

# **Santa Fe Metals Corp.**

An exploration stage company

Consolidated Financial Statements

**March 31, 2011**

(expressed in Canadian dollars)

## Independent Auditor's Report

### To the Shareholders of Santa Fe Metals Corp.

We have audited the accompanying consolidated financial statements of Santa Fe Metals Corp., which comprise the consolidated balance sheets as at March 31, 2011 and 2010 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

#### **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.

#### **Auditor's responsibility**

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

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

We believe that the audit evidence we have obtained in our audits 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 Santa Fe Metals Corp. as at March 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*(signed) PricewaterhouseCoopers LLP*

**Chartered Accountants**  
Vancouver, British Columbia  
June 24, 2011

# Santa Fe Metals Corp.

## Consolidated Balance Sheets

As at March 31

(expressed in Canadian dollars)

	<u>2011</u>	<u>2010</u>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	32,460	585,395
Receivables and prepaids	<u>125,800</u>	<u>85,986</u>
	158,260	671,381
<b>Equipment</b> (note 3)	32,512	46,123
<b>Mineral properties</b> (note 4)	<u>1,204,125</u>	<u>938,677</u>
	<u>1,394,897</u>	<u>1,656,181</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Payables and accrued liabilities	81,835	137,579
<b>Loan payable</b> (note 7)	<u>175,000</u>	<u>-</u>
	<u>256,835</u>	<u>137,579</u>
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 5)	4,486,812	4,486,812
<b>Contributed surplus</b> (note 5)	1,304,101	1,304,767
<b>Deficit</b>	<u>(4,652,851)</u>	<u>(4,272,977)</u>
	<u>1,138,062</u>	<u>1,518,602</u>
	<u>1,394,897</u>	<u>1,656,181</u>

Nature of operations (note 1)

Subsequent events (note 13)

Approved by the Board of Directors

"Ian B. Smith" Director  
Ian B. Smith

"Douglas R. Brett" Director  
Douglas R. Brett

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

# Santa Fe Metals Corp.

## Consolidated Statements of Operations, Comprehensive Loss and Deficit For The Years Ended March 31

(expressed in Canadian dollars)

	<u>2011</u>	<u>2010</u>
	\$	\$
<b>Expenses</b>		
Accounting and audit	75,689	99,680
Business development	3,870	5,522
Depreciation and amortization	13,611	19,365
Dues and fees	4,945	4,739
Foreign exchange translation	1,880	22,211
Insurance	16,718	16,651
Investor relations	1,638	5,799
Legal	12,925	228,509
Loan interest	1,475	11,286
Office and general	19,442	17,234
Premises	73,889	74,816
Property investigations	(22,399)	119,744
Regulatory and transfer agent	16,138	29,010
Salaries and benefits	127,573	448,889
Stock-based compensation	(666)	383,947
Telecommunications	7,680	11,600
Travel and accommodation	25,466	21,811
Write off of properties (note 4)	-	1,464,415
<b>Loss before other items</b>	<u>379,874</u>	<u>(2,985,228)</u>
<b>Other items</b>		
Litigation settlement proceeds	-	476,878
Consulting income	-	-
Interest income	-	91
	<u>-</u>	<u>476,969</u>
<b>Net loss and comprehensive loss for the year</b>	<u>(379,874)</u>	<u>(2,508,259)</u>
<b>Deficit - Beginning of year</b>	<u>(4,272,977)</u>	<u>(1,699,606)</u>
<b>Warrant expiry extension charge (note 5)</b>	<u>-</u>	<u>(65,112)</u>
<b>Deficit - End of year</b>	<u>(4,652,851)</u>	<u>(4,272,977)</u>
<b>Basic and diluted loss per share</b>	<u>(0.01)</u>	<u>(0.10)</u>
<b>Weighted average number of shares outstanding</b>	<u>37,760,237</u>	<u>26,390,593</u>

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

# Santa Fe Metals Corp.

## Consolidated Statements of Cash Flows For The Years Ended March 31

(expressed in Canadian dollars)

