



ANIMAS RESOURCES LTD.

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Shareholders of Animas Resources Ltd.

We have audited the accompanying consolidated financial statements of Animas Resources Ltd and its subsidiaries ("the Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and comprehensive loss, shareholder's equity and cash flows for each of the years in the three-year period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Animas Resources Ltd and its subsidiaries as at December 31, 2010 and 2009 and their financial performance and their cash flows for each of the years in the three-year period ended December 31, 2010 in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company has no current sources of revenue and is dependent upon its ability to secure new sources of financing. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.



INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

Vancouver, Canada
April 27, 2011

ANIMAS RESOURCES LTD.

(An Exploration Stage Company)

Consolidated Balance Sheets

As at December 31

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,636,175	\$ 2,962,676
Amounts receivable	24,249	15,066
Prepaid expenses	33,521	11,195
	<u>1,693,945</u>	<u>2,988,937</u>
Mineral properties (Note 3)	14,768,361	17,126,989
Equipment (Note 4)	97,920	29,526
	<u>\$ 16,560,226</u>	<u>\$ 20,145,452</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 141,669	\$ 122,486
Due to related parties (Note 8)	25,536	8,663
Current portion of long-term debt (Note 5)	249,500	524,700
Current portion of obligations under capital lease (Note 6)	17,207	-
	<u>433,912</u>	<u>655,849</u>
Long-term debt (Note 5)	-	262,350
Obligations under capital lease (Note 6)	47,025	-
Future income tax liability	1,726,000	1,721,000
	<u>2,206,937</u>	<u>2,639,199</u>
Shareholders' equity:		
Share capital (Note 7)	20,703,710	17,904,975
Contributed surplus	4,712,876	3,223,009
Deficit	(11,063,297)	(3,621,731)
	<u>14,353,289</u>	<u>17,506,253</u>
	<u>\$ 16,560,226</u>	<u>\$ 20,145,452</u>
Going concern (Note 1)		
Commitment (Note 7d)		
Subsequent events (Note 15)		
Approved by the Board of Directors:		
<u>"Gregory E. McKelvey"</u>	Director	
Gregory E. McKelvey		
<u>"Mark T. Brown"</u>	Director	
Mark T. Brown		

See accompanying notes to the consolidated financial statements

ANIMAS RESOURCES LTD.

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Consolidated Statements of Operations and Comprehensive Loss

For years ended December 31

	2010	2009	2008
Expenses:			
Amortization	\$ 8,044	\$ 8,353	\$ 6,840
Bank charges and interest	8,795	7,432	5,294
Corporate development	69,985	125,690	74,087
Filing fees	11,008	25,562	23,502
Insurance	19,123	15,651	8,056
Management and consulting fees	22,415	18,277	34,297
Office	81,021	120,867	192,469
Professional fees	282,885	253,248	242,448
Rent	16,503	22,363	7,000
Shareholders' communication	101,421	112,207	154,706
Stock-based compensation	587,182	907,602	719,921
Transfer agent fees	15,349	18,861	24,781
Travel	17,841	25,323	19,411
Write-off of mineral property costs	6,070,412	277,075	-
Loss before other items	7,311,984	1,938,511	1,512,812
Other items:			
Interest income	(9,319)	(31,664)	(184,983)
Foreign exchange loss	133,901	137,393	334,691
Foreign exchange gain (loss) on future income tax liability	5,000	(175,000)	(24,000)
	129,582	(69,271)	125,708
Net loss and comprehensive loss	\$ 7,441,566	\$ 1,869,240	\$ 1,638,520
Loss per share – basic and diluted	\$ 0.18	\$ 0.06	\$ 0.06
Weighted average number of common shares outstanding	41,152,677	32,550,136	26,532,405

See accompanying notes to the consolidated financial statements

ANIMAS RESOURCES LTD.*(An Exploration Stage Company)*

Consolidated Statement of Shareholders' Equity

	Number of Shares	Amount	Subscribed	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance at December 31, 2007	24,343,507	\$ 12,252,817	\$ 2,000	\$ 50,467	\$ (113,971)	\$ 12,191,313
Share Issues:						
Long-term debt payment (Note 5)	325,829	509,475	-	-	-	509,475
Option payments (Note 3)	542,266	708,793	-	-	-	708,793
Property payment – Bacanuchi (Note 3)	400,000	200,000	-	-	-	200,000
Net smelter royalty repurchase (Note 3)	50,000	62,500	-	-	-	62,500
Exercise of options	45,000	22,500	-	-	-	22,500
Exercise of Agent's and Finder's warrants	320,957	176,526	-	-	-	176,526
Fair value of option and warrants exercised	-	39,380	-	(39,380)	-	-
Exercise of warrants	1,331,193	1,331,193	-	-	-	1,331,193
Stock-based compensation (Note 7(h))	-	-	-	719,921	-	719,921
Excess proceeds received	-	-	(2,000)	-	-	(2,000)
Net loss and comprehensive loss for the year	-	-	-	-	(1,638,520)	(1,638,520)
Balance at December 31, 2008	27,358,752	\$ 15,303,184	\$ -	\$ 731,008	\$ (1,752,491)	\$ 14,281,701
Share Issues:						
Long-term debt payment (Note 5)	637,700	318,849	-	-	-	318,849
Option payment (Note 3)	576,508	258,562	-	-	-	258,562
Exercise of Agent's warrants (Note 7(b)(iii))	1,275	701	-	-	-	701
Exercise of warrants (Note 7(b)(iv))	112,500	67,500	-	-	-	67,500
Fair value of warrants exercised (Notes 7(b)(iii) & (iv))	-	40,611	-	(40,611)	-	-
Private placements (Notes 7(b)(i) & (ii))	8,335,000	1,947,240	-	1,625,010	-	3,572,250
Share issue costs (Notes 7(b)(i) & (ii))	-	(31,672)	-	-	-	(31,672)
Stock-based compensation (Note 7(h))	-	-	-	907,602	-	907,602
Net loss and comprehensive loss for the year	-	-	-	-	(1,869,240)	(1,869,240)
Balance at December 31, 2009	37,021,735	\$ 17,904,975	\$ -	\$ 3,223,009	\$ (3,621,731)	\$ 17,506,253
Share Issues:						
Long-term debt payment (Note 5)	922,847	524,400	-	-	-	524,400
Option payment (Note 3)	346,819	199,419	-	-	-	199,419
Private placements (Notes 7(b)(v) & (vi))	8,857,142	2,262,157	-	837,843	-	3,100,000
Share issue costs (Notes 7(b)(v) & (vi))	-	(187,241)	-	64,842	-	(122,399)
Stock-based compensation (Note 7(h))	-	-	-	587,182	-	587,182
Net loss and comprehensive loss for the year	-	-	-	-	(7,441,566)	(7,441,566)
Balance at December 31, 2010	47,148,543	\$ 20,703,710	\$ -	\$ 4,712,876	\$ (11,063,297)	\$ 14,353,289

See accompanying notes to the consolidated financial statements

ANIMAS RESOURCES LTD.

