DURAN VENTURES INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Expressed in Canadian dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Duran Ventures Inc.

We have audited the accompanying consolidated financial statements of Duran Ventures Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of loss and comprehensive loss, consolidated statements of accumulated other comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

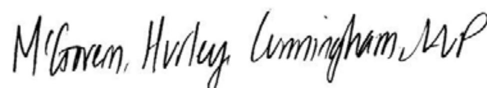
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements,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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Duran Ventures Inc. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010, and their financial performance and cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 25, 2012

DURAN VENTURES INC.

CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian dollars)
AS AT DECEMBER 31,

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
		(Note 18)	(Note 18)
ASSETS			
CURRENT			
Cash	**1,290,618**	6,002,801	772,964
Marketable securities (Note 6)	**36,000**	90,000	-
Prepaid expenses and advances	**60,906**	12,094	49,378
Amounts receivable	**644,123**	21,574	6,763
TOTAL CURRENT ASSETS	**2,031,647**	6,126,469	829,105
PROPERTY, PLANT AND EQUIPMENT (Note 7)	**245,992**	99,760	111,196
EXPLORATION AND EVALUATION ASSETS (Notes 8 and 11)	**1,746,153**	1,746,153	-
TOTAL ASSETS	**4,023,792**	7,972,382	940,301
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	**232,996**	222,925	117,672
DEFERRED TAX LIABILITY (Note 12)	**421,300**	421,300	-
TOTAL LIABILITIES	**654,296**	644,225	117,672
SHAREHOLDERS' EQUITY			
CAPITAL STOCK (Note 9)	**45,928,588**	43,365,227	35,592,626
WARRANT RESERVE (Note 9)	**1,437,911**	1,465,046	664,101
SHARE-BASED PAYMENT RESERVE (Note 10)	**2,074,545**	771,976	948,546
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	**(99,000)**	39,375	-
DEFICIT	**(45,972,548)**	(38,313,467)	(36,382,644)
TOTAL SHAREHOLDERS' EQUITY	**3,369,496**	7,328,157	822,629
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**4,023,792**	7,972,382	940,301

ONGOING OPERATIONS (Note 2)

COMMITMENTS AND CONTINGENCIES (Note 17)

APPROVED ON BEHALF OF THE BOARD:

Signed "Joseph Del Campo" , Director

Signed "Jeffrey Reeder" , Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31,

	2011 **$**	2010 $
		(Note 18)
EXPENSES		
Share-based compensation (Note 10)	**1,649,927**	305,910
Management and consulting fees (Note 16)	**357,733**	163,970
General and administrative	**223,918**	147,422
Advertising and public relations	**86,768**	229,671
Professional fees	**198,301**	159,729
Rent	**34,241**	41,250
Foreign exchange (gain) loss	**(105,623)**	24,268
Amortization	**22,099**	11,436
Exploration and evaluation expenditures (Note 11)	**5,477,891**	1,593,945
Loss before the under-noted	**7,945,255**	2,677,601
Interest income	**(15,960)**	-
LOSS FOR THE YEAR BEFORE INCOME TAXES	**7,929,295**	2,677,601
DEFERRED INCOME TAX EXPENSE (Note 12)	**5,625**	(5,625)
NET LOSS FOR THE YEAR	**7,934,920**	2,671,976
Other comprehensive loss (income)	**138,375**	(39,375)
COMPREHENSIVE LOSS	**8,073,295**	2,632,601
Loss per share – basic and diluted	**0.04**	0.02
Weighted average number of common shares outstanding	**180,883,394**	107,622,193

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME ("AOCI")

(Expressed in Canadian dollars)

FOR THE YEARS ENDED DECEMBER 31,

	2011 **$**	2010 $ (Note 18)
Accumulated other comprehensive income at beginning of year	**39,375**	-
Unrealized (loss) gain on marketable securities, net of deferred income tax recovery of $5,625 (2010 – expense of $5,625)	**(138,375)**	39,375
Accumulated other comprehensive (loss) income at end of year	**(99,000)**	39,375

See accompanying notes to the consolidated financial statements.

DURAN VENTURES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)

FOR THE YEARS ENDED DECEMBER 31,

	Common Shares	Warrants				
	Amount $	Reserve Amount $	Share-based Payment Reserve $	Accumulated Other Comp. Income $	Deficit $	Total Shareholders' Equity $
Balance, January 1, 2010	35,592,626	664,101	948,546	-	(36,382,644)	822,629
Issued on business combination	1,268,102	-	-	-	-	1,268,102
Issued for cash	4,592,482	1,126,000	-	-	-	5,718,482
Issued as finder's fee	-	194,285	-	-	-	194,285
Warrants exercised	1,912,017	(260,667)	-	-	-	1,651,350
Value of warrants and options expired	-	(258,673)	(482,480)	-	741,153	-
Share-based compensation expense	-	-	305,910	-	-	305,910
Unrealized gain on marketable securities	-	-	-	39,375	-	39,375
Net loss	-	-	-	-	(2,671,976)	(2,671,976)
Balance, December 31, 2010	43,365,227	1,465,046	771,976	39,375	(38,313,467)	7,328,157
Issued for cash	717,464	175,000	-	-	-	892,464
Issued as finder's fee	-	30,043	-	-	-	30,043
Warrants exercised	1,638,606	(230,906)	-	-	-	1,407,700
Options exercised	207,291	-	(72,791)	-	-	134,500
Value of warrants and options expired	-	(1,272)	(274,567)	-	275,839	-
Share-based compensation expense	-	-	1,649,927	-	-	1,649,927
Unrealized loss on marketable securities	-	-	-	(138,375)	-	(138,375)
Net loss	-	-	-	-	(7,934,920)	(7,934,920)
Balance, December 31, 2011	45,928,588	1,437,911	2,074,545	(99,000)	(45,972,548)	3,369,496

