



**B2GOLD CORP.**  
**Condensed Consolidated Interim Financial Statements**  
**March 31, 2011 and 2010**  
(Unaudited)

**B2GOLD CORP.****CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE INCOME (LOSS)  
FOR THE THREE MONTHS ENDED MARCH 31**

(Expressed in thousands of United States dollars, except shares and per share amounts)  
(Unaudited)

	2011	2010
<b>Gold revenue</b>	<b>\$ 53,501</b>	<b>\$ 17,051</b>
<b>Cost of sales</b>		
Production costs	(20,540)	(12,802)
Depreciation and depletion	(6,044)	(2,214)
Royalties and production taxes	(2,739)	(965)
<b>Total cost of sales</b>	<b>(29,323)</b>	<b>(15,981)</b>
<b>Gross profit</b>	<b>24,178</b>	<b>1,070</b>
General and administrative	(6,175)	(3,749)
Foreign exchange gains	822	434
Accretion of mine restoration provisions	(298)	(343)
Other	431	(493)
<b>Operating income (loss)</b>	<b>18,958</b>	<b>(3,081)</b>
Interest and financing costs	(420)	(960)
Loss on derivative instrument ("Share purchase warrants")	-	(40)
Other	(115)	-
<b>Income (loss) before withholding and other taxes</b>	<b>18,423</b>	<b>(4,081)</b>
Withholding and other taxes	(915)	(224)
Deferred income tax expense	(6,097)	-
<b>Net income (loss) and comprehensive income (loss) for the period</b>	<b>\$ 11,411</b>	<b>\$ (4,305)</b>
<b>Earnings (loss) per share</b>		
Basic	\$ 0.03	\$ (0.01)
Diluted	\$ 0.03	\$ (0.01)
<b>Weighted average number of common shares outstanding (in thousands)</b>		
Basic	333,043	289,673
Diluted *	341,443	289,673

\* Due to a loss in the 2010 comparative period, zero incremental shares were included in the 2010 comparative period since the effect would be anti-dilutive.

See accompanying notes to consolidated financial statements.

**B2GOLD CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31**(Expressed in thousands of United States dollars)  
(Unaudited)

	2011	2010
<b>Operating activities</b>		
Net income (loss) for the period	\$ 11,411	\$ (4,305)
Mine restoration provisions settled	(242)	(365)
Non-cash charges (credits)		
Future income tax expense	6,097	-
Depreciation and depletion	6,044	2,214
Share based payments	570	993
Amortization of deferred financing costs	358	1,110
Accretion of mine restoration provisions	298	343
Loss on derivative instrument ("Share purchase warrants")	-	40
Other	229	146
Cash provided by operating activities before changes in non-cash working capital	24,765	176
Changes in non-cash working capital	1,362	427
Cash provided by operating activities after changes in non-cash working capital	26,127	603
<b>Financing activities</b>		
Common shares issued for cash (Note 9)	871	29,467
Credit Facility, draw downs	-	5,500
Interest and commitment fees paid	(111)	(374)
Related party loans, repayments	-	(959)
Cash provided by financing activities	760	33,634
<b>Investing activities</b>		
Libertad Mine, development and sustaining capital	(7,755)	(10,498)
Libertad Mine, exploration	(1,245)	(529)
Limon Mine, development and sustaining capital	(4,360)	(1,240)
Limon Mine, exploration	(759)	(468)
Gramalote, exploration and development	(3,377)	(815)
Cebollati, exploration	(851)	-
Radius, exploration	(405)	(432)
Calibre, exploration	(368)	(747)
Other	(974)	(766)
Cash used in investing activities	(20,094)	(15,495)
<b>Increase in cash and cash equivalents</b>	<b>6,793</b>	<b>18,742</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>70,012</b>	<b>2,924</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 76,805</b>	<b>\$ 21,666</b>
<b>Supplementary cash flow information (Note 10)</b>		

See accompanying notes to consolidated financial statements.

**B2GOLD CORP.****CONSOLIDATED BALANCE SHEETS**(Expressed in thousands of United States dollars)  
(Unaudited)

	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 76,805	\$ 70,012	\$ 2,924
Accounts receivable and prepaids	8,138	5,605	4,925
Value-added and other tax receivables	5,473	5,525	3,173
Inventories (Note 5)	16,405	19,438	10,263
Marketable securities (carried at quoted market value)	624	483	369
Note receivable	-	-	1,700
	<b>107,445</b>	101,063	23,354
<b>Mining interests</b> (Notes 6 and Note 15 - Schedules)	<b>248,463</b>	232,535	213,335
<b>Other assets</b>	<b>1,038</b>	1,056	1,780
	<b>\$ 356,946</b>	\$ 334,654	\$ 238,469
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$ 16,610	\$ 15,003	\$ 10,051
Current portion of mine restoration provisions (Note 8)	1,389	1,389	658
Related party loans	102	102	1,061
Derivative instrument ("Share purchase warrants")	-	-	6,276
	<b>18,101</b>	16,494	18,046
<b>Credit Facility</b> (Note 7)	-	-	8,642
<b>Mine restoration provisions</b> (Note 8)	<b>20,166</b>	18,714	14,930
<b>Deferred income taxes</b>	<b>12,636</b>	6,539	-
<b>Other liabilities</b>	<b>2,988</b>	2,776	2,497
	<b>53,891</b>	44,523	44,115
<b>Equity</b>			
<b>Shareholders' equity</b>			
Share capital (Note 9)			
<i>Issued:</i>			
- 338,411,140 common shares (Dec 31, 2010 – 337,570,170)	314,081	312,829	233,842
Contributed surplus (Note 9)	20,232	19,971	23,212
Accumulated deficit	(31,258)	(42,669)	(62,700)
	<b>303,055</b>	290,131	194,354
	<b>\$ 356,946</b>	\$ 334,654	\$ 238,469

**Subsequent events** (Notes 9 and 14)

Approved by the Board \_\_\_\_\_ Director \_\_\_\_\_ Director

See accompanying notes to consolidated financial statements.

