
MALBEX RESOURCES INC.

(An Exploration Stage Company)

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND 2009

(Expressed In Canadian Dollars Except As Otherwise Indicated)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Malbex Resources Inc. were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities.

The Board of Directors exercises its responsibilities through the Audit Committee of the Board which meets to satisfy itself that management's responsibilities are properly discharged and with the external auditors to review the financial statements before they are presented to the Board of Directors for approval.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Consolidated Balance Sheets

As at December 31, 2010 and September 30, 2010

(Expressed in Canadian Dollars)

(Unaudited)

	December 31, 2010	September 30, 2010
ASSETS		
Current		
Cash	\$ 9,042,646	\$ 11,614,028
Receivables	14,520	63,122
Prepaid expenses	205,197	126,585
	9,262,363	11,803,735
Equipment (Note 7)	317,310	326,613
Deferred mineral property expenditures (Note 6)	10,983,692	9,277,101
Mineral property acquisitions (Note 6)	44,382	66,573
Restricted cash (Note 6)	2,242,294	2,319,655
	13,587,678	11,989,942
	\$ 22,850,041	\$ 23,793,677
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 872,045	\$ 476,939
	872,045	476,939
SHAREHOLDERS' EQUITY		
Capital stock (Note 8)	21,688,766	21,294,316
Warrants (Note 10(a))	4,101,475	4,173,925
Broker warrants (Note 10(b))	562,078	562,078
Contributed surplus	4,035,964	3,119,801
Accumulated deficit	(8,410,287)	(5,833,382)
	21,977,996	23,316,738
	\$ 22,850,041	\$ 23,793,677

Nature of Operations and Going Concern (Note 1)

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

Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the three month periods ended December 31, 2010 and December 31, 2009

(Expressed in Canadian dollars, except number of shares)

(Unaudited)

	Three months ended	
	December 31,	
	2010	2009
EXPENSES		
Corporate, general and administrative	\$ 464,249	\$ 320,889
Stock-based compensation (Note 9)	629,169	1,505,000
Professional fees	11,541	90,320
Amortization	6,181	6,712
	1,111,140	1,922,921
Other expense (income)		
Interest	(187)	(3,454)
Writedown - mineral properties (Note 6)	1,132,685	-
Foreign exchange loss	333,267	62,987
Net loss and comprehensive loss	2,576,905	1,982,454
Deficit - beginning of period	5,833,382	2,074,763
Deficit - end of period	\$ 8,410,287	\$ 4,057,217
Loss per share	\$ 0.03	\$ 0.04
Weighted average number of shares outstanding	98,908,878	55,259,337

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

Consolidated Statements of Cash Flows

For the three month periods ended December 31, 2010 and December 31, 2009

(Expressed in Canadian dollars)

(Unaudited)

	Three months ended December 31,	
	2010	2009
Cash flow provided by (used in) operating activities		
Loss for the period	\$ (2,576,905)	\$ (1,982,454)
Items not affecting cash		
Amortization	6,181	6,712
Unrealized foreign exchange loss	226,624	50,282
Stock-based compensation	629,169	1,505,000
Writedown of deferred mineral properties (Note 6)	1,132,685	-
Net change in non-cash working capital		
Receivables	48,562	(64,649)
Prepaid expenses	(33,137)	(67,306)
Accounts payable and accrued liabilities	(189,496)	(383,850)
	\$ (756,317)	\$ (936,265)
Cash flow provided by (used in) investing activities		
Investment in Mineral Properties	(2,514,817)	(1,416,723)
Acquisition of equipment	(12,152)	(190,671)
Net change in non-cash working capital		
Receivables	40	(332,345)
Prepaid expenses	(45,475)	(110,806)
Accounts payable and accrued liabilities	584,602	554,024
	\$ (1,987,802)	\$ (1,496,521)
Cash flow provided by (used in) financing activities		
Issuance of common shares, net of costs (Note 8)	-	37,500
Exercise of warrants (Note 10(a))	322,000	-
Decrease (increase) in restricted cash (Note 8(b)(i))	-	7,875,616
Net assets acquired from reverse takeover (Note 5)	-	773,601
	\$ 322,000	\$ 8,686,717
Increase (decrease) in cash and cash equivalents	(2,422,119)	6,253,931
Effect of foreign exchange on cash	(149,263)	(329)
Cash - beginning of period	11,614,028	557,118
Cash - end of period	\$ 9,042,646	\$ 6,810,720