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Consolidated Statements of Cash Flows

For the years ended December 31

	2010	2009	2008
CASH PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Net loss	\$ (7,441,566)	\$ (1,869,240)	\$ (1,638,520)
Items not involving cash:			
Amortization	8,044	8,353	6,840
Accrued interest income	(97)	(453)	(4,634)
Stock-based compensation	587,182	907,602	719,921
Foreign exchange gain (loss) on future income tax liability	5,000	(175,000)	(24,000)
Foreign exchange (gains) losses on long-term debt	(13,150)	(116,900)	259,275
Write-off of mineral property costs	6,070,412	277,075	-
	<u>(784,175)</u>	<u>(968,563)</u>	<u>(681,118)</u>
Changes in non-cash working-capital items:			
Amounts receivable	(9,086)	(1,722)	91,775
Prepaid expenses	(22,326)	9,352	9,044
Accounts payable and accrued liabilities	40,002	30,342	(29,982)
Due to related parties	16,873	(4,499)	-
	<u>(758,712)</u>	<u>(935,090)</u>	<u>(610,281)</u>
INVESTING ACTIVITIES			
Proceeds from sale of property	-	21,204	-
Exploration costs	(3,533,184)	(3,250,318)	(4,371,595)
Purchase of equipment	-	-	(27,450)
	<u>(3,533,184)</u>	<u>(3,229,114)</u>	<u>(4,399,045)</u>
FINANCING ACTIVITIES			
Proceeds from issuance of share capital	3,100,000	3,640,451	1,898,219
Share issue costs	(122,399)	(31,672)	-
Repayment of capital lease obligation	(12,206)	-	-
Net cash provided by financing activities	<u>2,965,395</u>	<u>3,608,779</u>	<u>1,898,219</u>
Net change in cash and cash equivalents	(1,326,501)	(555,425)	(3,111,107)
Cash and cash equivalents, beginning of year	<u>2,962,676</u>	<u>3,518,101</u>	<u>6,629,208</u>
Cash and cash equivalents, end of year	<u>\$ 1,636,175</u>	<u>\$ 2,962,676</u>	<u>\$ 3,518,101</u>

Supplemental disclosure with respect to cash flows (Note 9).

See accompanying notes to the consolidated financial statements

ANIMAS RESOURCES LTD.

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Notes to Consolidated Financial Statements

For the year ended December 31, 2010

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company was incorporated on June 29, 2006, under the British Columbia Business Corporations Act and trades under the symbol "ANI" on the TSX Venture Exchange (the "Exchange").

The Company is primarily engaged in the acquisition and exploration of mineral properties and owns a significant portion of the Santa Gertrudis gold deposit in Mexico while being an operator of two earn-in joint-venture gold properties in Nevada, USA. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The Company has an accumulated operating deficit of \$11,063,297 to date. The Company's operations are funded from equity financings which are dependent upon many external factors and may be difficult or impossible to secure.

The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amount shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and the classification of liabilities that might be necessary should the Company be unable to continue in the normal course of business.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

These consolidated financial statements are inclusive of the accounts of the Company and its three wholly-owned subsidiaries in Mexico: First Silver Reserve, S.A. de C.V., Recursos Escondidos, S.A. de C.V. and Compania Minera Chuqui, S.A. de C.V.; and one wholly-owned subsidiary in Nevada, USA: Animas Resources US Inc. All intercompany transactions have been eliminated upon consolidation.

(b) Use of estimates

The preparation of these consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amount of expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral property and deferred exploration costs, and accrued liabilities, the assumptions used in the determination of the fair value of stock-based compensation and the determination of the valuation allowance for future income tax assets. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

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Notes to Consolidated Financial Statements

For the year ended December 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(c) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(d) Mineral properties

The cost of mineral properties and related exploration expenditures are deferred until the properties are placed into production, sold or abandoned. These deferred costs will be amortized over the estimated useful life of the properties following the commencement of production, or written-off if the properties are sold, allowed to lapse or abandoned.

Cost includes cash consideration and the fair market value of any shares issued for the acquisition of mineral properties. Properties acquired under option agreements are recorded in the accounts at such time as payments are made. Proceeds from options granted are applied to the cost of the related property and any excess is included in income for the period.

The recorded amounts of mineral claim acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company reviews capitalized costs on its mineral properties periodically and will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of a property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

(e) Asset retirement obligations

The Company recognizes a liability for an asset retirement obligation when it is determinable and calculates the liability based upon undiscounted future payments to be made. A corresponding amount is added to the carrying amount of the related long-lived asset, and this amount is subsequently allocated to expense over its expected life. Adjustments will also be made in subsequent periods to changes in asset retirement obligations due to changes in estimates. As at December 31, 2010, the Company did not have any asset retirement obligations.

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Notes to Consolidated Financial Statements

For the year ended December 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(f) Impairment of long-lived assets

Long-lived assets are assessed for impairment when events and circumstances warrant, when the carrying amount of the asset exceeds its estimated undiscounted net cash flow from use or its fair value, at which time the impairment is charged to earnings.

(g) Environmental expenditures

The operations of the Company have been and may in the future, be affected in varying degrees by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly from country to country and are not predictable.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against operations as incurred or capitalized and amortized depending on their expected future economic benefit. Estimated future removal and site restoration costs are recognized when the ultimate liability is reasonably determinable, and are charged against operations over the estimated remaining life of the related business operations, net of expected recoveries.

(h) Amortization

The Company provides for amortization on its equipment on a straight line method over the estimated useful life of the equipment.

(i) Future income taxes

The Company accounts for, and measures future tax assets and liabilities, in accordance with the asset and liability method. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the future benefit is taken and no asset is recognized. Such an allowance applies fully to all potential income tax assets of the Company.

(j) Cash and cash equivalents

Cash and cash equivalents consist of cash and term investments with maturities of three months or less, deposited in a high-quality financial institution, together with accrued interest thereon. Term investments are readily convertible to known amounts of cash.

ANIMAS RESOURCES LTD.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the year ended December 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(k) Stock based compensation

The Company accounts for stock-based compensation using a fair value-based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged to operations, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company does not incorporate an estimated forfeiture rate for options that will not vest, but rather accounts for actual forfeitures as they occur.