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31,

	2011 **$**	2010 $ (Note 18)
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the year	**(7,934,920)**	(2,671,976)
Add items not requiring cash:		
Amortization	**22,099**	11,436
Share-based compensation	**1,649,927**	305,910
Option payment received in shares	**(90,000)**	(45,000)
Deferred income tax	**5,625**	(5,625)
Change in non-cash operating working capital:		
(Increase) decrease in prepaids and advances	**(48,812)**	37,284
(Increase) in amounts receivable	**(622,549)**	(14,811)
Increase in accounts payable and accrued liabilities	**10,071**	47,661
Cash flows used in operating activities	**(7,008,559)**	(2,335,121)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Property, plant and equipment	**(168,331)**	-
Cash acquired from business combination	**-**	841
Cash flows used in investing activities	**(168,331)**	841
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of private placement units for cash	**1,001,000**	6,441,890
Finder’s fees	**(65,065)**	(418,723)
Issue costs	**(13,428)**	(110,400)
Exercise of options	**134,500**	-
Exercise of warrants	**1,407,700**	1,651,350
Cash flows from financing activities	**2,464,707**	7,564,117
(Decrease) increase in cash	**(4,712,183)**	5,229,837
Cash, beginning of year	**6,002,801**	772,964
Cash, end of year	**1,290,618**	6,002,801
SUPPLEMENTARY INFORMATION		
Compensation warrants issued for services (Note 9)	**30,043**	194,285
Common shares issued pursuant to business combination (Note 8)	**-**	1,268,102

1. GENERAL INFORMATION

Duran Ventures Inc. ("Duran" or "the Company") is a publicly listed company originally incorporated in British Columbia and subsequently continued to Ontario under the Canada Business Corporations Act. The Company's common shares have been listed and trading on the TSX Venture Exchange since July 4, 2007 under the trading symbol "DRV". The Company, directly and with exploration partners, is engaged in the exploration of mineral properties in South America. The Company's registered head office is located at 40 University Avenue, Suite 710, Toronto, Ontario, Canada M5J 1T1 and substantially all of the Company's administrative expenses are incurred in Canada.

2. GOING CONCERN

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. The Company's assets are subject to increases in taxes and royalties, renegotiation of contracts, expropriation, currency exchange fluctuations and political uncertainty.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing registration or regulations, unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements.

These audited consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Because of limited working capital and continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing or to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation. These audited consolidated financial statements do not include any adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classification that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

3. BASIS OF CONSOLIDATION

These audited consolidated financial statements include the accounts of the Company, which is incorporated in Canada under the Canada Business Corporations Act, its wholly owned subsidiaries, Duran Resources ULC and 1546806 Alberta Ltd., which are incorporated in Canada under the Business Corporations Act (Alberta), and its wholly owned subsidiaries, Minera Aguila de Oro SAC, Corongo Exploraciones SAC, Laramarca Exploraciones SAC and Hatum Minas SAC, all of which are incorporated in Peru. All inter-company balances and transactions have been eliminated. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) International Financial Reporting Standards ("IFRS")

These consolidated financial statements of the Company and its subsidiaries were prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). The Company's consolidated financial statements for the year ended December 31, 2011 represent the Company's initial presentations of its results and financial position under IFRS. IFRS 1, First-time Adoption of IFRS ("IFRS 1") has been applied and the impact of the transition from Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to IFRS is explained in Note 18. Previously, the Company prepared its financial statements in accordance with Canadian GAAP.

The accounting policies set out below have been applied consistently to all periods presented and in preparing the opening balance sheet at January 1, 2010 (Note 18) for purposes of transition to IFRS. The policies applied in these consolidated financial statements are based on the IFRS issued and effective as of December 31, 2011. Any subsequent changes to IFRS could result in restatement of these consolidated financial statements, including the transition adjustments recognized on change-over to IFRS. These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 25, 2012.

(b) Basis of preparation

The audited consolidated financial statements are presented in Canadian dollars. The financial statements are prepared on the historical cost basis except for marketable securities which are measured at fair value.

(c) Share-based payments

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in share-based payment reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The fair value is estimated at the grant date and each tranche is recognized on a graded vesting basis over the period during which the options vest. The fair value of the options granted is estimated using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized in profit and loss is adjusted to reflect the actual number of share options that are expected to vest.

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 share-based payments reserve.

Upon expiry of share options, the recorded value is transferred to deficit from share-based payment reserve.

(d) Deferred taxes

The Company uses the balance sheet method of accounting for income taxes, under which deferred income tax assets and liabilities are recognized for the estimated future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred income tax assets and liabilities are measured using income tax rates in effect for the period in which those temporary differences are expected to be recovered or settled based on the tax rates that have been enacted or substantively enacted by the end of the reporting period. The effect on deferred income tax assets and liabilities of a change in income tax rates or laws is recognized as part of the provision for income taxes in the period the changes are considered substantively enacted.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(e) Exploration and evaluation assets and expenditures

Exploration and evaluation expenditures are expensed as incurred except for expenditures associated with the acquisition of exploration and evaluation assets through a business combination. Exploration and evaluation expenditures include the costs of acquiring licenses and costs associated with exploration and evaluation activity. Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(f) Property, plant and equipment

Property, plant and equipment is carried at cost, less accumulated amortization and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the assets to a working condition for their intended use, the initial estimate of the rehabilitation provisions, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Where an item of property, plant and equipment or mine properties comprises significant components with different useful lives, the components are accounted for as separate items of property, plant and equipment. The equipment noted below is amortized over their estimated useful lives using the following annual rates and methods.

Office furniture and equipment	10% straight line
Computer equipment	25% straight line
Field equipment	10% straight line
Camp equipment and buildings	10% straight line

(g) Impairment of non-financial assets

At each balance sheet reporting date the carrying amounts of the Company’s property, plant and equipment and exploration and evaluation assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of loss and comprehensive loss for the period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of loss and comprehensive loss.

(h) Foreign currencies

The functional and reporting currency of the Company is the Canadian dollar. The Company's foreign subsidiaries are considered extensions of the parent company. Monetary assets and liabilities are translated to Canadian dollars at the rate in effect at the balance sheet date. Non-monetary items are translated at historical rates. Revenue and expenses are translated at the average exchange rate for the period. The resulting gain or loss is included in the statement of loss and comprehensive loss.

(i) Financial assets and liabilities

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition.

The Company's financial assets and liabilities include cash, marketable securities, amounts receivable and accounts payable and accrued liabilities.

The Company has designated its cash and amounts receivable as loans and receivables, which are measured at amortized cost. Marketable securities have been classified as available-for-sale ("AFS") and are recorded at their fair values with changes in fair value included in other comprehensive (loss) income until the asset is removed from the balance sheet or until impairment is assessed as other than temporary. Regular purchases and sales of financial assets are recognized on the trade-date, the date on which the Company commits to purchase or sell the asset. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Transaction costs associated with fair value through profit and loss financial assets and financial liabilities are expensed as incurred, while transaction costs associated with all other financial assets and other financial liabilities are included in the initial carrying amount of the asset or the liability.