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

Consolidated Statements of Shareholders' Equity

For the period ended December 31, 2010 and September 30, 2010

(Expressed in Canadian dollars)

(Unaudited)

	Capital Stock	Subscription Receipts	Warrants	Broker Warrants	Contributed Surplus	Accumulated Deficit	Total
Balance, September 30, 2009	\$ 3,469,580	\$ 1,978,220	\$ 607,640	\$ 334,378	\$ 930,975	\$ (2,074,763)	\$ 5,246,030
Conversion of subscription receipts	10,637,500	(2,839,439)	-	-	-	-	7,798,061
Issuance of warrants - valuation	(1,668,785)	-	1,668,785	-	-	-	-
Cost of issue - cash	(861,219)	861,219	-	-	-	-	-
Arapaho assets acquired, net of costs	321,372	-	-	-	-	-	321,372
Exercise of stock options	37,500	-	-	-	-	-	37,500
Stock-based compensation	-	-	-	-	2,188,826	-	2,188,826
Public offering	9,358,368	-	1,897,500	227,700	-	-	11,483,568
Net loss for the period	-	-	-	-	-	(3,758,619)	(3,758,619)
Balance, September 30, 2010	\$ 21,294,316	\$ -	\$ 4,173,925	\$ 562,078	\$ 3,119,801	\$ (5,833,382)	\$ 23,316,738
Stock-based compensation	-	-	-	-	916,163	-	916,163
Proceeds from exercise of warrants	322,000	-	-	-	-	-	322,000
Value of warrants exercised	72,450	-	(72,450)	-	-	-	-
Net loss for the period	-	-	-	-	-	(2,576,905)	(2,576,905)
Balance, December 31, 2010	\$ 21,688,766	\$ -	\$ 4,101,475	\$ 562,078	\$ 4,035,964	\$ (8,410,287)	\$ 21,977,996

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

Notes to Interim Consolidated Financial Statements

For the three month periods ended December 31, 2010 and 2009

(Unaudited)

(Tabular amounts expressed in Canadian dollars, unless otherwise stated)

1. NATURE OF OPERATIONS AND GOING CONCERN

Malbex Resources Inc. (the "Company" or "Malbex") was originally incorporated on April 7, 1998 under the laws of British Columbia and operated as Arapaho Capital Corp. ("Arapaho") until December 8, 2009. Effective December 8, 2009, Arapaho operates on a continuing basis under the laws of Ontario and has operated since that date as Malbex Resources Inc.

The Company is a gold exploration company with projects in San Juan, Argentina. As a result of the Company having only exploration agreements for its properties, the Company is considered to be an exploration stage company.

The Company has four wholly-owned subsidiaries: Malbex Nominee Inc., Malbex Cooperatief U.A., Malbex B.V. and Malbex San Juan S.A. Malbex San Juan S.A. is incorporated under the laws of Argentina and holds the interest in, and administers activity on, the Company's properties.

The Company is in the process of determining whether the mineral properties on which it holds exploration agreements contain mineral reserves that are economically recoverable. The recoverability of amounts shown for deferred exploration costs and acquisition costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing for their development and future profitable production or proceeds from the disposition of the mineral properties. In addition, the projects may be subject to changes in existing government regulations, for example, designation of project areas as environmentally sensitive, which could impact the recovery of the carrying value of deferred mineral property expenditures.