(l) Share Capital

Common shares issued for non-monetary consideration are generally recorded at their market value based upon the trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement to issue the shares. Shares issued as property option payments, at the discretion of the Company, are valued at their fair market value on the date of issuance. Flow-through shares are common shares which are issued under an agreement that, as provided for in the Canadian Income Tax Act, the Company transfers to the purchaser of the shares the benefits of the exploration expenditures that are financed by the proceeds of the share issue.

Cash consideration received for units comprising a share and a warrant or warrant-portion is allocated to the non-share instrument based on the fair value of that instrument. The residual consideration is recorded in share capital.

(m) Foreign currency translation

The Company's reporting currency is the Canadian Dollar. The Company's Mexican operations are considered to be integrated operations with foreign currency transactions translated into Canadian Dollars as follows:

- monetary assets and liabilities at the rates of exchange prevailing at the balance sheet dates;
- other assets and liabilities at the applicable historical exchange rates;
- revenues and expenses at the average rates of exchange for the period; and
- gains and losses arising from the conversion of foreign-currency balances and transactions are reported in income as they occur.

(n) Comparative figures

Certain comparative figures have been reclassified in order to conform to the current period's financial statement presentation.

ANIMAS RESOURCES LTD.

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Notes to Consolidated Financial Statements

For the year ended December 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(o) Future accounting pronouncements

(i) Consolidated financial statement and non-controlling interests

In January 2009, the CICA issued the new handbook Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These pronouncements further align Canadian GAAP with US GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting for ownership interest in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income. In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company is currently considering the impact of adopting these pronouncements on its consolidated financial statements in fiscal 2011 in connection with the conversion to IFRS.

(ii) Business combinations

In January 2009, the CICA issued the new handbook Section 1582, "Business Combinations" effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with US GAAP and IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquire, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company's financial statements to evaluate the nature and financial effects of its business combinations. Although the Company is considering the impact of adopting this pronouncement on the financial statements, it will be limited to any future acquisitions beginning in fiscal 2011.

(iii) Convergence of Canadian GAAP with IFRS

Canada's Accounting Standards Board ratified a plan that will result in Canadian GAAP being converged with International Financial Reporting Standards ("IFRS") by 2011. Management has performed an analysis and highlighted areas where its current Canadian accounting practices differ from IFRS and has concluded that the impact on the Company's consolidated financial statements is relatively immaterial.

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Notes to Consolidated Financial Statements

For the year ended December 31, 2010

3. MINERAL PROPERTIES

Santa Gertrudis Property

The Santa Gertrudis Property is located in the Santa Teresa District, Cucurpe, Sonora State, Mexico and consists of mineral claims that are 100% owned and other continuous claims under option as follows.

Lopez-Limon Option Agreement

The Company signed an option agreement on June 1, 2007 to purchase 10 mineral claims in the Santa Gertrudis Property. In April 2009, the Company amended the option agreement as follows:

	Amount (US\$)	
June 1, 2007	\$ 50,000	Paid
December 1, 2007	75,000	Paid
June 1, 2008	75,000	Paid
December 1, 2008	150,000	Paid
June 1, 2009	30,000	Paid
December 1, 2009	30,000	Paid
June 1, 2010	190,000	Paid
December 1, 2010	250,000	Paid
June 1, 2011	600,000	
December 1, 2011	700,000	
Total	\$ 2,150,000	

Don Victor Option Agreement

On December 26, 2008, the Company and the optionor amended its original agreement signed on July 24, 2007 to purchase three mineral claims in the Santa Gertrudis Property. Under the terms of the amended agreement the following cash and share payments are required:

	Amount in cash or common shares at the discretion of the Company (US\$)		Amount in common shares (US\$)
At signing	\$ 25,000	Cash paid	\$ 20,000 Issued
July 24, 2008	25,000	Cash paid	25,000 Issued
January 24, 2009	65,000	Shares issued	-
July 24, 2009	77,500	Shares issued	-
January 24, 2010	90,000	Shares issued	-
July 24, 2010	100,000	Shares issued	-
January 24, 2011	110,000	Shares issued subsequent to December 31, 2010	-
July 24, 2011	127,500		-
January 24, 2012	135,000		-
July 24, 2012	150,000		-
Total	\$ 905,000		\$ 45,000

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Notes to Consolidated Financial Statements

For the year ended December 31, 2010

3. MINERAL PROPERTIES - CONTINUED

Santa Gertrudis Property - Continued

Albelais Varela Option Agreement

On August 13, 2007, the Company signed an option agreement with an arm's length party to purchase two mineral claims in the Santa Gertrudis Property by making the following cash payments:

	Amount in cash (US\$)	
August 13, 2007	\$ 20,000	Paid
August 13, 2008	20,000	Paid
February 13, 2009	20,000	Paid
August 13, 2009	20,000	Paid
February 13, 2010	20,000	Paid
August 13, 2010	20,000	Paid
February 13, 2011	20,000	Paid subsequently
August 13, 2011	20,000	
February 13, 2012	20,000	
August 13, 2012	20,000	
Final option payment	20,000	
Total	\$ 220,000	

San Enrique and Greta Option

On March 11, 2008, the Company exercised its option and acquired the San Enrique and Greta properties by issuing 307,429 common shares at a value of \$1.44 per share.

Minera Lixivian Option Agreement

On October 15, 2008, the Company signed an option agreement with Minera Lixivian, S.A. de C.V. to purchase two concessions within the Santa Gertrudis Property by making the following cash and share payments:

	Amount in cash (US\$)		Amount in common shares (US\$)	
October 15, 2008	\$ 165,000	Paid	\$ 228,000	Issued
April 15, 2009	165,000	Paid		
October 15, 2009	62,000	Paid		
April 15, 2010	30,000	Paid		
Total	\$ 422,000		\$ 228,000	

On October 17, 2008, the Company received final approval from the Exchange for this acquisition and issued 217,000 common shares at a value of \$1.11 per share (US\$228,000). These two concessions were transferred into the Company's name effective August 27, 2010.

Net Smelter Royalty

In 2007, the Company purchased various Net Smelter Returns royalties paying \$87,500 cash and issuing 50,000 common shares at a value of \$1.25 per share on January 10, 2008. With these purchases, there are no remaining royalties on the Santa Gertrudis Property.

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Notes to Consolidated Financial Statements

For the year ended December 31, 2010

3. MINERAL PROPERTIES – CONTINUED

Santa Gertrudis Property - Continued

Based on exploration work completed during 2010 and the resultant revised plan for the development of the project, management assessed a potential impairment in respect to the carrying value of the Santa Gertrudis property. Accordingly, and in order to be conservative, at September 30, 2010, the Company elected to write off \$5,000,000 of the historical deferred costs associated with the property. This amount represented an estimate only and was not based on a formal valuation as insufficient evidence existed to support a definitive estimation of the fair value of the property.