	<u>2011</u>	<u>2010</u>
	\$	\$
<b>Cash flows from operating activities</b>		
Net loss for the year	(379,874)	(2,508,259)
Add items not affecting cash:		
Depreciation and amortization	13,611	19,365
Stock-based compensation	(666)	383,947
Write-off of mineral properties	-	1,464,415
	<u>(366,929)</u>	<u>(640,532)</u>
Changes in non-cash working capital items		
Receivables and prepaids	(39,814)	120,901
Payables and accrued liabilities	(55,744)	(9,822)
	<u>(462,487)</u>	<u>(529,453)</u>
<b>Cash flows from investing activities</b>		
Mineral properties	<u>(265,448)</u>	<u>(589,170)</u>
<b>Cash flows from financing activities</b>		
Common shares and warrants issued for cash - net	-	1,610,625
Loan payable	175,000	-
	<u>175,000</u>	<u>1,610,625</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(552,935)</b>	<b>492,002</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>585,395</b>	<b>93,393</b>
<b>Cash and cash equivalents – end of year</b>	<b>32,460</b>	<b>585,395</b>
<b>Cash paid during the year for interest</b>	<b>-</b>	<b>11,286</b>
<b>Cash paid during the year for income taxes</b>	<b>-</b>	<b>-</b>

Supplemental information with respect to cash flows (note 8)

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

# Santa Fe Metals Corp.

## Notes to Consolidated Financial Statements March 31, 2011

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(expressed in Canadian dollars)

### 1 Nature of operations

Santa Fe Metals Corp. and its subsidiaries (collectively, "Santa Fe" or "the Company") are engaged in the exploration and development of mineral properties in North America and currently focus on Mexico. The company considers itself to be an exploration stage enterprise.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations or significant returns to the company's shareholders. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, receipt of necessary permits and regulatory approvals, the ability of the company to obtain financing to complete its development plans, and attain future profitable operations or sale of the properties. The company's investment in mineral properties located in Mexico comprises a significant portion of its assets.

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

Consistent with other entities in the exploration stage, the Company has incurred operating losses since inception, has no source of revenue, is unable to self-finance operations, and has significant cash requirements to meet its overhead and continue its exploration activities. The Company's ability to complete its planned exploration and development activities is dependent upon management's ability to secure additional financing. While management has been successful in obtaining funding in the past, there can be no assurance that it will be able to do so in the future (see Notes 11 and 13).

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

### 2 Significant accounting policies

These consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") established by the Canadian Institute of Chartered Accountants ("CICA"). The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements, in the opinion of management, have been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant policies set out below.

# Santa Fe Metals Corp.

## Notes to Consolidated Financial Statements March 31, 2011

(expressed in Canadian dollars)

### 2 Significant accounting policies (continued)

#### Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries:

Name of Subsidiary	Ownership	Jurisdiction
0803198 BC Ltd. ("0803198")	100.0%	British Columbia, Canada
0803203 BC Ltd. ("0803203")	100.0%	British Columbia, Canada
Prestadora de Servicios Coronado S.A. de C.V. ("Servicios")	100.0%	Mexico
Compañía Minera Coronado SA de CV ("Coronado")	100.0%	Mexico

#### Cash and cash equivalents

The Company considers short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Cash and cash equivalents consist primarily of deposits with an original maturity at date of purchase of three months or less, and include cash held in an interest-bearing trust account by the Company's solicitors on the Company's behalf but available to the Company on demand. Because of the short-term maturity of these investments, their carrying amount approximates fair value.

#### Equipment

Equipment is stated at cost less accumulated amortization and is amortized using the declining balance method over its estimated useful life at rates as follows:

Computer equipment	30%	Office equipment	20%
Exploration equipment	30%	Vehicle	30%

#### Mineral properties and deferred exploration costs

The Company records its interests in mineral properties and areas of geological interest at cost. Direct and indirect costs relating to the acquisition, exploration and development of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven and probable reserves available on the related property following commencement of production. A mineral property that is sold before reaching the production stage will have all proceeds from its sale credited against the cost of the property. A property that has reached the production stage will have a gain or loss calculated based on the portion of that property sold.