**B2GOLD CORP.****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE THREE MONTHS ENDED MARCH 31**(Expressed in thousands of United States dollars)  
(Unaudited)

	2011			
	Share capital	Contributed surplus	Accumulated deficit	Total equity
Balance at December 31, 2010	\$ 312,829	\$ 19,971	\$ (42,669)	\$ 290,131
Total comprehensive income for the period	-	-	11,411	11,411
Shares issued for cash:				
Exercise of stock options	871	-	-	871
Share based payments - expensed	-	570	-	570
Share based payments – capitalized to mining interests	-	72	-	72
Transfer to share capital the fair value assigned to stock options & warrants from contributed surplus	381	(381)	-	-
Balance at March 31, 2011	\$ 314,081	\$ 20,232	\$ (31,258)	\$ 303,055

	2010			
	Share capital	Contributed surplus	Accumulated deficit	Total equity
Balance at January 1, 2010	\$ 233,842	\$ 23,212	\$ (62,700)	\$ 194,354
Total comprehensive loss for the period	-	-	(4,305)	(4,305)
Shares issued for cash:				
Equity financing	29,157	-	-	29,157
Exercise of stock options	279	-	-	279
Exercise of warrants	31	-	-	31
Share based payments - expensed	-	993	-	993
Share based payments – capitalized to mining interests	-	157	-	157
Transfer to share capital the fair value assigned to stock options & warrants from contributed surplus	130	(130)	-	-
Balance at March 31, 2010	\$ 263,439	\$ 24,232	\$ (67,005)	\$ 220,666

See accompanying notes to consolidated financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

**March 31, 2011**

(All tabular amounts are in thousands of United States dollars unless otherwise stated)

(Unaudited)

### **1 Nature of operations**

B2Gold Corp. ("B2Gold" or the "Company") is a Vancouver-based gold producer with mining operations in Nicaragua and a portfolio of development and exploration assets in Colombia, Nicaragua and Uruguay. Currently, the Company is operating the Libertad Mine and the Limon Mine in Nicaragua. The Company owns or has a material interest in the Gramalote and Mocoa properties in Colombia, and the Bellavista property in Costa Rica.

B2Gold is a public company which is listed on the Toronto Stock Exchange and the OTCQX. B2Gold's head office is located at Suite 3100, Three Bentall Centre, 595 Burrard Street, Vancouver, British Columbia, V7X 1J1.

### **2 Basis of preparation and first-time adoption of International Financial Reporting Standards**

B2Gold's unaudited condensed consolidated interim financial statements ("financial statements") have been prepared 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") requiring publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on the basis of IFRS in these financial statements. In these financial statements, the term Canadian GAAP refers to Canadian GAAP before the adoption of IFRS.

These financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in Note 13, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 13 discloses the impact of transition to IFRS on the Company's reported equity, total comprehensive income (loss) 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 policies applied in these financial statements are based on IFRS issued and outstanding as of June 7, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 may result in restatement of these financial statements, including the transition adjustments recognized on change-over to IFRS.

The financial statements do not contain all the information required for annual financial statements and accordingly, should be read in conjunction with the Company's Canadian GAAP annual consolidated financial statements for the year ended December 31, 2010.

## **NOTES TO FINANCIAL STATEMENTS**

**March 31, 2011**

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### **3 Summary of significant accounting policies**

The significant accounting policies used in the preparation of these financial statements are described below. The exemptions in applying IFRS for the first time are set out in Note 13 below.

#### ***Principles of consolidation***

The financial statements of the Company consolidate the accounts of B2Gold and its subsidiaries. All intercompany transactions, balances, and unrealized gains and losses from intercompany transactions are eliminated on consolidation. The Company's significant operating and investment holding subsidiaries include Desarrollo Minero de Nicaragua, S.A. ("Libertad"), Triton Minera S.A. ("Limon"), Gramalote Limited ("Gramalote"), Mocoa Ventures Ltd. ("Mocoa") and Weeping Apple, S.A. ("Cebollati").

Subsidiaries are those entities (including special purpose entities) which B2Gold controls, either directly or indirectly, by having the power to govern the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether B2Gold controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by B2Gold and are de-consolidated from the date that control ceases.

The Company's Gramalote and Quebradona properties located in Colombia operate as incorporated joint ventures with AngloGold Ashanti Limited ("AngloGold") which are accounted for as jointly controlled entities ("JCEs"). The Company does not control, either directly or indirectly, these JCEs. B2Gold accounts for its interest in these JCEs using the equity method.

The Company established a trust arrangement under its Incentive Plan (described in Note 11 to the audited consolidated financial statements at December 31, 2010) for the benefit of its directors, officers, employees and service providers. The Company consolidates this trust as it has the power to control its financial and operating policies and obtain the benefits from its activities.

#### ***Investments in joint ventures***

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control such that significant operating and financial decisions require the unanimous consent of the parties sharing control. The Company's joint ventures consist of jointly controlled entities (involving the establishment of a corporation).

On acquisition, an equity method investment is initially recognized at cost. Additional funding into an investee is recorded as an increase in the carrying value of the investment. The carrying amount is adjusted by the Company's share of post acquisition net income or loss, depreciation, amortization or impairment.

#### ***Foreign currency translation***

The functional currency of the Company and all of its operations is the United States dollar. The Company's foreign currency transactions are translated into the United States dollar using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated using the period end exchange rates and gains or losses included in the statement of operations. Non-monetary assets and liabilities are translated using the historic rates. Exchange gains and losses on foreign currency translation are included in operations for the period.

## **NOTES TO FINANCIAL STATEMENTS**

**March 31, 2011**

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(Unaudited)

### ***Financial instruments***

The Company recognizes financial assets and liabilities on the balance sheet when the Company becomes party to the contractual provisions of the instrument.

### ***Cash and cash equivalents***

Cash and cash equivalents includes cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

### ***Accounts receivable, accounts payable and accrued liabilities***

Accounts receivable, accounts payable and accrued liabilities are non-interest bearing and are stated at carrying values, which approximate fair values due to the short terms to maturity (these accounts are initially recorded at fair value and subsequently measured at amortized cost). Where necessary, accounts receivables are net of allowances for uncollectable amounts.

### ***Investments in marketable securities***

Marketable securities are comprised of publicly traded common shares. They are classified as "fair value through profit and loss" which is measured at fair value and the resulting gain or loss is recognized in the statements of operations.