Ariel Copper Property

On December 18, 2009, the Company signed a letter of intent for an option to acquire up to an 80% interest in the Ariel porphyry copper concessions. On May 28, 2010, the Company signed the final option agreement with the vendor. On December 16, 2010, the Company and the optionor amended its original agreement and deferred the December 18, 2010 payment to June 18, 2011.

The terms of the option are as follows:

	Amount in Cash	Exploration expenditures completed
At signing	\$ 25,000	Paid
June 18, 2011	50,000	
December 18, 2011	50,000	
December 18, 2012	50,000	\$ 2,000,000 Earn 51%
December 18, 2013	50,000	
December 18, 2014	50,000	1,500,000 Earn an additional 14% to 65%
Total	\$ 275,000	\$ 3,500,000

Upon completion of pre-feasibility study by an independent mutually acceptable qualified party, the Company can earn a further 15% interest for a total of 80%.

Golden Arrow Property

On April 7, 2010, the Company announced that a binding letter agreement was signed with Nevada Sunrise Gold Corp. ("Nevada Sunrise") to option the Golden Arrow Property in Nevada. The Company signed the final option agreement on June 30, 2010.

The Golden Arrow gold property is located in the Nevada high desert, approximately 40 miles (60 kilometers) east of Tonopah, Nye County, consisting 279 unpatented lode mineral claims and 17 patented lode mineral claims for a total area of approximately 5,684 acres (2,300 hectares).

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For the year ended December 31, 2010

3. MINERAL PROPERTIES - CONTINUED

Golden Arrow Property - Continued

The terms of the option are as follows:

	Minimum Exploration Expenditures	
By December 31, 2010	\$ 1,000,000	
By March 30, 2013	2,500,000	Earn 51%
Within 5 years from date of notice of intent to proceed with second option	4,000,000	Earn an additional 9% to 60%

Once the Company has earned a 60% interest, it can earn a further 15%, subject to Nevada Sunrise's non-participation, by completing a pre-feasibility study.

Subsequently to December 31, 2010, the Company terminated the mining option agreement for the Golden Arrow property. As a result, the costs incurred of \$1,070,412 were written off at December 31, 2010.

Kinsley Mountain Property

On April 7, 2010, the Company announced that a binding letter agreement was signed with Nevada Sunrise Gold Corp. ("Nevada Sunrise") to option the Kinsley Mountain Property in Nevada. The Company signed the final option agreement on June 30, 2010.

The Kinsley Mountain gold property is located in eastern Nevada in Elko County between the towns of Ely and Wendover, consisting 141 unpatented lode mining claims for a total area of approximately 2,807 acres (1,136 hectares).

The terms of the option are as follows:

	Minimum Exploration Expenditures	
By December 31, 2010	\$ 200,000	
By March 30, 2013	1,300,000	Earn 51%
Within 5 years from date of notice of intent to proceed with second option	3,000,000	Earn an additional 14% to 65%

Once the Company has earned a 65%, it can earn a further 10%, subject to Nevada Sunrise's non-participation, by completing a pre-feasibility study.

During the option period, the Company is the operator for the Kinsley Mountain property.

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3. MINERAL PROPERTIES - CONTINUED

Bacanuchi Property

The Company entered into a letter of intent dated June 18, 2007, with the owner of the Bacanuchi property to acquire this property in consideration of issuing 400,000 common shares of the Company at a price of \$0.50 per share. The Company also advanced \$10,000 to the property owner for mining taxes.

In April 2009, the Company sold the Bacanuchi property for the reimbursement of the Company's payments of 2009 property taxes, a future payment of US\$1 million that would become payable upon completion of a feasibility study and a 5% Net Profits Interest in the property. The Company wrote off the residual balance of deferred property costs of \$277,075.

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For the year ended December 31, 2010

3. MINERAL PROPERTIES - CONTINUED

The amounts shown represent costs incurred to date, and do not necessarily represent present or future values as they are entirely dependent upon the discovery and economic recovery of ore reserves. A breakdown of expenditures and carrying values by period is as follows:

	Expenditures		Expenditures		
	2008	for the year	2009	for the year	2010
Santa Gertrudis Property					
Acquisition costs	\$ 7,507,041	\$ 91,603	\$ 7,598,644	\$ -	\$ 7,598,644
Annual mining taxes	293,497	221,264	514,761	198,534	713,295
Assaying	52,738	329,043	381,781	92,712	474,493
Camp and general	291,332	151,497	442,829	40,216	483,045
Drilling	908,876	567,670	1,476,546	235,997	1,712,543
Environmental costs	12,429	-	12,429	377	12,806
Field costs	15,406	2,383	17,789	4,975	22,764
Foreign value added tax credit	434,758	(79,546)	355,212	(147,760)	207,452
Geology	604,040	351,460	955,500	192,142	1,147,642
Geophysical	533,833	177,894	711,727	82,143	793,870
Metallurgical consulting	5,646	-	5,646	-	5,646
Net smelter royalty payments	150,000	-	150,000	-	150,000
Office and administrative	129,982	14,003	143,985	124,373	268,358
Option payments	1,445,843	547,115	1,992,958	734,801	2,727,759
Resources calculation	111,925	146,517	258,442	80,218	338,660
Surface access fees	84,934	136,290	221,224	119,945	341,169
Travel	290,385	156,271	446,656	97,955	544,611
Wages	775,817	640,043	1,415,860	466,750	1,882,610
Write-down of mineral property	-	-	-	(5,000,000)	(5,000,000)
	<u>13,648,482</u>	<u>3,453,507</u>	<u>17,101,989</u>	<u>(2,676,622)</u>	<u>14,425,367</u>
Ariel Copper Property					
Acquisition costs	-	25,000	25,000	1,170	26,170
Annual mining taxes	-	-	-	769	769
Assaying	-	-	-	3,663	3,663
Camp and general	-	-	-	1,285	1,285
Office and administrative	-	-	-	3,772	3,772
Geology	-	-	-	7,588	7,588
Travel	-	-	-	1,577	1,577
Wages	-	-	-	2,567	2,567
	<u>-</u>	<u>25,000</u>	<u>25,000</u>	<u>22,391</u>	<u>47,391</u>
Subtotal	<u>\$ 13,648,482</u>	<u>\$ 3,478,507</u>	<u>\$ 17,126,989</u>	<u>\$ (2,654,231)</u>	<u>\$ 14,472,758</u>