Fair values are determined directly by reference to published price quotations in an active market. Changes in the fair value of these instruments are reflected in other comprehensive income and included in shareholders' equity on the balance sheet. All other non-derivative financial instruments were recorded at amortized cost, subject to impairment reviews.

Financial instruments recorded at fair value on the consolidated balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at December 31, 2011 and 2010, the Company had marketable securities that were classified as Level 1.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of financial assets

Financial assets are assessed for indicators of impairment at each financial position reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:
• significant financial difficulty of the issuer or counterparty; or
• default or delinquency in interest or principal payments; or
• it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount 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 the statement of loss and comprehensive loss. With the exception of AFS equity instruments, 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 the statement of loss and comprehensive 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. In respect of AFS equity securities, impairment losses previously recognized through the statement of loss and comprehensive loss are not reversed through the statement of loss and comprehensive loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity. The Company does not have any derivative financial instruments.

(k) Decommissioning and restoration provisions

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising for the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against the statement of loss and comprehensive loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses. Changes in closure and reclamation estimates are accounted for as a change in the corresponding capitalized costs. Costs rehabilitation projects for which a provision has been recorded are recorded directly against the provision as incurred, most of which are incurred at the end of the life of the mine.

The Company did not have any significant decommissioning and restoration provisions as of December 31, 2011, December 31, 2010 and January 1, 2010.

Other provisions and liabilities are recognized in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events and the amount of cash flow and timing can be reliably estimated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Loss per share

Basic loss per common share is calculated by dividing the loss attributed to shareholders for the period by the weighted average number of common shares outstanding in the period. Diluted loss per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. In the Company's case, diluted loss per share is the same as basic loss per share as the effects of including all outstanding options and warrants would be anti-dilutive.

(m) Comprehensive income (loss)

Comprehensive income or loss includes unrealized gains and losses on available-for-sale marketable securities.

(n) Joint ventures

A portion of the Company's exploration activities may be conducted jointly with others wherein the Company enters into agreements that provide for specified percentage interests in mineral properties. Joint venture accounting, which reflects the Company's proportionate interest in the exploration and evaluation expenditures, is applied by the Company only when the parties have earned their respective interests and enter into formal comprehensive agreements for ownership and exploration participation.

(o) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues, incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. The Company operates in one business segment, mineral exploration and two geographical segments, Peru and Canada, as at December 31, 2011, December 31, 2010 and January 1, 2010.

(p) Accounting standards and interpretations issued but not yet adopted

IAS 1 - Presentation of Financial Statements ("IAS 1") was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

IFRS 7 *Financial instruments - Disclosures* ("IFRS 7") was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011.

IFRS 9 *Financial Instruments: Classification and Measurement* ("IFRS 9") issued in December 2009, effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2015.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 *Consolidated and Separate Financial Statements*. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013.

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces the guidance in IAS 31 Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 *Investments in Associates* and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013.

IFRS 13 *Fair Value Measurement* ("IFRS 13") converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company intends to adopt IFRS 13 in its financial statements for the annual period beginning on January 1, 2013.

The Company has not yet determined the impact of such standards and amendments on its financial statements.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- Assets' carrying values and impairment charges
  In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

- Capitalization of exploration and evaluation costs
  Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Note 8 for details of capitalized exploration and evaluation costs.

- Mineral reserve estimates
  The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

- Impairment of exploration and evaluation assets
  While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

- Estimation of decommissioning and restoration costs and the timing of expenditure
  Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

- Income taxes and recoverability of potential deferred tax assets
  In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

- Share-based payments
  Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- Contingencies
  See Note 17.

6. MARKETABLE SECURITIES

As at December 31, 2011, the Company has received 600,000 common shares of Viper Gold Ltd. ("Viper") as per the terms of the Corongo property option agreement (see Note 11).

The Company classifies its marketable securities in public companies as available for sale which are reported at the fair market value based on bid prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss until the investment is sold, derecognized or impaired. As at December 31, 2011, the fair market value of marketable securities was $36,000 (December 31, 2010 - $90,000).

7. PROPERTY, PLANT AND EQUIPMENT

Cost	Office furniture and equipment	Computer equipment	Field equipment	Camp and buildings	Total
	$	$	$	$	$
Balance at January 1, 2010	17,138	16,349	45,977	49,077	128,541
Balance at December 31, 2010	17,138	16,349	45,977	49,077	128,541
Additions	23,990	7,481	22,877	113,983	168,331
Balance at December 31, 2011	41,128	23,830	68,854	163,060	296,872

Amortization and impairment	Office furniture and equipment	Computer equipment	Field equipment	Camp and buildings	Total
	$	$	$	$	$
Balance at January 1, 2010	2,005	5,890	7,708	1,742	17,345
Additions	1,714	3,587	4,690	1,445	11,436
Balance at December 31, 2010	3,719	9,477	12,398	3,187	28,781
Additions	3,169	4,096	5,505	9,329	22,099
Balance at December 31, 2011	6,888	13,573	17,903	12,516	50,880

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

Carrying amounts	Office furniture and equipment	Computer equipment	Field equipment	Camp and buildings	Total
	$	$	$	$	$
At January 1, 2010	15,133	10,459	38,269	47,335	111,196
At December 31, 2010	13,419	6,872	33,579	45,890	99,760
At December 31, 2011	34,240	10,257	50,951	150,544	245,992

8. EXPLORATION AND EVALUATION ASSETS

	January 1, 2010	Additions (Recoveries)	December 31, 2010	Additions (Recoveries)	December 31, 2011
	$	$	$	$	$
Peru					
Acquisition of Double Jack Properties	-	1,746,153	1,746,153	-	1,746,153
Total Exploration Properties	-	1,746,153	1,746,153	-	1,746,153

Double Jack Properties

In July 2009, the Company agreed to acquire certain mineral properties in Peru (the "Double Jack Properties") from Double Jack Mines Limited ("Double Jack"). On June 21, 2010, the Company entered into a definitive amalgamation agreement and on July 8, 2010, the Company completed the acquisition of the Double Jack Properties and received regulatory approval to close the transaction. The Company issued 9,393,346 common shares (valued at $1,268,102) to the Double Jack shareholders as consideration.