These unaudited interim consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles ("Canadian GAAP" or "GAAP") which assumes that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at December 31, 2010, the Company had no sources of operating cash flows and does not have sufficient cash to fund the exploration and development of the projects, therefore it will require additional funding which, if not raised, would result in the curtailment of these activities. On an ongoing basis, the Company examines various financing alternatives to address future funding requirements. There is no guarantee of sufficiency or success of these alternatives.

These circumstances lend significant doubt as to the Company's ability to continue as a going concern and, accordingly, the use of accounting principles applicable to a going concern. These unaudited interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern assumption were not appropriate for these unaudited interim consolidated financial statements, then adjustments to the carrying values of the assets and liabilities, the reported expenses and the balance sheet classifications, which could be material, would be necessary.

2. BASIS OF PRESENTATION AND FUTURE ACCOUNTING CHANGES

These unaudited interim consolidated financial statements of Malbex have been prepared by management after giving effect to the October 30, 2009 reverse takeover transaction (the "RTO") between Arapaho and Malbex Resources Inc. ("Pre-RTO Malbex") (Note 5). Subsequent to the reverse takeover transaction, Arapaho operates on a continuing basis as Malbex Resources Inc.

The unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian GAAP. Certain information and disclosures normally required to be included in notes to annual financial statements have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three months ended December 31, 2010 may not necessarily be indicative of the results that may be expected for the year ending September 30, 2011.

Notes to Interim Consolidated Financial Statements

For the three month periods ended December 31, 2010 and 2009

(Unaudited)

(Tabular amounts expressed in Canadian dollars, unless otherwise stated)

The balance sheet at September 30, 2010 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by Canadian GAAP for annual financial statements. The unaudited interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual audited consolidated financial statements for the year ended September 30, 2010, except as noted below. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended September 30, 2010.

Future Accounting Changes

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The new standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

3. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of capital stock, warrants, broker warrants, contributed surplus and accumulated deficit, which at December 31, 2010 totaled \$21,977,996 (September 30, 2010 - \$23,316,738). When managing capital, the Company's objective is to ensure Malbex continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of its mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business.

The properties for which the Company currently has exploration agreements are in the exploration stage. As such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration program and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts when economic conditions permit it to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the three month period ended December 31, 2010. The Company is not subject to externally imposed capital requirements.

4. FINANCIAL RISK FACTORS

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk, including interest rate, foreign currency rate, and commodity price risk.

Financial risk management is carried out by the Company's management team with guidance from the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Notes to Interim Consolidated Financial Statements

For the three month periods ended December 31, 2010 and 2009

(Unaudited)

(Tabular amounts expressed in Canadian dollars, unless otherwise stated)

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and receivables. Cash is held with reputable Canadian, Argentinean and European chartered banks which are closely monitored by management. Financial instruments included in receivables consist of value-added tax receivable from government authorities in Canada and Argentina and deposits held with service providers.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2010, the Company had cash of \$9,042,646 to settle current liabilities of \$872,045. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and commodity prices.

i) Interest Rate Risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in interest-bearing accounts of major Canadian chartered banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its financial institutions.

ii) Foreign Currency Risk

The Company's functional currency is the Canadian Dollar and major purchases are transacted in Argentinean Pesos and United States Dollars. The Company funds certain operations, exploration and administrative expenses in Argentina on a cash call basis from the country manager of the Argentina projects using the United States Dollar. Management believes the foreign exchange risk derived from currency conversions is low and therefore does not hedge its foreign exchange risk.

iii) Commodity Price Risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company monitors commodity prices as they relate to precious metals and the stock market to determine the appropriate course of action to be taken.

Fair Value

The Company has designated its cash and receivables as loans and receivables held-for-trading, which are measured at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at December 31, 2010, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

- i) Interest rate risk is remote as the Company does not hold any short term investments to give rise to exposure to interest rate risk.