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3. MINERAL PROPERTIES – CONTINUED

	2008	Expenditures for the year	2009	Expenditures for the year	2010
Subtotal (balance forward)	\$ 13,648,482	\$ 3,478,507	\$ 17,126,989	\$ (2,654,231)	\$ 14,472,758
Golden Arrow Property					
Assaying	-	-	-	75,049	75,049
Bond coverage	-	-	-	16,414	16,414
Drilling	-	-	-	496,479	496,479
Environmental costs	-	-	-	2,063	2,063
Filed costs	-	-	-	13,162	13,162
Geology	-	-	-	138,136	138,136
Geophysical	-	-	-	96,985	96,985
Office and administrative	-	-	-	240	240
Property payments	-	-	-	194,377	194,377
Resources calculation	-	-	-	4,606	4,606
Travel	-	-	-	9,206	9,206
Wages	-	-	-	23,695	23,695
Write-down of mineral property	-	-	-	(1,070,412)	(1,070,412)
	-	-	-	-	-
Kinsley Mountain Property					
Camp and general	-	-	-	673	673
Environmental costs	-	-	-	933	933
Filed costs	-	-	-	326	326
Geology	-	-	-	81,081	81,081
Geophysical	-	-	-	6,000	6,000
Property payments	-	-	-	86,903	86,903
Soil Geochemistry	-	-	-	79,925	79,925
Travel	-	-	-	16,712	16,712
Wages	-	-	-	23,050	23,050
	-	-	-	295,603	295,603
Bacanuchi Property					
Assaying	2,425	-	2,425	-	-
Geology	21,008	-	21,008	-	-
Geophysical	997	-	997	-	-
Mining property payments	13,387	(1,977)	11,410	-	-
Office and administrative	387	-	387	-	-
Option payments	210,673	-	210,673	-	-
Staking	26,351	-	26,351	-	-
Travel	3,824	-	3,824	-	-
Write-down of mineral property	-	(277,075)	(277,075)	-	-
	279,052	(279,052)	-	-	-
Total	\$ 13,927,534	\$ 3,199,455	\$ 17,126,989	\$ (2,358,628)	\$ 14,768,361

ANIMAS RESOURCES LTD.

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Notes to Consolidated Financial Statements

For the year ended December 31, 2010

4. EQUIPMENT

	2010		2009	
	Cost	Accumulated amortization	Net book value	Net book value
Vehicle	\$ 20,554	\$ (14,746)	\$ 5,808	\$ 10,330
Vehicle under capital lease	76,438	-	76,438	-
Office equipment	7,935	(5,226)	2,709	4,740
Exploration equipment	17,381	(4,416)	12,965	14,456
	<u>\$ 122,308</u>	<u>\$ (24,388)</u>	<u>\$ 97,920</u>	<u>\$ 29,526</u>

5. LONG-TERM DEBT

On July 5, 2007, the Company acquired 100% of the issued and outstanding common shares of First Silver Reserve, S.A. de C.V. ("First Silver"), Recursos Escondidos, S.A. de C.V. ("Recursos") and Compania Minera Chuqui, S.A. de C.V. ("Chuqui"). Together, these Companies control the Santa Gertrudis Gold Project in northern Mexico and at the date of acquisition owned or had options to acquire an aggregate of 35 mineral claims.

To acquire First Silver and Recursos, the Company made a non-refundable deposit of \$25,000, a subsequent cash payment of US\$650,000 and issued 1,500,000 of its common shares, which are subject to an escrow agreement. The Company will also make three additional payments of US\$500,000 to the vendor, Canada Gold Corporation ("Canada Gold") (formerly MetalQuest Mineral Inc.), payable at the Company's discretion in cash or common shares on each of the first, second and third anniversary dates of the acquisition.

On March 27, 2008, the Company exercised its right to make the first anniversary payment of US\$500,000 due to Canada Gold in shares and issued 153,295 common shares valued at \$1.66 per share to Canada Gold for 50% of the first payment of US\$500,000. On July 9, 2008, the Company issued another 172,534 shares to pay for the remaining US\$250,000.

On March 16, 2009, the Company exercised its right to make the second anniversary payment of US\$500,000 due to Canada Gold in shares and issued 637,700 common shares at \$0.50 per share to Canada Gold for 50% of the current portion due.

On May 7, 2009, the Company amended the purchase agreement by issuing 254,454 shares at \$0.36 for \$91,603 to Canada Gold as additional acquisition costs (Note 3) and postponing the payments as follows:

	Amount in cash or common shares at the discretion of the Company (US\$)	
January 31, 2010	\$ 250,000	Shares issued
July 31, 2010	250,000	Shares issued
January 31, 2011	250,000	Shares issued subsequent to December 31, 2010
<u>Total</u>	<u>\$ 750,000</u>	

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Notes to Consolidated Financial Statements

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5. LONG-TERM DEBT - CONTINUED

The payments can be paid in cash or in common shares at the discretion of the Company with a minimum price and maximum price of \$0.50 and \$1.00 per share, respectively.

On January 31, 2010, the Company exercised its right to make a payment of US\$250,000 by issuing 408,697 common shares at \$0.65 per share and on July 31, 2010, the Company again exercised its right to make a payment of US\$250,000 by issuing 514,150 common shares at \$0.50 per share to Canada Gold.

6. OBLIGATIONS UNDER CAPITAL LEASE

	2010	2009
Obligations under capital lease (US\$64,361)	\$ 64,232	\$ -
Current portion of obligations under capital lease (US\$17,242)	(17,207)	-
	<u>\$ 47,025</u>	<u>\$ -</u>

The aggregate capital amount of the obligations under capital lease is as follows:

2011 (US\$20,458)	20,417
2012 (US\$20,458)	20,417
2013 (US\$15,078)	15,048
2014 (US\$11,234)	11,212
2015 (US\$4,681)	4,672
	<u>71,766</u>
Less: imputed interest calculated between 5% and 5.99%	<u>(7,534)</u>
	<u>\$ 64,232</u>

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7. SHARE CAPITAL

(a) Authorized

The Company has authorized share capital of an unlimited number of common shares without par value.