The recorded cost of mineral exploration interests is based on cash paid, the value of share and warrant considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value as this will be dependant on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production. Management regularly reviews the carrying value of a mineral property and recognizes impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, and the assessment of future probability of profitable revenues from the property or from the sale of the property.

# Santa Fe Metals Corp.

## Notes to Consolidated Financial Statements March 31, 2011

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(expressed in Canadian dollars)

### **2 Significant accounting policies (continued)**

Ownership in mineral properties involves certain inherent risks due to the difficulties of determining and obtaining clear title to claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristics of many mineral properties. The Company has investigated ownership of its mineral properties and, to the best of its knowledge, ownership of its interests are in good standing.

#### **Share Capital**

The Company records proceeds from the exercise of stock options and warrants as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.

The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis on a relative fair value basis, wherein, the fair value of the common shares is based on the market close on the date the units are issued; and the fair value of the common share purchase warrants is determined using the Black-Scholes pricing model.

#### **Loss per share**

The Company uses the treasury stock method to compute the dilutive effect on earnings per share of options, warrants and similar instruments. Under this method, the dilutive effect is recognized assuming the proceeds that could be obtained upon exercise of options, warrants and similar instruments would be used to purchase common shares at the average market price during the year. No such calculation is made where a loss is incurred because the effect would be anti-dilutive. In this latter case, the diluted loss per share is considered to be equal to the basic loss per share. Basic loss per share is calculated using the weighted-average number of shares outstanding during the period.

#### **Future income taxes**

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs.

At this stage of the Company's development, where the amount of unrecognized future tax assets exceeds the amount of future tax liabilities, GAAP requires the provision of a valuation allowance to reduce the net balance to zero because it is not more likely than not that the company will be able to utilize these tax benefits.

# Santa Fe Metals Corp.

## Notes to Consolidated Financial Statements March 31, 2011

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(expressed in Canadian dollars)

### **2 Significant accounting policies (continued)**

#### **Estimates and Measurement Uncertainty**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. Significant areas where management judgment is applied in these financial statements include: stock-based compensation, determination of impairment of long-lived assets, useful lives for depletion and amortization, and income tax provisions.

#### **Stock-based compensation**

The Company follows the recommendations of the CICA to account for stock-based compensation. The standards require that all stock option-based awards made to consultants and employees be recognized in the financial statements and measured using a fair value based method. The fair value of an option is established using the Black Scholes option pricing model. For employees, the fair value of the options at the date of the grant is accrued and charged to operations and/or mineral property, with the offsetting credit to contributed surplus, on a straight-line basis over the vesting period. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty's performance is complete, 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.

#### **Foreign currency translation**

For the purposes of consolidation, the Company's foreign subsidiaries are considered integrated operations and are translated using the temporal method. Under this method, the Company translates monetary assets and liabilities denominated in foreign currencies at period-end rates. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates in effect during the period except for depreciation and amortization which are translated at historical rates. The resulting gains or losses are reflected in operating results in the period of translation.

At the entity level, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at the exchange rates in effect at the time of acquisition or issue. Revenues and expenses are translated at rates approximating the exchange rates in effect at the time of the transactions. All exchange gains and losses are included in operations.

# Santa Fe Metals Corp.

## Notes to Consolidated Financial Statements March 31, 2011

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(expressed in Canadian dollars)

### 2 Significant accounting policies (continued)

#### Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. The Company classifies financial instruments as held-to-maturity, available-for-sale, held-for-trading, loans and receivables, or other financial liabilities. Financial assets held to maturity, loans and receivables, and financial liabilities other than those held-for-trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income ("OCI"). Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of operations. Transaction costs are expensed as incurred.

The Company has designated its cash and cash equivalents, accounts receivable and other receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, property and mining taxes payable, convertible debentures, notes payable, and accrued site closure costs are classified as other liabilities, which are measured at amortized cost.