Double Jack amalgamated with a wholly owned subsidiary of the Company. The transaction has been accounted for as a business combination in accordance with IFRS 3, business combinations, with the Company being the acquirer. As a result of this transaction, the Company now holds a 100% interest in the Double Jack Properties.

The allocation of the purchase price has been determined using the fair values of the identifiable assets acquired and liabilities assumed at the date of acquisition. An allocation of the purchase price is as follows:

	Shares	Fair market value
Purchase price:	#	$
Common shares	9,393,346	1,268,102
Net assets acquired:		
Cash		841
Exploration property interests		1,746,153
Current liabilities		(57,592)
Deferred tax liability		(421,300)
		1,268,102

The transaction did not result in any goodwill. The total transaction costs expensed relating to the acquisition amounted to $35,314 in legal fees.

The net loss for Double Jack for the year ended December 31, 2010 and the period between June 21, 2010, the acquisition date, and December 31, 2010 included in these consolidated financial statements was negligible. The impact to the net loss of the Company for the year ended December 31, 2010, had the acquisition of Double Jack occurred on January 1, 2010, would be negligible.

8. EXPLORATION AND EVALUATION ASSETS (Continued)

The Double Jack Properties include the Ichuña copper-silver project, the Panteria porphyry copper project, and the Santa Rita/Coricancha and Don Pancho silver-lead-zinc polymetallic projects. Title to the Double Jack properties is held by the Company's wholly-owned Peruvian subsidiary, Hatum Minas SAC.

See Exploration and Evaluation Expenditures (Note 11).

9. CAPITAL STOCK AND OTHER EQUITY

a) Authorized, Issued and Outstanding shares

Authorized - unlimited number of common shares with no par value,
- 100,000,000 preferred shares with no par value

A summary of common shares outstanding as at December 31, 2011 and 2010 and changes during the years then ended are presented below:

	Shares #	Amount $
Balance, January 1, 2010	91,801,612	35,592,626
Issued pursuant to business combination (Note 8)	9,393,346	1,268,102
Issued on exercise of warrants (i)	16,451,000	1,651,350
Value assigned to exercised warrants	-	260,667
Issued in private placements (net of share issue costs) (i)	49,553,000	5,718,482
Value assigned to warrants issued in private placements, net of costs (Note 9(b))	-	(1,126,000)
Balance, December 31, 2010	167,198,958	43,365,227
Issued on exercise of warrants (ii)	7,001,000	1,407,700
Value assigned to exercised warrants	-	230,906
Issued in private placements (net of share issue costs) (ii)	7,700,000	892,464
Value assigned to warrants issued in private placements, net of costs (Note 9(b))	-	(175,000)
Issued on exercise of options (ii)	1,150,000	134,500
Value assigned to options exercised	-	72,791
Balance, December 31, 2011	183,049,958	45,928,588

(i) On December 23, 2010, the Company closed the first tranche of a private placement. The Company issued 49,553,000 units at $0.13 per unit for gross proceeds of $6,441,890 of which 1,750,000 units for gross proceeds of $227,500 were subscribed for by five officers and/or directors and one employee of the Company. Each unit consisted of one common share and one half of one common share purchase warrant, with one full warrant entitling the holder to obtain one common share of the Company for $0.20 for a period of two years. In relation to this private placement, 3,220,945 compensation warrants exercisable at $0.13 for a period of two years (valued at $194,285) were issued and commission and issue costs of $529,123 were paid. The net proceeds were allocated $4,592,482 to the common shares and $1,126,000 to the share purchase warrants.

During the fiscal year ended December 31, 2010, 125,000 warrants issued in April 2009 were exercised at $0.15 per warrant for proceeds of $18,750. An additional 16,326,000 warrants issued in August 2009 were exercised at $0.10 per warrant for proceeds of $1,632,600 to the Company.

9. CAPITAL STOCK AND OTHER EQUITY (Continued)

(ii) In January 2011, the Company closed the second and final tranche of a private placement. The Company issued 7,700,000 units at $0.13 per unit for gross proceeds of $1,001,000. Each unit consisted of one common share and one half of one common share purchase warrant whereby one full warrant entitles the holder to obtain one common share of the Company for $0.20 for a period of two years. In relation to this private placement, 500,500 compensation warrants exercisable at $0.13 for a period of two years (valued at $30,043) were issued and commission and issue costs of $78,493 were paid. The net proceeds were allocated $892,464 to the common shares and $175,000 to the share purchase warrants.

During the year ended December 31, 2011, 7,001,000 warrants issued in April 2009 were exercised for proceeds of $1,407,700.

During the year ended December 31, 2011, 1,150,000 stock options were exercised for proceeds of $134,500.

b) Share Purchase Warrants

A summary of warrants outstanding as at December 31, 2011 and 2010 and changes during the years then ended are presented below:

	Warrants #	Amount $	Weighted average exercise price $
Balance, January 1, 2010	29,657,500	664,101	0.14
Issued in private placements (Note 9(a)(i))	24,776,500	1,268,000	0.20
Issue costs	-	(142,000)	-
Compensation warrants (Note 9(a)(i))	3,220,945	194,285	0.13
Expired	(8,084,000)	(258,673)	0.17
Exercised (Note 9(a)(i))	(16,451,000)	(260,667)	0.10
Balance, December 31, 2010	33,119,945	1,465,046	0.19
Issued in private placements (Note 9(b)(ii))	3,850,000	196,000	0.20
Issue costs	-	(21,000)	-
Compensation warrants (Note 9(b)(ii))	500,500	30,043	0.13
Exercised	(7,001,000)	(230,906)	0.20
Expired	(45,000)	(1,272)	0.20
Balance, December 31, 2011	30,424,445	1,437,911	0.19

(i) As a result of the $6,441,890 private placement in December 2010, the Company issued 24,776,500 common share purchase warrants with an exercise price of $0.20 and 3,220,945 compensation warrants with an exercise price of $0.13 expiring December 2012. The fair value of these warrants issued in this private placement was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted assumptions: expected dividend yield of 0%; expected volatility of 123%; risk-free interest rate of 1.69% and an expected life of two years. The weighted average grant date fair value of the warrants granted during year ended December 31, 2010 was $0.07.

(ii) As a result of the $1,001,000 private placement in January 2011, the Company issued 3,850,000 common share purchase warrants with an exercise price of $0.20 and 500,500 compensation warrants with an exercise price of $0.13 expiring January 2013. The fair value of these warrants issued in this private placement was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted assumptions: expected dividend yield of 0%; expected volatility of 122%; risk-free interest rate of 1.71% and an expected life of two years. The weighted average grant date fair value of the warrants granted during the year ended December 31, 2011 was $0.05.