(b) Issued

- (i) On June 4, 2009, the Company completed a non-brokered private placement for gross proceeds of \$2,000,250 by issuing 5,715,000 units at \$0.35 per unit. Each unit is comprised of one common share and one-half of one non-transferable common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of 24 months at a price of \$0.60 per common share during the first 12 months from closing and \$0.75 per common share during the final 12 months. The Company paid a cash finder's fee in the amount of \$11,850 in connection with the private placement. Another \$10,987 was also included in share issue costs. The fair value of \$1,028,304 was assigned to the warrants based upon the Black-Scholes option pricing model. The assumptions used were a risk-free interest rate of 1.16%, an expected life of 2 years, annualized volatility of 132%, and a dividend rate of 0%.
- (ii) On August 19, 2009, the Company completed a non-brokered private placement for gross proceeds of \$1,572,000 by issuing 2,620,000 units at \$0.60 per unit. Each unit is comprised of one common share and one-half of one non-transferable common share purchase warrants. Each whole warrant entitles the holder to purchase one additional common share for a period of 18 months at an exercise price of \$0.85. A total of \$8,835 was included in share issue costs. The fair value of \$596,706 was assigned to the warrants based upon the Black-Scholes option pricing model. The assumptions used were a risk-free interest rate of 1.27%, an expected life of 1.5 years, annualized volatility of 121%, and a dividend rate of 0%.
- (iii) During the year ended December 31, 2009, a total of 1,275 Agent's warrants were exercised at \$0.55 per share for proceeds of \$701. A fair value of \$123 was recognized on these exercised warrants.
- (iv) During the year ended December 31, 2009, a total of 112,500 warrants were exercised at \$0.60 per share for proceeds of \$67,500. A fair value of \$40,488 was recognized on these exercised warrants.
- (v) On May 13, 2010, the Company completed a non-brokered private placement for gross proceeds of \$1,400,000 by issuing 4,000,000 units at \$0.35 per unit. Each unit is comprised of one common share and one-half of one non-transferable warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of 18 months at an exercise price of \$0.55. No finder's fees were paid. A total of \$12,766 was included in share issue costs. The fair value of \$384,553 was assigned to the warrants based upon the Black-Scholes option pricing model. The assumptions used were a risk-free interest rate of 1.94%, an expected life of 1.5 years, annualized volatility of 114%, and a dividend rate of 0%.

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Notes to Consolidated Financial Statements

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7. SHARE CAPITAL – CONTINUED

(b) Issued – Continued

- (vi) On November 4, 2010, the Company completed another non-brokered private placement for gross proceeds of \$1,700,000 by issuing 4,857,142 units at \$0.35 per unit (“Unit”). Each Unit is comprised of one common share and one-half of one non-transferable warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of 24 months at a price of \$0.55 per common share. In addition, finder’s warrants, entitling the holder to purchase up to 286,248 Units for a period of 24 months from issue at \$0.35 per Unit and cash finder’s fees of \$100,187 were paid. All securities issued are subject to a four-month hold period expiring on March 4, 2011. Insiders invested \$539,750 in this placement. Another \$9,446 was included in share issue costs. Fair values of \$453,290 and \$64,842 were assigned to the warrants and finder’s warrants respectively based upon the Black-Scholes option pricing model. The assumptions used were a risk-free interest rate of 1.41%, an expected life of 2 years, annualized volatility of 107%, and a dividend rate of 0%.

(c) Escrow Shares

1,000,000 seed shares were placed in escrow in accordance with the escrow agreement dated October 20, 2006; 1,500,000 shares were placed in escrow in accordance with escrow agreements dated July 5, 2007; and 2,540,850 shares were placed in escrow in accordance with escrow agreements dated July 5, 2007. Under all these escrow agreements, 10% of the escrowed common shares was released from escrow on the issuance of the Final Exchange Bulletin and an additional 15% will be released on the dates 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the initial release. All 5,040,850 shares had been released as of December 31, 2010 from escrow.

379,000 shares were placed in escrow in accordance with escrow agreements dated July 5, 2007. Under this escrow agreement, 49% of the escrowed common shares was released from escrow on the issuance of the Final Exchange Bulletin and an additional 17% will be released on the dates 12 months, 24 months and 36 months following the initial release. All 379,000 shares had been released as of December 31, 2010, from escrow.

There was no escrow share remaining.

(d) Performance Bonus Pool

The Company has reserved 2 million common shares (“Bonus Shares”) for future issuance as a performance bonus pool contingent upon the earlier of (a) the completion of an independent NI 43-101 compliant geological resource report that identifies a measured, indicated and inferred mineral resource totaling collectively greater than 2.7 million gold equivalent ounces, subject to various conditions, the first 1 million common shares of which will be issued upon the expansion of the gold equivalent resource to 1.7 million ounces; (b) the day an independent arm’s length third party completes a takeover bid or otherwise acquires over 70% of the issued and outstanding shares of the Company; and (c) the day the Santa Gertrudis Property is sold by the Company to an independent third party, 2,000,000 Bonus Shares or, to the extent that any Bonus Shares have been issued pursuant to (a) above, such lesser number of Bonus Shares such that the total of all Bonus Shares issued to the recipients does not exceed 2,000,000.

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7. SHARE CAPITAL – CONTINUED

(e) Stock Options

Options outstanding at December 31, 2010 and 2009 were as follows:

	2010				2009			
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Weighted Average Grant Date Fair Value	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Weighted Average Grant Date Fair Value
Outstanding, beginning of period	3,645,000	\$ 0.82	3.34		2,650,000	\$ 0.82	3.86	
Granted	655,000	0.43	4.71	0.34	995,000	0.83	4.59	0.68
Cancelled	(200,000)	0.75	-		-	-	-	
Outstanding, end of period	4,100,000	\$ 0.77	2.72		3,645,000	\$ 0.82	3.34	

As at December 31, 2010, the Company had the following options outstanding:

Expiry Date	Number of Options	Exercise Price
December 14, 2011	130,000	\$0.20
July 12, 2012	1,425,000	\$0.50
January 15, 2013	75,000	\$1.60
June 17, 2013	570,000	\$1.40
September 5, 2013	300,000	\$1.35
June 9, 2014	480,000	\$0.58
July 6, 2014	30,000	\$0.66
September 11, 2014	230,000	\$1.12
November 17, 2014	205,000	\$1.16
September 15, 2015	655,000	\$0.43
	4,100,000	

(f) Warrants

Warrants outstanding at December 31, 2010 and 2009 were as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding, December 31, 2008	6,187,582	\$ 1.10	0.50
Granted	4,167,500	0.68	1.79
Exercised	(113,775)	0.60	-
Expired	(6,186,307)	1.10	-
Outstanding, December 31, 2009	4,055,000	0.68	1.33
Granted	4,428,570	0.55	1.40
Outstanding, December 31, 2010	8,483,570	\$ 0.66	0.89

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7. SHARE CAPITAL – CONTINUED

(f) Warrants - Continued

As at December 31, 2010, the Company had the following warrants outstanding:

Expiry Date	Number of Warrants	Exercise Price
February 19, 2011	1,310,000	\$0.85 ⁽¹⁾
June 4, 2011	2,745,000	\$0.75
November 12, 2011	2,000,000	\$0.55
November 4, 2012	2,428,570	\$0.55
	<u>8,483,570</u>	

(1) Subsequently, 1,310,000 warrants expired without being exercised.