Marketable securities that meet the definition of a derivative are classified as held-for-trading and are measured at fair value with unrealized gains and losses recognized in the statement of operations. All of the Company's other marketable securities are designated as available-for-sale, and are reported at fair market value. Other comprehensive income includes the gains and losses from available-for-sale securities which are not included in net income (loss) until realized, and currency translation adjustments on its net investment in self sustaining foreign operations.

#### Future Accounting Pronouncements

##### *Business Combinations*

In January 2009, the CICA issued Section 1582, *Business Combinations*, which replaces former guidance on business combinations. Section 1852 establishes principles and requirements of the acquisition method for business combinations and related disclosures. In addition, the CICA issued Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-Controlling Interests*, which replace the existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements, while section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

These statements apply 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 with earlier application permitted. The Company is currently evaluating the new sections to determine the potential impact on its consolidated financial statements.

# Santa Fe Metals Corp.

Notes to Consolidated Financial Statements  
March 31, 2011

(expressed in Canadian dollars)

## 3 Equipment

Description	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$	\$	\$	\$
Computer equipment	13,498	9,472	<b>4,026</b>	13,498	7,746	5,752
Exploration equipment	67,385	47,396	<b>19,989</b>	67,385	38,830	28,555
Vehicle	22,957	16,264	<b>6,693</b>	22,957	13,396	9,561
Office equipment	3,914	2,110	<b>1,804</b>	3,914	1,659	2,255
	107,754	75,242	<b>32,512</b>	107,754	61,631	46,123

# Santa Fe Metals Corp.

## Notes to Consolidated Financial Statements March 31, 2011

(expressed in Canadian dollars)

### 4 Mineral properties

Description	Cuatro Cienegas \$	Lobos \$	Total \$
Balance March 31, 2009	731,673	1,077,718	1,809,391
Incurred during year ended March 31, 2010:			
Acquisition, staking and maintenance	43,300	23,009	66,309
Administration	282	196,268	196,550
Assaying	37,721	214	37,935
Drilling	-	-	-
Environmental and permitting	10,322	-	10,322
Equipment rental	-	1,748	1,748
Field expenses	619	14,109	14,728
Geology	1,004	73,405	74,409
Option payments	113,756	77,944	191,700
Written off	-	(1,464,415)	(1,464,415)
Balance March 31, 2010	938,677	-	938,677
Incurred during year ended March 31, 2011:			
Acquisition, staking and maintenance	32,059	-	32,059
Administration	41,338	-	41,338
Assaying	-	-	-
Drilling	-	-	-
Environmental and permitting	20,701	-	20,701
Equipment rental	-	-	-
Field expenses	10,959	-	10,959
Geology	57,857	-	57,857
Option payments	102,534	-	102,534
Written off	-	-	-
Balance March 31, 2011	1,204,125	-	1,204,125
Cumulative balances:			
Acquisition, staking and maintenance	607,044	244,682	851,726
Administration	45,323	372,099	417,422
Assaying and metallurgy	84,974	44,199	129,173
Drilling	-	240,769	240,769
Environmental and permitting	32,072	2,591	34,663
Equipment rental	-	32,718	32,718
Field expenses	24,453	43,178	67,631
Geology	92,996	295,421	388,417
Option payments	317,263	188,758	506,021
Written off	-	(1,464,415)	(1,464,415)
Balance March 31, 2011	1,204,125	-	1,204,125

# Santa Fe Metals Corp.

Notes to Consolidated Financial Statements  
March 31, 2011

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(expressed in Canadian dollars)

## 4. Mineral properties (continued)

### **Cuatro Cienegas**

In May 2008, Coronado acquired by way of assignment certain mineral concessions collectively referred to as the Cuatro Cienegas Property in the State of Coahuila, Mexico. In consideration, the Company paid US\$500,000, assumed the vendor's obligation to make five annual payments of US\$100,000 to concession holders, of which US\$300,000 has been paid and another US\$100,000 paid subsequent to March 31, and agreed to commence production at a rate of 1,000 tonnes per day by November 2009. In addition, the Company committed to make \$US100,000 of expenditures on the project which have been made. A net smelter returns royalty ("NSR") of 3.5% is payable on future production revenues which can be reduced to 2.5% in consideration for a single payment of US\$1 million at any time. The vendors also subscribed for 500,000 Santa Fe shares @ US\$0.60 (CAD\$0.60624) each.

