuant to the exercise of stock options. On May 26, 2010, the shareholders of the Company approved an amendment to the Plan that increased the number of common shares reserved for issuance under the Plan from 9,620,000 to 18,000,000. The Plan is administered by the Compensation Committee of the Company's Board. Options granted under the Plan will be exercisable at a price not less than the market value of the Company's common shares on the date of grant and granted for a term not to exceed five years from the date of grant. Any options granted under the Plan shall vest based on a periodic vesting schedule as determined by the Compensation Committee. In general, options have been granted to vest 25% immediately and 25% at each six month interval after the date of grant until fully vested.

A summary of the status of the Company's stock options as at December 31, 2011 and 2010 and changes during those years is presented below:

	2011		2010	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	14,050,000	$ 0.20	9,420,000	$ 0.28
Granted	2,775,000	0.16	7,300,000	0.15
Exercised	(125,000)	0.15	(62,500)	0.15
Forfeited	(4,125,000)	0.31	(2,607,500)	0.37
Outstanding, end of year	12,575,000	$ 0.15	14,050,000	$ 0.20
Exercisable, end of year	9,687,500	$ 0.15	7,512,500	$ 0.24

During the year ended December 31, 2011, the Company granted a total of 2,775,000 stock options to consultants, employees and directors. Of the options granted:

- 500,000 are exercisable at $0.20 per share, expire on March 2, 2016 and vest 50% immediately and 50% on a successful closing of a business development transaction subject to the terms of the underlying agreement with the consultant;
- 250,000 are exercisable at $0.20 per share, expire June 13, 2012, and vested immediately at grant date;
- 1,275,000 are exercisable at $0.15 per share, expire June 30, 2016, and vest 25% immediately and 25% at each six month interval after the date of grant until fully vested;
- 500,000 are exercisable at $0.15 per share, expire July 1, 2016, and vest 25% immediately and 25% at each six month interval after the date of grant until fully vested; and
- 250,000 are exercisable at $0.15 per share, expire September 14, 2016, and vest 25% immediately and 25% at each six month interval after the date of grant until fully vested.

10. Share Capital – *continued*

c) Stock Options – continued

During the year ended December 31, 2010, the Company granted a total of 7,300,000 stock options to employees, directors, and consultants. Of the options granted in 2010, 100,000 options have an exercise price of $0.20 and expire on February 1, 2015; 200,000 options have an exercise price of $0.20 and expire on March 31, 2012; 6,750,000 options have an exercise price of $0.15 and expire on September 15, 2015; and 250,000 options have an exercise price of $0.15 and expire on October 21, 2015.

As at December 31, 2011, stock options exercisable and outstanding are as follows:

	Options Outstanding		Options Exercisable	
Exercise Price	Number	Weighted Average Remaining Contractual Life (yrs.)	Number	Weighted Average Remaining Contractual Life (yrs.)
$0.15	11,725,000	3.48	9,087,500	3.30
$0.20	850,000	2.95	600,000	2.44
	12,575,000	3.44	9,687,500	3.25

During the year ended December 31, 2011, holders of the Company's stock options exercised a total of 125,000 options at an exercise price of $0.15 and gross proceeds of $18,750. In connection with this exercise, the Company reclassified the fair value of these options previously recorded in the amount of $15,540 from contributed surplus to share capital. In addition, during 2011, 4,125,000 options were forfeited and cancelled.

During the year ended December 31, 2010, holders of the Company's stock options exercised a total of 62,500 options at an exercise price of $0.15 and gross proceeds of $9,375. In connection with this exercise, the Company reclassified the fair value of these options previously recorded in the amount of $9,340 from contributed surplus to share capital. In addition, during 2010, 2,607,500 options were forfeited/expired and cancelled.

d) Stock-based compensation

The Company amortizes the total fair value of options granted over a graded vesting schedule. Consequently, the total compensation expense recognized for options granted during the year ended December 31, 2011 or prior periods was $488,484 (2010 - $624,819). Of the total compensation recorded, $347,832 (2010 - $536,762) was charged to operations expense and $140,652 (2010 - $88,057) was capitalized to exploration and evaluation assets.

The fair value of the options granted during the year ended December 31, 2011 and 2010 has been estimated at the date of grant using the following Black-Scholes option pricing assumptions:

	December 31, 2011	December 31, 2010
Weighted average risk-free interest rate	2.42 %	1.95 %
Weighted average expected option life	4.7 years	5 years
Weighted average expected stock volatility	124%	133%
Weighted average expected dividend yield	Nil	Nil

10. Share Capital – *continued*

e) Warrants

A summary of the status of the Company's outstanding warrants as at December 31, 2011 and 2010 and changes during the years then ended:

	2011		2010	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	67,924,843	$ 0.27	68,373,179	$ 0.27
Exercised	(9,325,000)	0.15	(448,336)	0.11
Expired	(48,599,843)	0.20	-	-
Outstanding, ending of year	10,000,000	$ 0.75	67,924,843	$ 0.27

During the year ended December 31, 2011, holders exercised 9,325,000 warrants for gross proceeds of $1,398,750. In connection with these exercises, the Company reclassified the fair value of these warrants previously recorded in the amount of $136,460 from contributed surplus to share capital.