Notes to Interim Consolidated Financial Statements

For the three month periods ended December 31, 2010 and 2009

(Unaudited)

(Tabular amounts expressed in Canadian dollars, unless otherwise stated)

- ii) The Company is exposed to foreign currency risk on fluctuations related to cash, restricted cash and accounts payable and accrued liabilities that are dominated in the U.S. Dollar, Argentinean Peso and European Euro. Sensitivity to a plus or minus 10% change in the foreign exchange rates would affect net loss and comprehensive loss by approximately \$900,000 with all other variables held constant.
- iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development of its properties depends in part upon the world market price of gold. Gold prices have fluctuated widely in recent years. There is no assurance that, even as commercial quantities of gold may be produced in the future, a profitable market will exist for them. A decline in the market price of gold may also require the Company to reduce its carrying value of deferred mineral property expenditures, which could have a material and adverse effect on the Company's value.

5. REVERSE TAKEOVER

On October 30, 2009, the Company completed an RTO with Pre-RTO Malbex. In accordance with the Emerging Issues Committee Abstract 10, "Reverse Takeover Accounting" the RTO is not considered a business combination and Pre-RTO Malbex is the accounting acquiror. The RTO has been accounted for as the issuance of shares by Pre-RTO Malbex for the net monetary assets of Arapaho with consideration, net of transaction costs, added to share capital.

Current assets acquired	\$	830,107	
Less : Current liabilities			(13,519)
<hr/>			
Net assets acquired			816,588
Transaction costs			(495,216)
<hr/>			
Net assets acquired	\$	321,372	

In accounting for the RTO, certain estimates are made by management in order to arrive at the fair values of assets acquired under reverse takeover transactions that are in substance capital transactions and which do not constitute business combinations.

Arapaho's retained earnings, share capital and contributed surplus have been eliminated upon consolidation.

The RTO was effected by way of an amalgamation (the "Amalgamation") whereby Pre-RTO Malbex amalgamated with a wholly-owned subsidiary of the Company and shareholders of Pre-RTO Malbex received common shares of the Company ("Common Shares") in exchange for their common shares of Pre-RTO Malbex ("Pre-RTO Malbex Shares") on the basis of one Common Share for every 1.5 Pre-RTO Malbex Shares (the "Exchange Ratio"). The RTO resulted in a change of control of the Company and constituted a reverse takeover under the policies of the TSX Venture Exchange.

As a result of completing the Amalgamation, the Company indirectly holds all of the assets of Pre-RTO Malbex, including the Del Carmen, Despoblados, and Los Amarillos exploration projects located in the Province of San Juan, Argentina. In addition, upon completion of the Amalgamation, \$7.8 million, representing the escrowed portion of the gross proceeds raised by Pre-RTO Malbex in a June 30, 2009 \$10.6 million private placement of 21,275,000 subscription receipts (the "Malbex Subscription Receipts")(see Note 8(b)(i)), was released from escrow.

Immediately prior to completion of the Amalgamation, each Pre-RTO Malbex Subscription Receipt was automatically exchanged, without the payment of any additional consideration, for one unit of Pre-RTO Malbex. Each unit consisted of one Pre-RTO Malbex Share and one-half of one common share purchase warrant of Pre-RTO Malbex (each whole warrant a "Pre-RTO Malbex Warrant"). At the effective time of the Amalgamation, among other things, outstanding Pre-RTO Malbex Shares (including those Pre-RTO Malbex Shares issued upon the deemed exchange of the Pre-RTO Malbex Subscription Receipts) and Pre-RTO Malbex Warrants were exchanged for Common Shares and common share purchase warrants of Malbex ("Replacement Warrants"), respectively, on

Notes to Interim Consolidated Financial Statements

For the three month periods ended December 31, 2010 and 2009

(Unaudited)