(g) Finder's Warrants

Finder's warrants outstanding at December 31, 2010 and 2009 were as follows:

	Number of finder's warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding, December 31, 2008 and 2009	-	\$ -	-
Granted	286,248	0.35	1.85
Outstanding, December 31, 2010	<u>286,248</u>	<u>\$ 0.35</u>	<u>1.85</u>

As at December 31, 2010, the Company had the following finder's warrants outstanding:

Expiry Date	Number of Finder's Warrants	Exercise Price
November 4, 2012	<u>286,248</u>	<u>\$0.35</u>

Each finder's warrant entitles the holder to purchase up to 286,248 units until November 4, 2012, at a price of \$0.35 per unit. Each unit consists of one common share and one-half of one non-transferable common share purchase warrant at a price of \$0.55 per share expiring November 4, 2012. A fair value \$64,842 was assigned to the finder's warrants based upon the Black-Scholes option pricing model. The assumptions used were a risk-free interest rate of 1.41%, an expected life of 2 years, annualized volatility of 107%, and a dividend rate of 0%.

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7. SHARE CAPITAL – CONTINUED

(h) Stock-based Compensation

The fair value of options reported as compensation expense has been estimated using the Black-Scholes Option Pricing Model using the following assumptions:

	2010	2009	2008
Risk-free interest rate	2.25 – 2.81%	2.68 – 3.53%	3.00 – 4.45%
Annualized volatility	111 – 120%	108 – 120%	108 – 117%
Expected dividend yield	Nil	Nil	Nil
Expected option life in years	5 years	5 years	5 years

Based on these variables, stock-based compensation expense for the options vested during the year ended December 31, 2010 was \$587,182 (2009 - \$907,602; 2008 - \$719,921).

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect fair value estimates and, therefore, it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock-option grants.

8. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Company:

- (a) incurred an expense of \$9,000 (2009 - \$9,000; 2008 - \$7,000) for rent to a private company controlled by a director of the Company.
- (b) incurred an expense of \$139,490 (2009 - \$136,300; 2008 - \$135,000) for management and accounting services to a private company controlled by a director of the Company.

As at December 31, 2010, a total of \$25,536 (2009 - \$8,663) was owed to a private company controlled by a director of the Company for accounting, management fees and rent.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended December 31, 2010,

- (a) The Company issued 346,819 common shares valued at \$199,419 for an option payment (Note 3).
- (b) The Company issued 922,847 common shares valued at \$524,400 for long-term debt payment of US\$500,000 (Note 5).
- (c) The Company received interest income in cash for \$9,222.
- (d) At December 31, 2010, cash and cash equivalents comprise of:
 - i. Cash \$1,596,175
 - ii. Short term deposits \$40,000
- (e) The Company recorded \$76,438 of equipment for capital lease obligations.

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9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS – CONTINUED

During the year ended December 31, 2009,

- (a) The Company issued 322,054 common shares valued at \$166,958 for option payments (Note 3).
- (b) The Company issued 637,700 common shares valued at \$318,850 for 50% of the second anniversary of the long-term debt payment of US\$500,000, and also issued 254,454 common shares valued at \$91,603 to postpone the long-term debt payment schedule (Note 5).
- (c) The Company received interest income in cash for \$24,837.
- (d) At December 31, 2009, cash and cash equivalents comprise of:
 - iii. Cash \$1,869,476
 - iv. Short term deposits \$1,093,200

During the year ended December 31, 2008,

- (a) The Company issued a total of 992,266 common shares valued at \$971,293 for option payments, a net royalty smelter purchase payment and a property acquisition payment (Note 3).
- (b) The Company issued 325,829 common shares valued at \$509,475 for the first anniversary long-term debt payment of US\$500,000 (Note 5).
- (c) The Company received interest income in cash for \$180,349.
- (d) At December 31, 2008, cash and cash equivalents comprise of:
 - i. Cash \$168,101
 - ii. Short term deposits \$3,350,000

10. INCOME TAXES

A reconciliation of income tax recovery at statutory rates compared to reported income tax recovery is as follows:

	Year ended December 31 2010	Year ended December 31 2009	Year ended December 31 2008
(Loss) income for the year / period	\$ (7,441,566)	\$ (1,869,240)	\$ (1,638,520)
Expected income tax expense (recovery)	(2,102,243)	(542,080)	(483,363)
Non-deductible expenses	1,879,204	303,824	270,680
Impact of change in tax rate	25,659	32,863	32,443
Unrecognized benefit of non-capital	197,380	205,393	180,240
Total income tax recovery	\$ -	\$ -	\$ -

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10. INCOME TAXES - CONTINUED

The significant components of the Company's future income tax assets and liabilities at December 31, 2010 and 2009 are as follows:

	2010	2009
Future income tax assets:		
Non-capital loss carry-forwards	\$ 635,000	\$ 499,501
Share issue costs	59,899	67,662
Mineral properties	1,158	-
	<u>696,057</u>	<u>567,163</u>
Future income tax liability:		
Mineral properties	(1,726,000)	(1,721,000)
Valuation allowance	(699,057)	(567,163)
Net future income tax (liabilities)	<u>\$ (1,726,000)</u>	<u>\$ (1,721,000)</u>

The following is a schedule of the Company's aggregate non-capital losses available to reduce taxable income in Canada in future years, expiring between 2025 and 2030 as follows:

<u>Year of Expiration</u>	<u>Non-Capital Loss</u>
2025	\$ 1,870
2026	265,968
2027	174,946
2028	640,388
2029	758,518
2030	698,261
	<u>\$ 2,539,951</u>

The future tax benefits, if any, resulting from the application of these losses have been offset by a valuation allowance, as it cannot be considered likely that these amounts will be utilized.

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11. SEGMENTED INFORMATION

The Company operates in a single reportable operating segment, being exploration and development of mineral properties.