### ***Debt***

Debt is initially recorded at total proceeds received less direct issuance costs. Debt is subsequently measured at amortized cost, calculated using the effective interest rate method.

### ***Derivative instruments***

Derivative instruments, including embedded derivatives, are recorded at "fair value through profit or loss" and accordingly recorded on the balance sheet date at fair value. Unrealized gains and losses on derivatives held for trading are recorded as part of other gains or losses in earnings. Fair values for derivative instruments are determined using valuation techniques, using assumptions based on market conditions existing at the balance sheet date.

### ***Impairment of financial assets***

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss. The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

### ***Mine restoration provisions***

Future obligations to retire an asset including site closure, dismantling, remediation and ongoing treatment and monitoring are initially recognized and recorded as a liability based on estimated future cash flows discounted at a risk free rate. The measurement determination is based on estimated future cash flows, the current risk-free discount rate, and an estimated inflation factor. The value of restoration provisions is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the risk-free interest rate. The liability is added to the carrying amount of the associated asset, and this additional carrying amount is depreciated over the life of the asset. The liability is accreted to full value over time through periodic



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charges to earnings. This unwinding of the discount is charged to accretion expense in the statement of operations. As reclamation work is performed or liabilities are otherwise settled, the recorded amount of the liability is reduced.

### ***Inventories***

Gold and silver bullion, in-process and stockpile inventories are recorded at the lower of average cost and net realizable value. The cost of finished goods and work-in-progress comprises raw materials, direct labour, and other direct costs, as well as stripping in the production stage and related production overheads (based on normal operating capacity) including applicable depreciation on property, plant and equipment. Net realizable value is the estimated selling price less applicable selling expenses.

When inventories have been written down to net realizable value, a new assessment of net realizable value is made in each subsequent period. When circumstances that caused the write down no longer exist, the amount of the write down is reversed.

Materials and supplies inventories are valued at the lower of average cost and net realizable value. Cost includes acquisition, freight and other directly attributable costs.

### ***Mining interests***

Mining interests include "property, plant and equipment", "mineral properties and mine development costs", "deferred stripping", "exploration and evaluation expenditures", capitalized borrowing costs and impairment.

#### ***Property, plant and equipment***

Property, plant and equipment are recorded at cost. Repairs and maintenance expenditures are charged to operations; major improvements and replacements which extend the useful life of an asset are capitalized. Property, plant and equipment are amortized over the life of the mine using the units-of-production ("UOP") method based on the recoverable ounces from the estimated proven and probable reserves and a portion of the measured and indicated resources that are reasonably expected to be converted to proven and probable reserves. Mobile equipment, tailings dam and equipment are depreciated on a straight-line basis over three to six years as appropriate, net of residual value. The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

During the commissioning phase of a new mine, pre-production expenditures, net of incidental revenue, are capitalized to plant and equipment.

#### ***Mineral properties and mine development costs***

Mineral properties and mine development costs are stated at cost less accumulated depreciation and are accounted for on an individual project basis. When production commences, these costs are amortized using the UOP method, based on recoverable ounces from the estimated proven and probable reserves and a portion of measured and indicated resources that are reasonably expected to be converted to proven and probable reserves.

Non-recoverable costs for projects determined not to be commercially feasible are expensed in the period in which the determination is made or when the carrying value of the project is determined to be impaired.

#### ***Deferred stripping***

Stripping costs incurred during the production phase of a mine are considered production costs and are included in the cost of inventory produced during the period in which stripping costs are incurred, unless

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the stripping activity can be shown to be a betterment of the mineral property. Betterment occurs when stripping activity increases future output of the mine by providing access to additional reserves. Stripping costs incurred to prepare the ore body for extraction are capitalized as mine development costs and are amortized on a UOP basis over the reserves and resources to which they relate.

### *Exploration and Evaluation Expenditures*

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties as exploration and evaluation until the properties are placed in production, abandoned, sold or considered to be impaired in value. When a production decision has been made on a property, exploration and evaluation expenditures are reclassified to "mineral properties and mine development costs". If no minable ore body is discovered, such costs are expensed in the period in which it is determined the property has no future economic value. Exploration costs that do not relate to any specific property are expensed as incurred.

### *Borrowing costs*

Borrowing costs attributable to the acquisition or construction of qualifying assets that take a substantial period of time to make ready for their intended use are added to the cost of the assets, until such time as the assets are substantially complete and ready for their intended use. The amount of borrowing costs capitalized cannot exceed the actual amount of borrowing costs incurred in a period. All other borrowing costs are expensed in the period in which they are incurred.

### *Impairment*

The carrying amounts of non-current assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount and is recorded as an expense in the statement of operations.

The recoverable amount is the higher of an asset's "fair value less costs to sell" and "value-in-use". Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is determined. "Fair value less costs to sell" 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. For mining assets this would generally be determined based on the present value of the estimated future cash flows arising from the continued development, use or eventual disposal of the asset. In assessing these cash flows and discounting them to the present value, assumptions used are those that an independent market participant would consider appropriate. In assessing "value-in-use", the estimated future cash flows expected to arise from the continuing use of the assets in their present form and from their disposal are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Impairment losses are evaluated for potential reversals when events or circumstances warrant such consideration. Where an impairment loss is subsequently reversed, the amount of such reversal is limited such that, the revised carrying amount of the asset or cash-generating unit 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 the prior years. A reversal of an impairment loss is recognized into earnings immediately.

### *Share based payments*

The cost of stock options and other equity-settled share-based payment arrangements is recorded based on the estimated fair-value at the grant date and charged to earnings over the vesting period.

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The Company grants stock options to certain employees. Stock options vest over three years or less and expire after five years. Each tranche is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by a charge to earnings, with a corresponding increase to contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

### **Current and deferred income taxes**

Income tax comprises current and deferred tax. Income tax is recognized in the statement of operations except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity. Taxes on income in interim periods are recorded using the tax rate that would be applicable to expected annual profit.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is reversed. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. As an exception, deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or an asset or liability in a transaction (other than in a business combination) that affects neither accounting profit nor taxable profit.

Deferred income tax assets and liabilities are presented as non-current.