(Tabular amounts expressed in Canadian dollars, unless otherwise stated)

the basis of the Exchange Ratio. Each Replacement Warrant entitles the holder thereof to purchase one Common Share at an exercise price of \$1.125 per Common Share until April 29, 2011, provided that, if the closing price of the Common Shares on a stock exchange in Canada is higher than \$1.50 per Common Share for a period of 20 consecutive trading days, the Company may accelerate the expiry date of the Replacement Warrants by giving notice to the holders thereof and in such case the Replacement Warrants will expire on the 30th day after the date on which such notice is given by the Company. In addition, under the Amalgamation, outstanding broker warrants of Pre-RTO Malbex were exchanged for broker warrants of the Company ("Replacement Broker Warrants") on the basis of the Exchange Ratio. Outstanding options ("Malbex Options") to purchase Pre-RTO Malbex Shares granted under the share option plan of Pre-RTO Malbex entitle the holders thereof to acquire Common Shares, on the basis of the Exchange Ratio, upon the exercise thereof.

As a result of the Amalgamation, as at October 30, 2009, there were 56,308,301 Common Shares outstanding, of which 49,383,301 Common Shares, representing approximately 87.7 per cent of the outstanding Common Shares, were held by the former Pre-RTO Malbex shareholders. In addition, an aggregate of 9,755,908 Common Shares were reserved for issue upon the exercise of outstanding options of the Company, Malbex Options, Replacement Warrants and Replacement Broker Warrants.

6. DEFERRED MINERAL PROPERTY EXPENDITURES

	Three Months Ended	
	December 31,	
	2010	2009
Balance, beginning of period	\$ 8,533,615	\$ 2,160,293
Additions:		
Land / Concession	54,622	50,138
Geology	363,427	326,175
Surface drilling	571,079	159,831
Geochemical studies	-	3,871
Geophysical studies	23,474	26,801
Environmental studies	20,895	8,498
Road and drill pad preparation	335,493	344,991
Data gathering	-	5,029
Field camp	474,353	242,520
Transportation	55,308	21,603
Medical services	30,409	3,511
Communications	7,204	10,920
Project management	158,188	444,092
Logistics and indirect costs	525,490	416,098
Value-added tax	940,629	-
Mineral property writedown	(1,110,494)	-
	2,450,077	2,064,078
Total deferred mineral property expenditures	\$ 10,983,692	\$ 4,224,371

Notes to Interim Consolidated Financial Statements

For the three month periods ended December 31, 2010 and 2009

(Unaudited)

(Tabular amounts expressed in Canadian dollars, unless otherwise stated)

On August 14, 2008, the Company entered into three mining exploration agreements (the "Agreements") with exploitation options with the Provincial Institute of Mining and Exploration of the Province of San Juan, Argentina ("IPEEM") for the mining areas called "Del Carmen", "Los Despoblados" and "Arroyo de los Amarillos", located in San Juan province, Argentina.

Under the terms of the Agreements, IPEEM granted the Company the exclusive right to carry out, during the term of the Agreements, mining prospecting and exploration activities in these mining areas with the option to undertake exploitation and trading activities of first category ores and minerals located in the said mining areas. The option to exploit carries an initial term of 30 years with an option to renew for the life-span of the mine.

Pursuant to the Agreements, the Company is / was required to:

- make staged investments totaling USD \$45,000,000 on the three mining properties over the 5 1/2 year term of the agreements. The minimum investment may be increased, at the Company's option, if the progress of exploratory work should so require.
- pay, upon the execution of the Agreements and in consideration for the rights, the amount of USD \$20,000 for each of the three mining areas, USD \$60,000 (CAD \$66,573) in total – paid in 2008.
- pay, on a monthly basis, the amount of USD \$11,400 in total for the three mining areas.
- deliver to IPEEM a contractual guarantee of USD \$2,250,000 in total for the commitment of the Company in respect of the three mining areas, which is held in an account at an international insurance company as restricted cash, as security for the contractual guarantee given to IPEEM by the international insurance company.

During the quarter ended December 31, 2010, the Company decided to curtail its exploration activities at Los Amarillos and has written down the carrying value of this area by \$1,110,494 to nil. The Company has also written down mineral property acquisitions by \$22,191 which represents the initial consideration paid for the rights to Los Amarillos.