9. CAPITAL STOCK AND OTHER EQUITY (Continued)

The following common share purchase warrants are outstanding at December 31, 2011:

Date Issued	Warrants Outstanding #	Exercise Price $	Expiry Date
December 23, 2010	22,853,000	0.20	December 23, 2012
December 23, 2010	3,220,945	0.13	December 23, 2012
January 7, 2011	3,850,000	0.20	January 7, 2013
January 7, 2011	500,500	0.13	January 7, 2013
	30,424,445		

As at December 31, 2011, the weighted average remaining contractual life of warrants outstanding was 0.99 years (December 31, 2010 – 1.71 years).

10. SHARE-BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

The Company has adopted a share option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date immediately preceding the date on which the option is granted. The terms and conditions of the options are determined by the Board of Directors.

The aggregate number of share options shall not exceed 10% of the issued and outstanding common shares of the Company, and if any option granted under the plan expires or terminates for any reason in accordance with the terms of the plan without being exercised, that option shall again be available for the purpose of the plan. In addition, the exercise price of options granted under the plan shall not be lower than the exercise price permitted by the TSX Venture Exchange, and all options granted under the plan will have a term not to exceed five years and expire up to five years after issuance. All options issued since May 2010 have vested 100% on the date of grant.

A summary of the status of the Plan as at December 31, 2011 and 2010, and changes during the years ended on those dates are presented below:

	Number of options #	Weighted average exercise price $
Balance, January 1, 2010	5,754,500	0.39
Granted	2,700,000	0.14
Expired	(1,394,500)	0.82
Balance, December 31, 2010	7,060,000	0.21
Granted	8,510,000	0.27
Exercised	(1,150,000)	0.12
Expired	(595,000)	1.01
Balance, December 31, 2011	13,825,000	0.22

In May 2010, the Company granted 250,000 options exercisable at $0.11 for a period of five years. The grant included 200,000 options to a director and 50,000 options to an employee of the Company.

In June 2010, the Company granted 400,000 options exercisable at $0.11 for a period of one year to a consultant of the Company.

In July 2010, the Company granted 2,050,000 options exercisable at $0.15 for a period of five years. The grant included 1,625,000 options to eight individuals who are directors, senior officers, or both, and 425,000 options to an employee of the Company and five employees of its Peruvian subsidiary.

10. SHARE-BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN (Continued)

In March 2011, the Company granted 6,000,000 options exercisable at $0.29 for a period of five years. The grant included 5,000,000 options to eight individuals who are directors, senior officers, or both, and 1,000,000 options to employees of the Company.

In June 2011, the Company granted 2,510,000 options exercisable at $0.215 for a period of five years. The grant included 1,850,000 options to eight individuals who are directors, senior officers, or both, and 660,000 options to employees of the Company.

Total share-based payment expense of $1,649,927 (2010 - $305,910) was incurred for the year ended December 31, 2011.

The grant date fair value of the options granted was estimated using the Black-Scholes option pricing model, using the following weighted average assumptions:

	2011	2010
Risk-free interest rate	1.64%	1.72%
Expected life	5 years	4.4 years
Expected volatility	100%	104%
Expected dividend yield	nil%	nil%

As at December 31, 2011, the Company had outstanding share options issued to directors, officers and employees of the Company as follows:

Date of Grant	Options Outstanding #	Options Vested #	Exercise Price $	Expiry Date
January 16, 2009	700,000	700,000	0.25	January 16, 2012
September 1, 2009	2,510,000	2,510,000	0.10	September 1, 2014
May 27, 2010	200,000	200,000	0.11	May 27, 2015
July 9, 2010	1,950,000	1,950,000	0.15	July 9, 2015
March 14, 2011	6,000,000	6,000,000	0.29	March 14, 2016
June 29, 2011	2,465,000	2,465,000	0.215	June 29, 2016
	13,825,000	13,825,000		

The weighted average remaining contractual life of options issued and outstanding as at December 31, 2011 was 3.66 years.

See Subsequent Events (Note 19).

11. EXPLORATION AND EVALUATION EXPENDITURES

Total exploration and evaluation expenditures are as follows:

	Peru $
Balance, January 1, 2010	7,989,724
Additions	1,923,268
Recoveries	(329,323)
Balance, December 31, 2010	9,583,669
Additions	6,298,980
Recoveries	(821,089)
Balance, December 31, 2011	15,061,560

11. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

During the year ended December 31, 2011, the Company incurred net exploration and evaluation expenditures of $5,477,891. In addition to these expenditures, the Company has also incurred capital expenditures of $296,872 up to December 31, 2011, with a net book value of $245,992 as at December 31, 2011.

Minera Aguila de Oro SAC Properties
The Company holds a 100% interest in the Aguila and Pasacancha Projects located in north central Peru (the "Peru Projects"). Title to the mineral properties in Peru is held by the Company's wholly owned subsidiary, Minera Aguila de Oro SAC. The Peru Projects include the El Halcon concession (the Aguila Project), the Pasacancha 1 concession (the Pasacancha Project), and 15 additional staked exploration claims.

Corongo Property - Property Option
The Corongo Property consists of the KFC exploration concession and 10 additional staked exploration claims, which are held by Corongo Exploraciones SAC., a wholly owned subsidiary of the Company.

The Company signed a property option agreement (the "Corongo Agreement") with Viper in March 2010, and subsequently amended in August 2010, whereby Viper can acquire a 50% interest in the Corongo Property. Under the terms of the Corongo Agreement, Viper may acquire a 50% interest by paying the Company US$25,000 (paid - $25,348) on signing the Corongo Agreement; incurring exploration expenditures of not less than US$1,000,000 (incurred as of December 31, 2011) prior to March 10, 2012; and issuing the Company an aggregate amount of 1,000,000 common shares of Viper as to: (a) 300,000 common shares on August 17, 2010 (received; valued at $45,000); (b) 300,000 common shares on March 10, 2011 (received; valued at $90,000); and (c) 400,000 common shares on or prior to March 10, 2012, subject to regulatory approval (received in January 2012). See Subsequent Events (Note 19).