### **Revenue**

Gold revenue is recognized when it is probable that the economic benefits will flow to the Company, delivery has occurred, the sales price is reasonably determinable, and collectability is reasonably assured. These criteria are generally met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained. Gold revenue is measured based on the price specified in the sales contract, net of discounts and refining cost, at the time of sale

Silver revenue is accounted for as a by-product and is recorded as a credit to operating costs.

### **Earnings per share**

Basic earnings per share is calculated by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated using the treasury share method whereby all "in the money" options, warrants and equivalents are assumed to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period.

## **NOTES TO FINANCIAL STATEMENTS**

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(All tabular amounts are in thousands of United States dollars unless otherwise stated)

(Unaudited)

### **4 Significant accounting judgements and estimation uncertainties**

The preparation of these financial statements in conformity with IAS 34 and IFRS 1 requires estimates and assumptions that affect the amounts reported in these financial statements. These estimates and assumptions concerning the future will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Company's financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### ***Ore reserve and resource estimates***

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mining properties. The Company estimates its ore reserves and a mineral resource based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, goodwill, restoration provisions, recognition of deferred tax assets, and depreciation and amortization charges.

#### ***Units-of-production depreciation***

Estimated proven and probable reserves and a portion of measured and indicated resources that are reasonably expected to be converted to proven and probable reserves are used in determining the depreciation and amortization of mine specific assets. This results in depreciation and amortization charges proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves and resources of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and resources and estimates of future capital expenditure.

#### ***Exploration and evaluation expenditures***

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the statement of comprehensive income in the period when the new information becomes available.

#### ***Mine restoration provisions***

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. Significant judgments and estimates are made when estimating the nature and costs associated with mine restoration provisions. Cash outflows relating to the obligations are expected to be incurred over periods estimated to extend to 2019 and beyond. When considering the effect of the extended time period over which costs are expected to be incurred, combined with the estimated discount rate and inflation factors, the fair value of the mine restoration provisions could materially change from period to period due to changes in the underlying assumptions.

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**Deferred income taxes and valuation allowances**

The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period that the changes occur.

Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives. Levels of future taxable income are affected by, among other things, market gold prices, production costs, quantities of proven and probable gold reserves, interest rates and foreign currency exchange rates.

**5 Inventories**

	<i>As at March 31, 2011 \$</i>	<i>As at December 31, 2010 \$</i>	<i>As at January 1, 2010 \$</i>
Gold and silver bullion	<b>2,703</b>	5,785	203
In-process inventory	<b>2,540</b>	2,696	1,781
Ore stock-pile inventory	<b>363</b>	124	68
Materials and supplies	<b>10,799</b>	10,833	8,211
	<b>16,405</b>	19,438	10,263

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(Unaudited)

**6 Mining interests**

	<i>As at March 31, 2011 \$</i>	<i>As at December 31, 2010 \$</i>	<i>As at January 1, 2010 \$</i>
Property, plant & equipment (including mine development & deferred stripping costs)			
Libertad Mine, Nicaragua			
Cost	131,448	122,327	101,280
Accumulated depreciation and depletion	(13,169)	(9,657)	-
	<b>118,279</b>	112,670	101,280
Limon Mine, Nicaragua			
Cost	47,411	41,657	28,792
Accumulated depreciation and depletion	(10,891)	(9,207)	(2,281)
	<b>36,520</b>	32,450	26,511
Mineral properties "exploration & evaluation expenditures" (including acquisition costs)			
Mocoa, Colombia	23,407	23,359	22,958
Libertad (Jabali), Nicaragua	3,066	2,485	-
Radius, Nicaragua	2,163	1,758	345
Cebollati, Uruguay	1,951	1,070	-
Calibre, Nicaragua	606	238	241
Kupol East and West Licenses, Russia	-	-	7,840
	<b>31,193</b>	28,910	31,384
Corporate & other			
Bellavista, Costa Rica	3,139	2,841	2,206
Office, furniture and equipment, net	106	16	40
	<b>3,245</b>	2,857	2,246
	<b>189,237</b>	176,887	161,421
Investments (incorporated joint ventures) accounted for using the equity method			
Gramalote, Colombia	58,025	54,648	51,914
Quebradona, Colombia	1,201	1,000	-
	<b>59,226</b>	55,648	51,914
	<b>248,463</b>	232,535	213,335

**Libertad Mine**

The Libertad Mine achieved commercial production on February 1, 2010. Ore processing at the Libertad Mine began on December 15, 2009 with the first doré bar produced on January 5, 2010. Prior to commercial production on February 1, 2010, net revenues and expenses derived from Libertad mining activities (including \$0.7 million of gold sales revenue in January 2010) were included in mine development costs.

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**7 Credit Facility**

The Company entered into an agreement relating to a \$20 million secured revolving credit facility (the "Credit Facility") with Macquarie Bank Limited ("Macquarie") on November 6, 2009. The term of the Credit Facility is for two years with a maturity date of December 31, 2011 and an interest rate of LIBOR plus 5.5%. Under the Credit Facility, the Company granted a general security agreement over its assets and the shares and assets of certain of the Company's material subsidiaries, and certain of the Company's material subsidiaries guaranteed the obligations of the Company relating to the Credit Facility. On February 12, 2010, the Company entered into an amending agreement relating to the Credit Facility pursuant to which the Credit Facility was increased to \$25 million.

As at December 31, 2009, the Company had drawn down a total of \$13.5 million under the Credit Facility and an additional \$7.5 million in the first and second quarters of 2010. In the third quarter of 2010, the balance owing under the Credit Facility was fully repaid (\$20 million on August 30, 2010 and \$1 million on May 21, 2010). Accordingly, \$25 million remains available for draw down as at March 31, 2011.

**8 Mine restoration provisions**

The Company's mine restoration provisions consist primarily of costs associated with mine reclamation and closure activities. These activities, which tend to be site specific, generally include costs for earthworks, including detoxification and recontouring, revegetation, water treatment and demolition. In calculating the fair value of the Company's mine restoration provisions as at March 31, 2011, management used a risk-free rate applicable to each geographic location ranging from 3% to 5% and inflation rates ranging from 3% to 5%. The undiscounted cash flows, before inflation adjustments, estimated to settle the mine restoration provisions was approximately \$22.3 million at March 31, 2011.