Included in mineral properties is long-term value-added tax receivables. The Company has long-term value-added tax receivables from the government of Argentina in respect of its exploration activities. These receivables are refundable to the Company 12 months after the receivable is established, however only two refund requests may be submitted in any one calendar year. As a result and since the Company has not yet recovered any value-added taxes from the government of Argentina, the actual timing of receipt is uncertain and therefore value-added taxes have been classified as non-current assets.

The following table reflects the continuity of value-added tax receivables for the three month period ended December 31, 2010:

	Value-added tax recoverable
Balance - September 30, 2010	\$ 743,486
Additions	227,403
Foreign exchange movement	(30,260)
Balance - December 31, 2010	\$ 940,629

Notes to Interim Consolidated Financial Statements

For the three month periods ended December 31, 2010 and 2009

(Unaudited)

(Tabular amounts expressed in Canadian dollars, unless otherwise stated)

7. EQUIPMENT

December 31, 2010	Cost	Accumulated Depreciation	Net Book Value
Office equipment	\$ 67,921	\$ 9,750	\$ 58,171
Computer equipment	87,056	18,565	68,491
Computer software	38,545	35,855	2,690
Vehicles	158,404	61,061	97,343
Other equipment	104,992	14,377	90,615
	\$ 456,918	\$ 139,608	\$ 317,310

September 30, 2010	Cost	Accumulated Depreciation	Net Book Value
Office equipment	\$ 67,921	\$ 6,689	\$ 61,232
Computer equipment	76,330	13,693	62,637
Computer software	38,545	34,958	3,587
Vehicles	158,404	53,168	105,236
Other equipment	103,566	9,645	93,921
	\$ 444,766	\$ 118,153	\$ 326,613

As at December 31, 2010, \$85,537 (September 30, 2010 - \$70,263) of accumulated amortization was capitalized to deferred mineral property exploration costs. During the quarter ended December 31, 2010, \$15,274 was capitalized to deferred mineral property costs (December 31, 2009 - \$15,256).

8. CAPITAL STOCK

(a) Authorized - Unlimited number of common shares

(b) Issued

	Number of Shares	Amount
Balance - September 30, 2009	52,799,996	\$ 3,469,580
Conversion of subscription receipts (i)	21,275,000	10,637,500
Issuance of warrants - valuation (i)	-	(1,668,785)
Cost of issue - cash	-	(861,219)
Pre reverse takeover issued common shares	74,074,996	11,577,076
Reduction in issued common shares resulting from reverse takeover (Note 5)	(24,691,695)	-
Net Arapaho assets acquired, net of costs (Note 5)	6,925,000	321,372
Exercise of stock options	150,000	37,500
Public issuance (ii)	42,166,664	12,650,000
Issuance of warrants - valuation (ii)	-	(1,897,500)
Issuance of broker warrants valuation (ii)	-	(227,700)
Cost of issue - cash	-	(1,166,432)
Balance - September 30, 2010	98,624,965	\$ 21,294,316
Exercise of warrants (iii)	805,000	322,000
Exercise of warrants - transfer of valuation (iii)	-	72,450
Balance - December 31, 2010	99,429,965	\$ 21,688,766

Notes to Interim Consolidated Financial Statements

For the three month periods ended December 31, 2010 and 2009

(Unaudited)

(Tabular amounts expressed in Canadian dollars, unless otherwise stated)

- (i) On June 30, 2009, the Company completed a private placement of 21,275,000 Subscription Receipts at a price of \$0.50 per Subscription Receipt for gross proceeds of \$10,637,500. Each Subscription Receipt being exchangeable, without payment of any consideration in addition to the purchase price therefore, for one common share and one-half of one warrant.

Upon completion of the private placement, the non-escrowed proceeds, amounting to \$2,839,439, were released to the Company. The remaining portion of the aggregate gross proceeds of \$7,798,061 was held in escrow and was released to the Company upon completion of the RTO as described in Note 5. The portion held in escrow was treated as a liability until the RTO was completed and the proceeds released from escrow.