Double Jack Properties
The Double Jack Properties consist of 11 staked concessions which total approximately 5,438 hectares, and include the Ichuña copper-silver project, the Panteria porphyry copper project, and the Santa Rita/Coricancha and Don Pancho silver-lead-zinc polymetallic projects. Title to the Double Jack properties is held by the Company's wholly-owned Peruvian subsidiary, Hatum Minas SAC.

See Exploration and Evaluation Assets (Note 8).

Minasnioc Property
The Company acquired the Minasnioc Gold Project in a closed-bid government auction on May 20, 2010. The concession is located in the Department of Huancavelica, approximately 300 kilometres southeast of Lima. Title to the Minasnioc Gold Project property is held by the Company's wholly-owned Peruvian subsidiary, Laramarca Exploraciones SAC.

See Subsequent Events (Note 19).

Mamaniña Property
The Company was awarded the Mamaniña 1 and 2 concessions in the Province of Huaylas in the Department of Ancash, Peru by way of a closed-bid government auction held on April 13, 2011. The concessions are located approximately 14 kilometres to the south of the Company's flagship Aguila Copper-Molybdenum Porphyry Project. The Company now holds a total of approximately 1,800 hectares in three contiguous concessions. Title to the Mamaniña property is held by the Company's wholly-owned Peruvian subsidiary, Minera Aguila de Oro SAC.

12. INCOME TAXES

a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the Canadian statutory rate of approximately 28.25% (2010 – 31%) were as follows:

	2011 $	2010 $
Loss before income taxes	(7,929,295)	(2,677,601)
Expected income tax recovery based on statutory rate	(2,240,000)	(830,100)
Adjustments to expected income tax benefit:		
Share-based compensation	466,000	94,800
Expiry and use of non-capital losses	23,000	215,400
Change in tax rates	42,000	44,100
Foreign exchange	(195,000)	-
Other	(100,375)	140,375
Tax benefits not recognized	2,010,000	329,800
Income tax provision (recovery)	5,625	(5,625)

b) Deferred Income Tax Balances

The tax effects of temporary differences that give rise to deferred income tax assets and liabilities approximate the following:

Recognized deferred tax liabilities

	2011 $	2010 $
Exploration and evaluation assets	(421,300)	(421,300)

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	2011 $	2010 $
Non-capital loss carry-forwards	1,961,000	1,529,000
Capital losses	156,000	88,000
Share issue costs	122,000	169,000
Exploration and evaluation assets	6,256,000	4,680,000
Marketable securities	13,000	(6,000)
Other	46,000	33,000
	8,554,000	6,493,000

c) Tax Loss Carry-Forwards

As at December 31, 2011, the Company had resource pools of approximately $12,000,000 in Canada and $11,215,000 (S./29,800,000) in Peru, which under certain circumstances, may be utilized to reduce Canadian taxable income of future years. The Company has approximately $6,325,800 of non-capital losses in Canada and approximately $1,387,200 of non-capital loss in Peru, which can be used to reduce taxable income in future years. If not utilized, the non-capital losses in Canada and Peru will expire as follows:

12. INCOME TAXES (Continued)

Year of Expiry	Canada Amount $	Peru Amount S./	Peru Amount $
2012	-	2,243,000	844,100
2013	-	38,000	14,400
2014	573,700	344,000	129,400
2015	568,900	1,152,000	433,300
2026	505,600	-	-
2027	964,300	-	-
2028	742,300	-	-
2029	798,100	-	-
2030	1,021,700	-	-
2031	1,151,200	-	-
	6,325,800	3,777,000	1,421,200

13. LOSS PER SHARE

a) Basic

Basic loss per share is calculated by dividing the comprehensive loss by the weighted average number of common shares in issue during the year.

	2011	2010
Comprehensive loss for the year	8,073,295	2,632,601
Weighted average number of common shares outstanding	180,883,394	107,622,193
Loss per share	0.04	0.02

b) Diluted

Diluted loss per common share is equal to the basic loss per common share as the stock options and warrants outstanding for the years ended are anti-dilutive.

14. FINANCIAL RISK FACTORS

The Company may be exposed to risks of varying degrees of significance that could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below. There have been no changes in the risks, objectives, policies and procedures from the previous period.

a) Credit risk management

Credit risk relating to cash and amounts receivable arises from the possibility that any counterparty to an instrument fails to perform. The Company does not feel there is significant counterparty risk that could have an impact on the fair value of cash and cash equivalents and receivables.

b) Liquidity risk

The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its capital, development and exploration expenditures. The Company ensures that there are sufficient funds to meet its short-term requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

Cash and cash equivalents include cash on hand and balances with banks and short-term deposits with original maturities of three months or less. The deposits are held in a Canadian chartered bank or a financial institution controlled by a Canadian chartered bank.

14. FINANCIAL RISK FACTORS (Continued)

As of December 31, 2011, the Company had a cash balance of $1,290,618 (December 31, 2010 - $6,002,801; January 1, 2010 - $772,964) to settle current accounts payable and accrued liabilities of $232,996 (December 31, 2010 - $222,925; January 1, 2010 - $117,672). The Company's other current assets consist of marketable securities of $36,000 (December 31, 2010 - $90,000; January 1, 2010 - Nil), amounts receivable of $644,123 (December 31, 2010 - $21,574; January 1, 2010 - $6,763) and prepaid expenses and advances of $60,906 (December 31, 2010 - $12,094; January 1, 2010 - $49,378).

c) Market risk

At the present time, the Company does not hold any interest in a mining property that is in production. The Company's viability and potential success depends on its ability to develop, exploit, and generate revenue from the development of mineral deposits. Revenue, cash flow, and profits from any future mining operations in which the Company is involved will be influenced by precious and/or base metal prices and by the relationship of such prices to production costs. Such prices can fluctuate widely and are affected by numerous factors beyond the Company's control. The fair value of the Company's marketable securities is also influenced by these factors and is therefore subject to market risk.

A change of plus or minus 5% in Canadian equity prices which would affect comprehensive income (loss) by approximately $1,800 based on the fair value of marketable securities held at December 31, 2011.

d) Foreign exchange risk

The Company's financings are in Canadian dollars. Certain of the Company's transactions with its subsidiaries are incurred in foreign currencies and are therefore subject to gains or losses due to fluctuations in exchange rates.

As at December 31, 2011, the Company had cash balances of $776,139 (US$762,798) (December 31, 2010 - $1,107,273 (US$1,113,284)) in U.S. dollars and accounts payable of $98,186 (S/.260,993) (December 31, 2010 – $56,151 (S/.160,171)) in Peruvian Nuevo Soles.