As at December 31, 2011, warrants exercisable and outstanding are as follows:

	Warrants Outstanding		Warrants Exercisable	
Exercise Price	Number	Weighted Average Remaining Contractual Life (yrs.)	Number	Weighted Average Remaining Contractual Life (yrs.)
$0.50	5,000,000	2.56	-	-
$1.00	5,000,000	2.56	-	-
	10,000,000	2.56	-	-

11. Related Party Transactions

a) Related party expenses and balances

The following is a summary of the related party transactions that occurred throughout the year ended December 31, 2011 and 2010:

	2011	2010
Accounting fees paid to a director and officer of the Company	$ 60,000	$ 60,000
Geological fees paid to an officer of the Company	$ 60,000	$ -
Consulting fees paid to a company controlled by the Company's directors	$ 15,000	$ -
Legal fees paid to a law firm associated with a former corporate secretary	$ -	$ 2,325

All of the above transactions were incurred in the normal course of operations and are recorded at the exchange amount, being the amount agreed upon by the related parties.

11. Related Party Transactions – *continued*

b) Key management personnel compensation

Key management of the Company are directors and officers and their remuneration (including consulting fees paid to related parties) includes the following:

	Year Ended December 31, 2011	Year Ended December 31, 2010
Short-term benefits (i)	$ 375,000	$ 362,000
Share-based payments (ii)	$ 55,323	$ 532,220
Termination benefits (iii)	$ 217,865	$ -

(i) Short-term benefits include salaries and wages and consulting fees paid to key management personnel.

(ii) Share-based payments are the fair value of options granted to key management personnel and consultants as at the grant date.

(III) Key management personnel received termination benefits related to an employee contract during the year ended December 31, 2011.

c) Key management commitments

(i) The Company has management employee agreements in place with terms ranging up to three years. The Company may terminate these agreements for any reason (other than by the expiry of the term) with a lump sum payment equal to the key employee's annual compensation. The aggregate annual compensation for senior executive employees of the Company is approximately $112,500.

(ii) Effective October 1, 2011, the Company engaged Featherstone Capital Inc. to provide corporate development and financial advisory services for a monthly retainer of $5,000 per month over a twelve month period ending September 30, 2012.

(iii) Effective July 1, 2011, the Company contracted an officer of the Company to act as a geological consultant for the Company. The Company has agreed to a monthly retainer of $10,000 per month for a term of twelve months ending June 30, 2012.

12. Commitments

The Company has minimum annual lease commitments for its office premise expiring September 2016. The following schedule details the Company's minimum commitments not discussed elsewhere in these financial statements:

2012	$ 88,000
2013	89,000
2014	89,000
2015	93,000
2016	70,000
	$ 429,000

13. Deferred Income Taxes

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial tax rates:

	2011	2010
Loss before income taxes	$ (2,866,694)	$ (1,821,294)
Effective statutory rate	26.5%	28.5%
Expected income tax recovery	$ (759,674)	$ (519,069)
Effect of differences in foreign and future tax rates	39,419	154,564
Items not deductible for tax purposes	(267,508)	(244,339)
Effect of foreign exchange	53,969	114,463
Effect of loss carry-forward elimination	-	(43,229)
Other	43,138	(4,577)
Income tax benefit not recognized	890,656	542,187
	$ -	$ -

The income tax benefit of the following tax assets have not been recorded in these financial statements because of the uncertainty of their recovery.

	2011	2010
Deferred income tax assets		
Non-capital loss carry-forwards	$ 3,121,528	$ 2,464,818
Unamortized financing costs	84,474	92,587
Exploration and Evaluation assets	1,222,271	975,796
Property and equipment	62,554	66,967
Unrecognized deferred income tax assets	4,490,827	3,600,168

As at December 31, 2011, the Company has non-capital losses for Canadian tax purposes of approximately $7,050,000 available to offset against taxable income in future years, which if unutilized, will begin to expire in 2014. The Company also has resource exploration expenditures of approximately $5,153,000 available to reduce taxable income of future years in Canada, subject to certain restrictions. In addition, the Company has tax losses for Nicaraguan purposes of approximately $4,500,000 available to offset against taxable income in future years in Nicaragua, which begin to expire in 2012.

14. Segmented Information

The Company currently operates in one reportable operating segment, being the acquisition, exploration, and development of natural resource properties, which is conducted principally in North and Central America (Nicaragua). The Company is in the exploration stage and, accordingly, has no reportable segment revenues for any of the years presented in these financial statements. The following geographic data includes assets based on location:

As at December 31, 2011

	Canada	Nicaragua	Total
Cash	$ 1,924,418	$ 20,156	$ 1,944,574
Other current assets	328,902	7,500	336,402
Property and equipment	58,054	176,039	234,093
Exploration and evaluation assets	-	9,739,305	9,739,305
Total assets	$ 2,311,374	$ 9,943,000	$ 12,254,374

As at December 31, 2010

	Canada	Nicaragua	Total
Cash	$ 653,589	$ 8,109	$ 661,698
Other current assets	185,201	6,164	191,365
Property and equipment	116,706	178,031	294,737
Exploration and evaluation assets	1,229,868	7,218,864	8,448,732
Total assets	$ 2,185,364	$ 7,411,168	$ 9,596,532

As at January 1, 2010

	Canada	Nicaragua	Other	Total
Cash	$ 1,646,881	$ 54,564	$ 35,826	$ 1,737,271
Other current assets	691,671	2,447	18,279	712,397
Property and Equipment	155,116	150,678	-	305,794
Exploration and evaluation assets	1,229,868	6,884,651	-	8,114,519
Total assets	$ 3,723,536	$ 7,092,340	$ 54,105	$ 10,869,981

The following geographic data denotes net losses based on their country of origin for the year ended December 31:

	2011	2010
Canada	$ 2,795,050	$ 1,674,184
Nicaragua	71,644	144,008
Other	-	3,102
Net loss for the year	$ 2,866,694	$ 1,821,294

15. Subsequent Events

Subsequent to December 31, 2011, the Company issued a total of 945,000 common shares on exercise of options for gross proceeds of $154,250.