A fair value of \$2,276,425 was assigned to the warrants, as calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%; expected volatility 100%; risk free rate of return 1.20%, and an expected maturity of two years.

A fair value of \$334,378 was assigned to the broker warrants, as calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%; expected volatility 100%; risk free rate of return 1.20%, and an expected maturity of two years.

- (ii) On June 22, 2010, the Company completed a public offering of 42,166,664 Units at a price of \$0.30 per Unit for gross proceeds of \$12,650,000. Share issuance costs of \$1,166,432 have been offset against equity. Each Unit being exchangeable, without payment of any consideration in addition to the purchase price therefore, for one common share and one-half of one warrant.

A relative fair value of \$1,897,500 was assigned to the warrants. The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield 0%; expected volatility 100%; risk free rate of return 1.51%, and an expected maturity of two years.

A relative fair value of \$227,700 was assigned to the broker warrants. The fair value of the broker warrants was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield 0%; expected volatility 100%; risk free rate of return 1.51%, and an expected maturity of two years.

- (iii) During the quarter ended December 31, 2010, 805,000 warrants were exercised, each exchangeable for one common share, for gross proceeds of \$322,000. The relative fair value assigned to the warrants on issuance in the amount of \$72,450 was transferred from warrants to capital stock.

9. STOCK OPTIONS

The Company has adopted an incentive stock option plan (the "Option Plan") which provides that the directors of the Company may from time to time, at their discretion, grant to directors, officers, employees, advisors and consultants to the Company non-transferable options to purchase common shares, provided that the number of common shares reserved for issue will not exceed 10% of the number of then outstanding common shares. Such options will be exercisable for a period of up to five years from the date of grant. Vesting terms will be determined at the time of grant in accordance with the Option Plan.

Notes to Interim Consolidated Financial Statements

For the three month periods ended December 31, 2010 and 2009

(Unaudited)

(Tabular amounts expressed in Canadian dollars, unless otherwise stated)

The following table reflects the continuity of stock options for the three months ended December 31, 2010:

	Number of Stock Options	Weighted Average Exercise Price
Balance - September 30, 2010	4,949,997	\$ 0.75
Issued (i)	1,837,000	0.61
Issued (ii)	500,000	0.50
Balance - December 31, 2010	7,286,997	\$ 0.70

The following table reflects the stock options outstanding as at December 31, 2010, of which 6,686,997 were vested:

Expiry Date	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Options Granted and Outstanding	Black-Scholes Value
August-20-14	\$ 0.75	3.64	1,499,997	\$ 930,975
December-08-14	0.80	3.94	3,050,000	2,137,100
August-12-15	0.33	4.62	300,000	75,000
August-30-15	0.40	4.67	100,000	24,000
October-13-15	0.61	4.79	1,837,000	845,020
December-16-15	0.50	4.96	500,000	190,000
	\$ 0.70	4.20	7,286,997	\$ 4,202,095

For options expiring on August 12, 2015, 225,000 are unvested as at December 31, 2010. For options expiring December 16, 2015, 375,000 are unvested, while all other options are vested.

The following table reflects the assumptions used in the Black-Scholes options pricing model that was used to determine the estimated fair value of stock options.

	Dividend yield	Expected volatility	Risk free interest rate	Term (years)
October 14, 2010	0%	100%	1.78%	5
December 17, 2010	0%	100%	2.17%	5

- (i) On October 14, 2010, the Company granted 1,837,000 options which vested immediately, to directors, officers, consultants and employees of the Company, each such option entitling the holder to acquire one common share of the Company at an exercise price of \$0.61, until October 13, 2015. The fair value assigned was estimated using the Black-Scholes option pricing model as tabulated above.

The stock options were assigned a value of \$845,020, of which \$270,020 was capitalized as deferred mineral property expenditures and \$575,000 was charged to income during the three period ended December 31, 2010.