Sensitivity to a plus or minus 5% change in the foreign exchange rate would have affected the net loss by approximately $33,898 for the year ended December 31, 2011.

The Company does not undertake currency hedging activities to mitigate its foreign currency risk.

e) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The majority of the Company's cash and cash equivalents balances earn interest at fixed rates over the next three to twelve months. It is management's opinion that the Company is not exposed to significant interest rate risk. The Company has no interest bearing debt.

A sensitivity analysis has determined that an interest rate fluctuation of 1% would not have resulted in significant fluctuation in the interest income during the year ended December 31, 2011.

f) Fair value of financial assets and liabilities

The book values of the cash, marketable securities, amounts receivable and accounts payable and accrued liabilities, approximate their respective fair values due to the short-term nature of these instruments.

The fair values together with the carrying amounts shown in the balance sheet are as follows:

14. FINANCIAL RISK FACTORS (Continued)

	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value
	As at December 31, 2011		As at December 31, 2010		As at January 1, 2010	
	$	$	$	$	$	$
Cash	1,290,618	1,290,618	6,002,801	6,002,801	772,964	772,964
Marketable securities	36,000	36,000	90,000	90,000	-	-
Amounts receivable	644,123	644,123	21,574	21,574	6,763	6,763
Accounts payable and accrued liabilities	(232,996)	(232,996)	(222,925)	(222,925)	(117,672)	(117,672)

15. CAPITAL RISK MANAGEMENT

The Company defines capital as shareholders' equity which at December 31, 2011 was $3,369,496 (December 31, 2010 - $7,328,157; January 1, 2010 - $822,629). The Company manages its capital structure and makes adjustments to it, in order to have the funds available to support its exploration, development and operation activities.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its mineral properties and maximize shareholder returns. The Company satisfies its capital requirements through careful management of its cash resources and by utilizing bank indebtedness or equity issues, as necessary, based on the prevalent economic conditions of both the industry and the capital markets and the underlying risk characteristics of the related assets. As at December 31, 2011, the Company had no bank debt.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the years ended December 31, 2011 and 2010. The Company and its subsidiaries are not subject to externally imposed capital requirements.

16. RELATED PARTY TRANSACTIONS

Related parties include officers of the Company, the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

The remuneration of key management personnel and a related party of the Company for the years ended December 31, 2011 and 2010 were as follows.

	2011	2010
	$	$
Aggregate cash compensation	548,033	283,970
Share-based compensation	1,397,440	208,097
	1,945,473	492,067

The related parties were awarded the following stock options under the employee stock option plan during the year ended December 31, 2011:

Date of grant	Number of options	Exercise price	Expiry
March 14, 2011	5,200,000	$0.29	March 14, 2016
June 29, 2011	1,950,000	$0.215	June 29, 2016

The directors and key management were awarded the following stock options under the employee stock option plan during the year ended December 31, 2010:

Date of grant	Number of options	Exercise price	Expiry
May 27, 2010	200,000	$0.11	May 27, 2015
July 9, 2010	1,625,000	$0.15	July 9, 2015

16. RELATED PARTY TRANSACTIONS (Continued)

The Company's Chief Executive Officer, who is also a director of the Company, was a shareholder of Double Jack, as were the Company's President and Chief Financial Officer. Each of these individuals received shares of the Company in proportion to their holdings of Double Jack shares pursuant to the Amalgamation Agreement. The Company's independent members of the Board of Directors approved the terms of the Amalgamation Agreement, with the Company's Chief Executive Officer abstaining from voting.

See Note 9(a)(i).

17. COMMITMENTS AND CONTINGENCIES

In February 2011, the Company signed a lease agreement for a new office space commencing June 1, 2011. The term of the lease is for a period of five years, expiring on May 31, 2016. The annual lease payments are approximately $135,000.

Environmental matters

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

18. TRANSITION TO IFRS

As stated in Significant Accounting Policies Note 4(a), these are the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The policies set out in the Significant Accounting Policies section have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010, and in the preparation of the opening IFRS balance sheet at January 1, 2010, the Company's "Transition Date".

IFRS Exemptions

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 balance sheet as at the Transition Date.

- To apply IFRS 2 Share-based Payments only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date.
- To apply IFRS 3 Business Combinations prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date. In accordance with IFRS – 1, if a Company elects to apply IFRS 3 Business Combinations retrospectively, IAS 27 Consolidated and Separate Financial Statements must be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

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 balance sheet as at the Transition Date are consistent with those that were made under Canadian GAAP.

18. TRANSITION TO IFRS (Continued)

Reconciliation of consolidated balance sheets:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
		January 1, 2010			December 31, 2010		
Assets		$	$	$	$	$	$
Currents assets							
Cash and cash equivalents		772,964	-	772,964	6,002,801	-	6,002,801
Marketable securities		-	-	-	90,000	-	90,000
Prepaid expenses and advances		49,378	-	49,378	12,094	-	12,094
Amounts receivable		6,763	-	6,763	21,574	-	21,574
		829,105	-	829,105	6,126,469	-	6,126,469
Property, plant and equipment	*a)*	-	111,196	111,196	-	99,760	99,760
Exploration and evaluation assets	*a)*	8,118,265	(8,118,265)	-	11,458,363	(9,712,210)	1,746,153
Total assets		8,947,370	(8,007,069)	940,301	17,584,832	(9,612,450)	7,972,382
Liabilities and Shareholders' Equity							
Current liabilities							
Accounts payable and accrued liabilities		117,672	-	117,672	222,925	-	222,925
Deferred tax liability		-	-	-	421,300	-	421,300
Total liabilities		117,672	-	117,672	644,225	-	644,225
Shareholders' Equity							
Capital stock		35,592,626	-	35,592,626	43,365,227	-	43,365,227
Warrant reserves		664,101	-	664,101	1,465,046	-	1,465,046
Share-based payment reserves	*b) & c)*	3,752,639	(2,804,093)	948,546	4,412,312	(3,640,336)	771,976
Accumulated other comprehensive income		-	-	-	39,375	-	39,375
Deficit	*a) & d)*	(31,179,668)	(5,202,976)	(36,382,644)	(32,341,353)	(5,972,114)	(38,313,467)
Total equity		8,829,698	(8,007,069)	822,629	16,940,607	(9,612,450)	7,328,157
Total liabilities and equity		8,947,370	(8,007,069)	940,301	17,584,832	(9,612,450)	7,972,382