The following table shows the movement in the liability for mine restoration provisions:

	<i>For the three months ended March 31, 2011</i>	<i>For the year ended December 31, 2010</i>
	\$	\$
Balance, beginning of period	<b>20,103</b>	15,588
Reclamation spending	<b>(242)</b>	(1,417)
Accretion expense	<b>298</b>	1,192
Change in obligation	<b>1,396</b>	4,740
Balance, end of period	<b>21,555</b>	20,103
Less: current portion	<b>(1,389)</b>	(1,389)
	<b>20,166</b>	18,714

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**9 Capital stock**

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares. At March 31, 2011, the Company had 338,411,140 common shares outstanding and no preferred shares outstanding.

	<i>For the three months ended March 31, 2011</i>		<i>For the year ended December 31, 2010</i>	
	<i>Shares (<i>'000</i>'s)</i>	<i>Amount \$</i>	<i>Shares (<i>'000</i>'s)</i>	<i>Amount \$</i>
Balance, beginning of period	337,570	312,829	282,531	233,842
Issued during the year:				
For cash, on exercise of options	841	871	4,388	3,730
For cash, net of costs	-	-	25,624	29,157
For cash, on exercise of warrants	-	-	25,027	24,229
Transfer to share capital the fair value assigned to share purchase warrants exercised from derivative liability	-	-	-	16,260
Transfer to share capital the fair value assigned to stock options/share purchase warrants exercised from contributed surplus	-	381	-	5,611
	841	1,252	55,039	78,987
Balance, end of period	338,411	314,081	337,570	312,829

On February 18, 2010, the Company completed a bought deal equity financing and issued 25,624,111 common shares, including 3,342,276 common shares issued on exercise of the over-allotment option, at Cdn.\$1.25 per share, for gross proceeds of approximately Cdn.\$32 million. As part of the offering, AngloGold exercised its pre-emptive right granted by the Company to maintain its percentage of holdings of approximately 10% of the common shares of the Company by acquiring 2,624,111 common shares. The Company paid the underwriters a commission equal to 5% of the gross proceeds of the offering upon closing, excluding the common shares purchased by AngloGold for which no commission was payable, for an aggregate commission of Cdn.\$1.44 million.

**Stock options**

On January 21, 2011, approximately 0.9 million stock options were granted to employees with an exercise price of Cdn.\$2.31 per share. These stock options have a term of five years and expire on January 20, 2016. One-third of these options will vest on January 21, 2012, another one-third will vest on January 20, 2013 and the remainder will vest on January 21, 2014. The estimated fair value of these options totalling approximately \$1 million is being recognized over the vesting period. The fair value was estimated at \$1.19 per option at the grant date using the Black-Scholes option pricing model based on a risk-free annual interest rate of approximately 1.95%, an expected life of 3.5 years, an expected volatility of 72%, and a dividend yield rate of nil.



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Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options at date of grant.

A summary of changes to stock options outstanding:

	<i>Number of outstanding options ('000's)</i>	<i>Weighted- average exercise price (in Cdn.\$)</i>
Outstanding at December 31, 2009	22,220	1.38
Granted	3,795	2.01
Exercised	(4,388)	0.87
Forfeited/expired	(5,998)	2.22
Outstanding at December 31, 2010	15,629	1.35
Granted	868	2.31
Exercised	(841)	1.02
Forfeited/expired	(14)	1.33
Outstanding at March 31, 2011	15,642	1.42

Stock options outstanding and exercisable as at March 31, 2011 are as follows:

	<i>Range of exercise price (in Cdn.\$)</i>	<i>Number of outstanding options ('000's)</i>	<i>Weighted- average years to expiry</i>	<i>Weighted- average exercise price (in Cdn.\$)</i>	<i>Number of exercisable options ('000's)</i>	<i>Weighted- average exercise price (in Cdn.\$)</i>
Issued:						
2009 ( <i>Central Sun replacement options</i> )	0.95 – 3.72	5,603	1.13	1.54	5,603	1.54
2009	0.80	5,766	3.37	0.80	5,766	0.80
2010	1.25 – 2.57	3,405	4.40	2.07	976	1.34
2011	2.31	868	4.94	2.31	-	2.31
		<u>15,642</u>	2.88	1.42	<u>12,345</u>	1.18

**NOTES TO FINANCIAL STATEMENTS**

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**Share purchase warrants**

A summary of changes to share purchase warrants outstanding:

	<i>Number of outstanding warrants (‘000’s)</i>	<i>Weighted- average exercise price (in Cdn.\$)</i>
Outstanding at December 31, 2009	51,015	2.21
Exercised	(25,027)	0.98
Expired	(2,588)	2.09
Outstanding at March 31, 2011 and December 31, 2010	23,400	3.54

As at March 31, 2011, the following warrants to purchase common shares of the Company were outstanding:

	<i>Number of outstanding and exercisable warrants (‘000’s)</i>	<i>Exercise price (in Cdn.\$)</i>
Expiring November 9, 2012 (Macquarie warrants)	2,000	0.97
Expiring May 15, 2011 (AngloGold warrants)	11,000	3.34
Expiring May 15, 2011 (AngloGold warrants)	10,400	4.25
	23,400	3.54

Included in the above table are 21.4 million warrants issued to AngloGold on May 15, 2008 (pursuant to the “Agreement to Amend the Relationship, Farm-Out and Joint Venture Agreement and regarding Gramalote Limited and Other Matters”). The AngloGold warrants are exercisable at any time prior to May 15, 2011 and consist of 11 million warrants exercisable at a price of Cdn.\$3.34 per share and 10.4 million warrants exercisable at a price of Cdn.\$4.25 per share. Also included above are 2 million warrants issued to Macquarie Bank Limited (“Macquarie warrants”) on November 6, 2009 as partial consideration for a revolving credit facility. Subsequent to March 31, 2011, the Macquarie warrants were fully exercised on April 12, 2011 and the AngloGold warrants expired unexercised on May 15, 2011.