- (ii) On December 17, 2010, the Company granted 500,000 options, of which 25% vest on issuance, 25% in 6 months, 25% in 12 months and 25% in 18 months from issuance to an officer of the Company, each such option entitling the holder to acquire one common share of the Company at an exercise price of \$0.50 until December 16, 2015. The fair value assigned was estimated using the Black-Scholes option pricing model as tabulated above.

Notes to Interim Consolidated Financial Statements

For the three month periods ended December 31, 2010 and 2009

(Unaudited)

(Tabular amounts expressed in Canadian dollars, unless otherwise stated)

The stock options were assigned a value of \$190,000, of which \$54,169 was charged during the period ended December 31, 2010. The remaining fair value balance of \$135,831 is to be charged to income in future periods.

10. WARRANTS AND BROKER WARRANTS

Each whole warrant and broker warrant entitles the holder thereof to purchase one common share of the Company at any time commencing on the date of the issue until expiry, subject to adjustment.

a) WARRANTS

The following table reflects the continuity of warrants for the three month period ended December 31, 2010:

	Number of Warrants	Amount
Balance - September 30, 2010	28,174,977	\$ 4,173,925
Exercise of warrants	(805,000)	(72,450)
Balance - December 31, 2010	27,369,977	\$ 4,101,475

The following table reflects the actual warrants outstanding as at December 31, 2010:

Expiry Date	Exercise Price	Outstanding	Black-Scholes Value
April-29-11	\$ 1.125	7,091,645	\$ 2,276,425
June-21-12	\$ 0.40	20,278,332	\$ 1,825,050

A relative fair value was assigned to the warrants, calculated using the Black-Scholes option pricing model with the following assumptions:

Issued	Dividend yield	Expected volatility	Risk free interest rate	Term (years)
October 30, 2009	0%	100%	1.20%	2
June 22, 2010	0%	100%	1.51%	2

b) BROKER WARRANTS

The following table reflects the continuity of broker warrants for the three month period ended December 31, 2010:

	Number of Broker Warrants	Amount
Balance - September 30 and December 31, 2010	3,377,599	\$ 562,078

Notes to Interim Consolidated Financial Statements

For the three month periods ended December 31, 2010 and 2009

(Unaudited)

(Tabular amounts expressed in Canadian dollars, unless otherwise stated)

The following table reflects the actual broker warrants outstanding as at December 31, 2010:

Expiry Date	Exercise Price	Outstanding	Black-Scholes Value
April-29-11	\$ 0.75	847,600	\$ 334,378
June-21-12	\$ 0.40	2,529,999	\$ 227,700

A relative fair value was assigned to the broker warrants, calculated using the Black-Scholes option pricing model with the following assumptions:

Issued	Dividend yield	Expected volatility	Risk free interest rate	Term (years)
October 30, 2009	0%	100%	1.20%	2
June 22, 2010	0%	100%	1.51%	2

11. RELATED PARTY TRANSACTIONS

During the three month period ended December 31, 2010, the Company incurred legal fees, including expenses, of \$11,658 (December 31, 2009 - \$90,000) to a law firm of which a shareholder and former director of the Company is a partner. As at December 31, 2010, included in accounts payable and accrued liabilities was \$11,781 (December 31, 2009 - \$90,000) in respect of these transactions.

During the three month period ended December 31, 2010, the Company incurred legal fees and expenses of \$4,428 (December 31, 2009 - \$6,469) to a law firm of which a director of a subsidiary of the Company is a partner. As at December 31, 2010, included in accounts payable and accrued liabilities was \$nil (December 31, 2009 - \$17,979) in respect of these transactions.

12. SEGMENTED INFORMATION

The Company has one operating segment: the acquisition, exploration and development of precious metal projects in Argentina.

Geographic segmentation of capital assets and mineral properties is as follows:

	December 31, 2010	September 30, 2010
Argentina	\$ 9,814,424	7,885,594
Canada	1,530,960	1,041,207
Total	\$ 11,345,384	8,926,801

13. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current period's presentation.