18. TRANSITION TO IFRS (Continued)

Reconciliation of loss and comprehensive loss for the year ended December 31, 2010:

		Year ended December 31, 2010		
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
		$	$	$
Expenses				
Share-based payments	*b)*	401,000	(95,090)	305,910
Management, director and consulting fees		163,970	-	163,970
General and administrative		147,422	-	147,422
Advertising and investor relations		229,671	-	229,671
Professional fees		159,729	-	159,729
Rent		41,250	-	41,250
Foreign exchange		24,268	-	24,268
Amortization	*a)*	-	11,436	11,436
Exploration and evaluation expenditures	*a)*	-	1,593,945	1,593,945
		1,167,310	1,510,291	2,677,601
Loss before taxes		(1,167,310)	(1,510,291)	(2,677,601)
Recovery of deferred income tax		5,625	-	5,625
Net loss for the year		(1,161,685)	(1,510,291)	(2,671,976)
Other comprehensive income		39,375	-	39,375
Comprehensive loss for the year		(1,122,310)	(1,510,291)	(2,632,601)
Loss per share:				
Basic and diluted loss per share		(0.01)		(0.02)
Weighted average number of common shares outstanding		107,622,193		107,622,193

Notes to the reconciliation of balance sheet and net loss and comprehensive loss

a) Deferred mineral exploration costs

Pursuant to IFRS 6 *Exploration for, and Evaluation of, Mineral Resources,* the Company has elected to change its accounting policy to retrospectively expense all pre-feasibility exploration and evaluation expenditures. Property, plant and equipment previously grouped with deferred exploration expenditures under Canadian GAAP have been reclassified as property, plant and equipment under IFRS.

The effects of this transitional change are as follows: (i) a decrease in deferred exploration assets of $8,118,265, an increase to property, plant and equipment of $111,196 and an increase in deficit of $8,007,069 as at January 1, 2010 and (ii) a decrease in deferred exploration assets of $1,593,945 and an increase in net loss by the same amount as at and for the year ended December 31, 2010. An increase in amortization expense related to the property, plant and equipment of $11,436 was recorded for the year ended December 31, 2010.

18. TRANSITION TO IFRS (Continued)

b) Share-based payments

Under IFRS graded vesting awards are accounted for as though each installment is a separate award. IFRS does not provide for an election to treat the instruments as a pool and recognize expense on a straight line basis. Straight line basis is permissible under Canadian GAAP. Under IFRS, the estimates of the number of equity-settled awards that vest are adjusted to the actual number that vests, unless forfeitures are due to market-based conditions. There is no choice to accrue compensation cost as if all instruments granted were expected to vest and recognize the effect of the forfeitures as they occur as elected by the Company under Canadian GAAP.

The impact of transition to IFRS with respect to options granted after November 7, 2002 that vest after the date of transition, is (i) an increase in deficit and increase in share-based payment reserve of $116,840 as at January 1, 2010, and (ii) a decrease in share-based payment reserve and share-based payment expense of $95,090 in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2010.

c) Expired warrants and options

On transition to IFRS the Company elected to change its accounting policy for the treatment of expired options and warrants whereby amounts recorded for expired unexercised stock options are transferred to deficit. Previously these amounts were kept in the contributed surplus.

The impact of the above difference is as follows: (i) the value assigned to expired share purchase warrants and options in the amount of $2,920,933 has been reclassified from contributed surplus to deficit as at January 1, 2010, and (ii) the value assigned to expired share purchase warrants and options for the year ended December 31, 2010 in the amount of $741,153 has been reclassified from contributed surplus to deficit as of December 31, 2010.

d) Impact on deficit

The effect of the above adjustments on deficit is as follows:

	Notes	December 31, 2010
Canadian GAAP		(32,341,353)
Exploration and evaluation expenditures	*a)*	(9,712,210)
Property, plant and equipment	*a)*	99,760
Share-based payments	*b)*	(21,750)
Expired warrants and options	*c)*	3,662,086
IFRS		(38,313,467)

18. TRANSITION TO IFRS (Continued)

e) Impact on cash flows

The change in policy under IFRS to expense exploration and evaluation expenditures had the following impact on the Company's cash flows from operating and investing activities:

	Notes	Year ended December 31, 2010
Cash flows from operating activities		
Canadian GAAP		(637,908)
Exploration and evaluation expenditures	*a)*	(1,697,213)
IFRS		(2,335,121)
Cash flows from investing activities		
Canadian GAAP		(1,696,372)
Exploration and evaluation expenditures	*a)*	1,697,213
IFRS		841

19. SUBSEQUENT EVENTS

Peruvian Sales Tax Refund

At December 31, 2011, the Company had a receivable of $602,970 in general sales tax from the Superintendencia Nacional de Administracion Tributaria, Peru's tax authority. Subsequent to December 31, 2011, the Company received $381,634 of this refund.

Corongo Property Option

Subsequent to December 31, 2011, Viper completed its obligations under the Corongo Agreement and issued 400,000 common shares to the Company.

Minasnioc Gold Property

Subsequent to December 31, 2011, the Company acquired from Barrick Gold Corp. ("Barrick") the historical geological and drill data on the Company's wholly owned Minasnioc Gold Property. Furthermore, the Company acquired three additional concessions (Azura Azul 6, 7 and 8) from Barrick totaling an additional 2,000 hectares. The Company issued 1,000,000 common shares to Barrick as consideration paid for the data acquired and transfer of concessions. These concessions are subject to a 2% Net Smelter Return. The existing concession held by the Company is not subject to any royalty.

Options

Subsequent to December 31, 2011, 670,000 options were exercised for gross proceeds of $89,500 to the Company and 1,370,000 options expired unexercised.

In January 2012, the Company granted 1,200,000 options exercisable at $0.24 for a period of five years. The grant included 300,000 options to one director and 900,000 options to five consultants of the Company. The options vested 100% on the date of grant.

In April 2012, the Company granted 500,000 options exercisable at $0.15 for a period of five years to a new director of the Company. The options vested 100% on the date of grant.

19. SUBSEQUENT EVENTS (Continued)

Management Contracts

Subsequent to December 31, 2011, the Company entered into certain management and consulting contracts. Minimum commitments under the agreements are approximately $405,000, all payable during 2012. These contracts also require that additional payments of up to $720,000 be made upon the occurrence of certain events such as a change of control.