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(Unaudited)

The following table shows the changes in the category "Value assigned to stock options and share purchase warrants" as presented under shareholders' equity on the balance sheets:

	<i>For the three months ended March 31, 2011 \$</i>	<i>For the year ended Dec. 31, 2010 \$</i>
Balance, beginning of period	19,971	23,212
Stock-based compensation - expensed	570	1,943
Stock-based compensation - capitalized to mining interests	72	427
Transfer to share capital on the exercise of stock options/ share purchase warrants	(381)	(5,611)
Balance, end of period	<b>20,232</b>	19,971

**10 Supplementary cash flow information**

Supplementary disclosure of cash flow information is provided in the table below:

	<i>For the three months ended March 31, 2011 \$</i>	<i>For the three months ended March 31, 2010 \$</i>
Non-cash investing and financing activities:		
Stock-based compensation, capitalized to resource property interests	72	157
Accounts payable and accrued liabilities relating to resource property expenditures	-	2,492

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(Unaudited)

**11 Segmented information**

The Company's reportable segments for the three months ended March 31, 2011 and 2010 are summarized in the following tables. The Libertad Mine achieved commercial production on February 1, 2010 following the completion of the conversion of the Libertad Mine from a heap leach mine to a conventional milling operation.

*For the three months ended March 31, 2011*

	<i>Limon Mine</i> \$	<i>Libertad Mine</i> \$	<i>Other Mineral Properties</i> \$	<i>Corporate &amp; Other</i> \$	<i>Total</i> \$
<b>Gold revenue</b>	15,473	38,028	-	-	53,501
<b>Net income (loss)</b>	2,227	14,280	-	(5,096)	11,411
<b>Capital expenditures</b>	5,119	9,000	5,250	393	19,762

*For the three months ended March 31, 2010*

	<i>Limon Mine</i> \$	<i>Libertad Mine</i> \$	<i>Other Mineral Properties</i> \$	<i>Corporate &amp; Other</i> \$	<i>Total</i> \$
<b>Gold revenue</b>	10,530	6,521	-	-	17,051
<b>Net income (loss)</b>	1,705	(1,131)	-	(4,879)	(4,305)
<b>Capital expenditures</b>	1,708	11,027	2,572	261	15,568

**NOTES TO FINANCIAL STATEMENTS****March 31, 2011**

(All tabular amounts are in thousands of United States dollars unless otherwise stated)

(Unaudited)

The Company's mining interests are located in the following geographical locations

	<i>As at March 31, 2011 \$</i>	<i>As at December 31, 2010 \$</i>
Mining interests		
Nicaragua	<b>160,634</b>	149,601
Colombia	<b>82,633</b>	79,007
Costa Rica	<b>3,139</b>	2,841
Uruguay	<b>1,951</b>	1,070
Canada	<b>106</b>	16
	<b>248,463</b>	232,535

**12 Compensation of key management**

Key management includes the Company's directors, members of the Executive Committee and members of Senior Management. Compensation to key management included:

	<i>For the three months ended March 31, 2011 \$</i>	<i>For the three months ended March 31, 2010 \$</i>
Salaries and short-term employee benefits	<b>2,116</b>	390
Share-based payments	-	128
	<b>2,116</b>	518

The increase in salaries and short-term employee benefits in the first quarter of 2011 compared to the same period in 2010 related mainly to bonuses paid to senior management in January 2011.

## **NOTES TO FINANCIAL STATEMENTS**

**March 31, 2011**

(All tabular amounts are in thousands of United States dollars unless otherwise stated)

(Unaudited)

### **13 Transition to International Financial Reporting Standards**

Effective January 1, 2011, Canadian publicly listed entities are required to prepare their financial statements in accordance with IFRS instead of Canadian GAAP. This mandate applies to interim reporting periods in 2011 and requires the 2010 comparative financial information to be in accordance with IFRS. Accordingly, although the Company is a first time reporter under IFRS in 2011, the underlying conversion is based on an effective transition date of January 1, 2010.

The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

#### ***Business combinations***

The Company elected to utilize the option in IFRS 1 to not apply IFRS 3R Business Combinations (“IFRS 3R”) retrospectively to business combinations prior to January 1, 2010 and to apply IFRS 3R prospectively to business combinations on or after the January 1, 2010 transition date. The impact of this policy decision is that all prior business combinations will continue to be accounted for as originally recorded under Canadian GAAP. There were no business combinations during 2010.

#### ***Borrowing costs***

The Company elected the option in IFRS 1 to not apply IAS 23 retrospectively to borrowing costs prior to January 1, 2010. The impact of this policy decision is that all previously expensed interest and related borrowing costs to January 1, 2010 will continue to be accounted for as originally recorded under Canadian GAAP.

#### ***Share based payments***

The Company elected the transition exemption available to not retrospectively apply the IFRS 2 calculation method to any share options granted and/or vested before January 1, 2010.

#### ***Mine restoration provisions***

The Company elected to apply the exemption from full retrospective application of decommissioning provisions as allowed under IFRS 1. As such, the Company has re-measured the provisions as at January 1, 2010 under IAS 37 ‘Provisions, contingent liabilities and contingent assets’; estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose using best estimates of the historical risk-free interest rates; and recalculated the related accumulated depreciation, depletion and amortization under IFRS up to the transition date.

**NOTES TO FINANCIAL STATEMENTS**

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(Unaudited)

The Canadian GAAP and IFRS statements of equity as at January 1, 2010 (date of transition to IFRS), March 31, 2010 and December 31, 2010 have been reconciled as follows:

	<i>Notes (see below)</i>	<i>As at December 31, 2010 \$</i>	<i>As at March 31, 2010 \$</i>	<i>As at January 1, 2010 \$</i>
Equity as reported under Canadian GAAP		288,639	225,692	199,663
IFRS adjustments:				
Derivative instrument ("share purchase warrants")	<i>(i)</i>			
- to reclassify the fair value at the date of grant from contributed surplus to derivative liability		(4,588)	(4,588)	(4,588)
- cumulative derivative losses incurred on revaluation of warrants		(11,672)	(1,728)	(1,688)
- transfer to share capital the fair value from derivative liability upon exercise of the warrants		16,260	-	-
Mine restoration provisions	<i>(ii)</i>	234	(27)	(54)
Borrowing costs	<i>(iii)</i>	797	542	-
Depreciation	<i>(iv)</i>	(434)	(33)	-
Deferred income taxes	<i>(v)</i>	895	808	1,021
		1,492	(5,026)	(5,309)
Equity as reported under IFRS		290,131	220,666	194,354

The Canadian GAAP and IFRS statements of total comprehensive income for the three months ended March 31, 2010 and the year ended December 31, 2010 have been reconciled as follows:

	<i>Notes (see below)</i>	<i>For the three months ended March 31, 2010 \$</i>	<i>For the year ended December 31, 2010 \$</i>
Comprehensive income (loss) as reported under Canadian GAAP		(4,588)	29,490
IFRS adjustments:			
Derivative instrument loss ("share purchase warrants")	<i>(i)</i>	(40)	(9,984)
Mine restoration provisions	<i>(ii)</i>	27	287
Borrowing costs	<i>(iii)</i>	542	797
Depreciation	<i>(iv)</i>	(33)	(434)
Deferred income taxes	<i>(v)</i>	(213)	(125)
		283	(9,459)
Comprehensive income (loss) as reported under IFRS		(4,305)	20,031

**NOTES TO FINANCIAL STATEMENTS**

**March 31, 2011**

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(Unaudited)

The Canadian GAAP and IFRS consolidated balance sheets as at January 1, 2010 have been reconciled as follows:

	Notes (see below)	As at December 31, 2009 "Canadian GAAP"	Effect of conversion to IFRS	As at January 1, 2010 "IFRS GAAP"
<b>Assets</b>				
<b>Current</b>				
Cash and cash equivalents		\$ 2,924	\$ -	\$ 2,924
Accounts receivable and prepaids		4,925	-	4,925
Value-added and other tax receivables		3,173	-	3,173
Inventories		10,263	-	10,263
Marketable securities		369	-	369
Note receivable		1,700	-	1,700
		23,354	-	23,354
<b>Mining interests</b>		222,220		
	(v)		(10,595)	
	(ii)		1,710	213,335
<b>Other assets</b>		1,780	-	1,780
		\$ 247,354	\$ (8,885)	\$ 238,469
<b>Liabilities</b>				
<b>Current</b>				
Accounts payable and accrued liabilities		\$ 10,051	\$ -	\$ 10,051
Current portion of mine restoration provisions		658	-	658
Related party loans		1,061		1,061
Derivative instrument	(i)	-	6,276	6,276
		11,770	6,276	18,046
<b>Credit Facility</b>		8,642	-	8,642
<b>Mine restoration provisions</b>	(ii)	13,166	1,764	14,930
<b>Deferred income taxes</b>	(v)	11,616	(11,616)	-
<b>Other liabilities</b>		2,497	-	2,497
		47,691	(3,576)	44,115
<b>Equity</b>				
<b>Shareholders' equity</b>				
Share capital		233,842	-	233,842
Contributed surplus	(i)	27,800	(4,588)	23,212
Accumulated deficit		(61,979)		
	(i)		(1,688)	
	(ii)		(54)	
	(v)		1,021	(62,700)
		199,663	(5,309)	194,354
		\$ 247,354	\$ (8,885)	\$ 238,469



## **NOTES TO FINANCIAL STATEMENTS**

**March 31, 2011**

(All tabular amounts are in thousands of United States dollars unless otherwise stated)

(Unaudited)

(i) *Derivative instrument liability ("share purchase warrants")*

The Company's Canadian dollar denominated common share purchase warrants issued as part of the March 2009 Central Sun acquisition are considered derivative instruments under IFRS as they are denominated in Canadian dollars while the Company's functional currency is the United States dollar. Under Canadian GAAP, the Company recorded the fair value of these warrants as of the date of grant in equity. Under IFRS, these derivatives are measured at fair value at the time of issue and subsequently re-measured to their fair value at each reporting date. The change in the fair value is recognized in the statement of operations.

As at January 1, 2010, the fair value of these warrants based on the Black Scholes model was \$6.3 million and was classified as a derivative instrument liability on the balance sheet. This adjustment was comprised of the fair value initially assigned to the warrants at the date of grant of \$4.6 million and changes in the fair value of the warrants of \$1.7 million from grant to January 1, 2010. Derivative instrument liability losses were \$0.04 million for the three months ended March 31, 2010 and \$10 million for the period January 1, 2010 to October 22, 2010 (all warrants were either exercised or expired by October 22, 2010). Upon exercise of the warrants a total of \$16.3 million had been transferred from derivative liability to share capital.

(ii) *Mine restoration provisions*

Canadian GAAP calculates mine restoration provisions using current credit-adjusted, risk-free rates for upward adjustments, and the original credit adjusted, risk free rate for downward revisions. The original liability is not adjusted for changes in current discount rates. IFRS however, calculates mine restoration provisions using a current pre-tax discount rate, (which reflects current market assessment of the time value of money and the risk specific to liability) and is revised every reporting period to reflect changes in assumptions or discount rates. To calculate the provision under IFRS, the Company has elected to apply the exemption available from full retrospective application as allowed under IFRS 1. As such, the Company has re-measured the provision as at January 1, 2010 and subsequent change in obligations under IAS 37 Provisions, contingent liabilities and contingent assets, estimating the amount to be included in the related asset by discounting the liability to the date of first disturbance in which the liability arose, using best estimates of the historical risk-free discount rates, and recalculating the accumulated depreciation and amortization under IFRS.

The adjustment resulting from recalculating the provision under IFRS was an increase in mine restoration provisions of \$1.8 million at January 1, 2010, \$1.8 million at March 31, 2010 and \$5.1 million at December 31, 2010, an increase in mining interests of \$1.7 million at January 1, 2010, \$1.7 million at March 31, 2010 and \$5.2 million at December 31, 2010, and an adjustment to deficit of \$0.05 million at January 1, 2010, \$0.03 million at March 31, 2010 and \$0.03 million at December 31, 2010. The significant changes in the provision are a result of the change from credit adjusted discount rates ranging from 8.5% to 12.0% under Canadian GAAP to risk free rates ranging from 2.3% to 9.0% under IFRS and the requirement to recalculate the provision at each reporting period.

(iii) *Borrowing costs*

Under IFRS, there are no policy choices available for capitalization of borrowing costs. IFRS requires borrowing costs to be capitalized on qualifying assets which take a substantial period of time to prepare for their intended use. A capitalization rate based on the Company's outstanding debt was used to calculate the amount of borrowing costs to capitalize on the qualifying assets. The increase in mining interests was \$nil at January 1, 2010, \$0.5 million at March 31, 2010 and \$0.8 million at December 31, 2010, with a corresponding reduction in interest and financing expense.