Summarized financial information for the geographic segments the Company operates in are as follows:

	Canada	Mexico	US	Total
<u>Year ended December 31, 2010</u>				
Loss for the year	\$ (6,147,991)	\$ (223,163)	\$ (1,070,412)	\$ (7,441,566)
Capital expenditures	\$ -	\$ 2,167,169	\$ 1,378,221	\$ 3,545,390
<u>Year ended December 31, 2009</u>				
Loss for the year	\$ (1,820,231)	\$ (49,009)	\$ -	\$ (1,869,240)
Capital expenditures	\$ -	\$ 3,229,114	\$ -	\$ 3,229,114
<u>Year ended December 31, 2008</u>				
Loss for the year	\$ (1,508,272)	\$ (130,248)	\$ -	\$ (1,638,520)
Capital expenditures	\$ -	\$ 4,399,045	\$ -	\$ 4,399,045
<u>As at December 31, 2010</u>				
Assets	\$ 1,293,771	\$ 14,894,415	\$ 372,040	\$ 16,560,226
<u>As at December 31, 2009</u>				
Assets	\$ 2,331,862	\$ 17,813,590	\$ -	\$ 20,145,452

12. FINANCIAL INSTRUMENTS

The fair values of the Company's cash and cash equivalents, amounts receivable, accounts payables and accrued liabilities, due to related parties, long-term debt and obligations under capital lease approximate their carrying values.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest risk.

(a) Currency risk

The Company's property interests in Mexico make it subject to foreign currency fluctuations and inflationary pressures which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian Dollar and foreign functional currencies. The Company does not invest in foreign currency contracts to mitigate the risks. A one cent change of the Canadian dollar would affect the Company's estimated one-year exploration expenditures by \$11,000.

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12. FINANCIAL INSTRUMENTS - CONTINUED

(b) Credit risk

The Company's cash and cash equivalents are held in a Canadian financial institution. The Company does not have any asset-backed commercial paper in its cash and cash equivalents. The Company's amounts receivable consists primarily of harmonized sales tax due from the federal government of Canada and value-added tax due from the government of Mexico.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

Accounts payable and accrued liabilities are due within the current operating period.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash and cash equivalents is limited because they are generally held to maturity. A 1% change in the interest rate, with other variables unchanged, would affect the Company by an annualized amount of interest equal to approximately \$8,000.

Under CICA Handbook Section 3862 "Financial Instruments – Disclosure", the Company is required to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. This standard did not have a material impact on the Company's financial statements. CICA Handbook Section 3862 prioritizes the inputs into three levels that may be used to measure fair value:

(i) Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

(ii) Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

(iii) Level 3 – Applies to assets or liabilities for which there are unobservable market data.

The Company's financial instruments consist principally of cash and cash equivalents, amounts receivables, account payable and accrued liabilities, and due to related parties. Pursuant to CICA Handbook 3862, fair value of assets and liabilities measured on recurring basis include cash and short term investments determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of all of the other financial instruments approximate their current fair values because of their nature and respective dates or durations.

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13. MANAGEMENT OF CAPITAL RISK

The Company manages its cash and cash equivalents, common shares, stock options and warrants as capital (see Note 7). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

The Company expects its current capital resources will be sufficient to carry its exploration plans and operations through its current operating period.

14. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Material variations in the accounting principles, practices and methods used in preparing these consolidated financial statements from principles, practices and methods accepted in the United States ("U.S. GAAP"), and that impact consolidated financial statement line items, are described below.

Mineral property costs

Under Canadian GAAP, mineral exploration expenditures can be deferred on prospective mineral rights until such time as it is determined that further exploration work is not warranted, at which time the mineral exploration expenditures are written-off. Under U.S. GAAP, all exploration expenditures are expensed until an independent feasibility study has determined that the mineral rights are capable of economic commercial production.

Future income taxes

Under U.S. GAAP a temporary taxable difference, or future income tax liability, in respect to mineral property interests would not occur because, as described above, such costs are typically not capitalized for accounting purposes.

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14. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES – CONTINUED

The impacts of these differences in respect to material line items of these financial statements are quantified below:

	December 31, 2010	December 31, 2009	December 31, 2008
a) Assets			
Mineral property costs under Canadian GAAP	\$ 14,768,361	\$ 17,126,989	\$ 13,927,534
Less deferred costs expensed under U.S. GAAP	(14,768,361)	(17,126,989)	(13,927,534)
Mineral property costs under U.S. GAAP	\$ -	\$ -	\$ -
b) Liabilities			
Future income tax liability Canadian GAAP	1,726,000	1,721,000	1,896,000
Reversal of future income tax liability	(1,726,000)	(1,721,000)	(1,896,000)
Future income tax liability U.S. GAAP	\$ -	\$ -	\$ -
c) Operations			
Net (loss) under Canadian GAAP	\$ (7,441,566)	\$ (1,869,240)	\$ (1,638,520)
Mineral property costs expensed under U.S. GAAP - cash	(3,533,184)	(3,229,114)	(4,371,595)
Non-cash mineral property costs under Canadian GAAP	(178,600)	(247,416)	(1,023,413)
Foreign exchange gain on FITL under Canadian GAAP	5,000	(175,000)	(24,000)
Write down of mineral property costs Canadian GAAP	6,070,412	277,075	-
Net loss under U.S. GAAP	\$ (5,077,938)	\$ (5,243,695)	\$ (7,057,528)
d) Deficit			
Closing deficit under Canadian GAAP	\$ (11,063,297)	\$ (3,621,731)	\$ (1,752,491)
Future income tax liability Canadian GAAP	1,726,000	1,721,000	1,896,000
Adjustment to deficit for mineral property costs expensed under U.S. GAAP	(14,768,361)	(17,126,989)	(13,927,534)
Closing deficit under U.S. GAAP	\$ (24,105,658)	\$ (19,027,720)	\$ (13,784,025)
e) Cash flows - Operating activities			
Cash used in operating activities - Canadian GAAP	\$ (758,712)	\$ (935,090)	\$ (610,281)
Loss under Canadian GAAP	7,441,566	1,869,240	1,638,520
Loss under U.S. GAAP (above)	(5,077,938)	(5,243,695)	(7,057,528)
Foreign exchange gain on FITL under Canadian GAAP	(5,000)	175,000	24,000
Non-cash mineral property costs under Canadian GAAP	178,600	247,416	1,023,413
Write down of costs under Canadian GAAP	(6,070,412)	(277,075)	-
Cash used in operating activities - U.S. GAAP	\$ (4,291,896)	\$ (4,164,204)	\$ (4,981,876)
f) Cash flows - Investing activities			
Cash used in investing activities - Canadian GAAP	\$ (3,533,184)	\$ (3,229,114)	\$ (4,399,045)
Mineral property costs expensed under U.S. GAAP	3,533,184	3,229,114	4,371,595
Cash used in investing activities - U.S. GAAP	\$ -	\$ -	\$ (27,450)
g) Loss per share			
Loss per share – basic and diluted under U.S. GAAP	\$ 0.12	\$ 0.16	\$ 0.27