## **NOTES TO FINANCIAL STATEMENTS**

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(iv) *Depreciation*

Under IFRS, as described above, the net carrying values of mining interests were increased due to changes in the capitalized mine restoration provisions and capitalized borrowing costs. These adjustments resulted in an increase to the depreciation expense by \$0.03 million for the three months ended March 31, 2010 and \$0.4 million for the year ended December 31, 2010.

(v) *Deferred income taxes*

Under Canadian GAAP the Company recognized a future income tax liability on temporary differences arising on the initial recognition of mineral properties acquired other than in business combinations. IAS 21 Income Taxes does not permit the recognition of deferred taxes on such transactions. The impact of the de-recognition of the deferred income taxes was a reduction of \$11.6 million to the deferred tax liability at January 1, 2010, \$11.5 million at March 31, 2010 and \$9.8 million at December 31, 2010 and a reduction to mining interests of \$10.6 million at January 1, 2010, \$10.7 million at March 31, 2010 and \$10.9 million at December 31, 2010. In addition, as part of the IFRS conversion, deferred income tax recoveries of \$0.8 million and \$0.3 million in 2009 and 2008 were reversed to accumulated deficit.

(vi) *Statements of Cash Flows*

The Company presents cash interest paid as a financing activity in the statements of cash flows under IFRS. Under Canadian GAAP, cash interest paid was included as an operating activity. This change in classification under IFRS increased the cash flow from operating activities and decreased the cash flow from financing activities by \$0.4 million for the three months ended March 31, 2010 compared to Canadian GAAP.

### **14 Subsequent events**

Subsequent to March 31, 2011, approximately 2 million share purchase warrants and 1.9 million stock options were exercised for gross proceeds of approximately \$2 million and \$1.8 million, respectively.

On May 15, 2011, 21.4 million AngloGold warrants expired unexercised (*Note 9*).

**MINING INTERESTS SCHEDULE (NOTE 15)**  
**For the three months ended March 31, 2011**  
 (all tabular amounts are in thousands of United States dollars)

	Cost				Accumulated depreciation			Net carrying value		
	Opening balance at Dec. 31, 2010	Additions	Disposals/write-offs	Reclass from assets held for sale	Closing balance at Mar. 31, 2011	Opening balance at Dec. 31, 2010	Depreciation	Closing balance at Mar. 31, 2011	As at Mar. 31, 2011	As at Dec. 31, 2010
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Property, plant & equipment										
Libertad	122,327	9,121	-	-	131,448	(9,657)	(3,512)	(13,169)	118,279	112,670
Limon	41,657	5,754	-	-	47,411	(9,207)	(1,684)	(10,891)	36,520	32,450
	163,984	14,875	-	-	178,859	(18,864)	(5,196)	(24,060)	154,799	145,120
Mineral properties "exploration & evaluation"										
Mocoa	23,359	48	-	-	23,407	-	-	-	23,407	23,359
Libertad (Jabali)	2,485	581	-	-	3,066	-	-	-	3,066	2,485
Radius	1,758	405	-	-	2,163	-	-	-	2,163	1,758
Cebollati	1,070	881	-	-	1,951	-	-	-	1,951	1,070
Calibre	238	368	-	-	606	-	-	-	606	238
	28,910	2,283	-	-	31,193	-	-	-	31,193	28,910
Corporate & other										
Bellavista	2,841	298	-	-	3,139	-	-	-	3,139	2,841
Office, furniture & equipment	285	96	-	-	381	(269)	(6)	(275)	106	16
	3,126	394	-	-	3,520	(269)	(6)	(275)	3,245	2,857
Investments (incorporated joint ventures)										
Gramalote	54,648	3,377	-	-	58,025	-	-	-	58,025	54,648
Quebradona	1,000	201	-	-	1,201	-	-	-	1,201	1,000
	55,648	3,578	-	-	59,226	-	-	-	59,226	55,648
	251,668	21,130	-	-	272,798	(19,133)	(5,202)	(24,335)	248,463	232,535

**MINING INTERESTS SCHEDULE (NOTE 15)**

**For the year ended December 31, 2010**

(all tabular amounts are in thousands of United States dollars)

	Cost				Accumulated depreciation			Net carrying value		
	Opening balance at Jan. 1, 2010	Additions	Disposals/write-offs	Reclass from assets held for sale	Closing balance at Dec. 31, 2010	Opening balance at Jan. 1, 2010	Depreciation	Closing balance at Dec. 31, 2010	As at Dec. 31, 2010	As at Jan. 1, 2010
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Property, plant & equipment										
Libertad	101,280	21,047	-	-	122,327	-	(9,657)	(9,657)	112,670	101,280
Limon	28,792	12,865	-	-	41,657	(2,281)	(6,926)	(9,207)	32,450	26,511
	130,072	33,912	-	-	163,984	(2,281)	(16,583)	(18,864)	145,120	127,791
Mineral properties "exploration & evaluation"										
Mocoa	22,958	401	-	-	23,359	-	-	-	23,359	22,958
Libertad (Jabali)	-	2,485	-	-	2,485	-	-	-	2,485	-
Radius	345	1,413	-	-	1,758	-	-	-	1,758	345
Cebollati	-	1,070	-	-	1,070	-	-	-	1,070	-
Calibre	241	2,838	(2,841)	-	238	-	-	-	238	241
Kupol E&W Licenses	7,840	929	(8,769)	-	-	-	-	-	-	7,840
	31,384	9,136	(11,610)	-	28,910	-	-	-	28,910	31,384
Corporate & other										
Bellavista	2,206	635	-	-	2,841	-	-	-	2,841	2,206
Office, furniture & equipment	285	-	-	-	285	(245)	(24)	(269)	16	40
	2,491	635	-	-	3,126	(245)	(24)	(269)	2,857	2,246
Investments (incorporated joint ventures)										
Gramalote	51,914	2,734	-	-	54,648	-	-	-	54,648	51,914
Quebradona	-	-	-	1,000	1,000	-	-	-	1,000	-
	51,914	2,734	-	1,000	55,648	-	-	-	55,648	51,914
	215,861	46,417	(11,610)	1,000	251,668	(2,526)	(16,607)	(19,133)	232,535	213,335