Production did not commence by November 2009 because of delays encountered in obtaining necessary permits from the Mexican Mines Department. The acquisition agreement was later amended to eliminate the deadline for the commencement of production.

### **Lobos Property**

Effective November 15, 2007, Coronado entered into an option agreement to acquire a 100% interest in the original Lobos property for US\$2,625,000 payable over four years, of which US\$268,750 was paid, and a 2% net smelter return royalty. The Company abandoned the property during the year ended March 31, 2010 and the related carrying costs were written off.

# Santa Fe Metals Corp.

## Notes to Consolidated Financial Statements March 31, 2011

(expressed in Canadian dollars)

### 5. Capital stock

Authorized

Unlimited number of common shares without par value  
Unlimited number of preferred shares without par value

Issued	Share Capital		Contributed Surplus \$
	Number of Shares	Amount \$	
Balance March 31, 2009	16,290,237	3,194,979	532,385
Private placement at 5¢ per share	10,470,000	523,500	-
Less: financing costs		(6,375)	-
Warrant extension charge		-	65,112
Private placement at 10¢ per unit	11,000,000	779,313	320,687
Less: financing costs		(4,605)	(1,895)
Stock-based compensation		-	388,478
Balance March 31, 2010	37,760,237	4,486,812	1,304,767
Stock-based compensation		-	(666)
Balance March 31, 2011	37,760,237	4,486,812	1,304,101

During the year ended March 31, 2011

- Warrants to purchase 1,978,330 common shares at \$0.60 to \$0.80 each expired on February 27, 2011.
- A contractor's options to acquire 50,000 shares at \$0.60 expired after the contract was not renewed. These options were fully vested at their expiry date.

During the year ended March 31, 2010:

- The Company completed a non-brokered private placement of 10,470,000 common shares at \$0.05 per share for gross proceeds of \$523,500 (no warrants were issued). Finder's fees totalling \$6,375 were paid in respect of the placement of 2,550,000 shares;
- The Company granted stock options to purchase a total of 1,665,000 shares at \$0.23 expiring June 2, 2014 to directors and certain employees, and a total of 75,000 shares at \$0.10 expiring November 13, 2011 to a contractor;
- A contractor's option to acquire 100,000 shares at \$0.48 and a broker's option to acquire 20,000 shares at \$0.10 both expired. These options were fully vested at their respective expiry dates.
- The expiry date of warrants to purchase a total of 1,978,330 common shares at \$0.80 each was extended by one year to February 27, 2011, and the exercise price of 1,902,664 of the warrants reduced to \$0.60.

# Santa Fe Metals Corp.

## Notes to Consolidated Financial Statements March 31, 2011

(expressed in Canadian dollars)

### 5. Capital stock (continued)

- e) The Company completed a non-brokered private placement of 11,000,000 units at \$0.10 per unit for gross proceeds of \$1,100,000. Finder's fees of \$6,500 were paid in connection with the placement of 1,300,000 units. Each unit consists of one common share and one-half of a warrant. One whole warrant entitles the holder to purchase one additional share at \$0.15 each for a two year period expiring March 9, 2012. Also, the warrants are subject to early expiry upon 30 days written notice to the holder if the common shares of the Company trade at a price of not less than \$0.45 per common share for 10 consecutive trading days.

During the year ended March 31, 2011, the Company amortized a portion of a contractor's stock options that were granted in November 2009. The options were for 75,000 shares that vested over a one year period in four month intervals at 25,000 shares per interval and were amortized on an accelerated basis.

The fair values of the warrants and contractor options granted and issued during the year were determined using the Black-Scholes valuation method. The assumptions used and fair values calculated were as follows:

<b>Description</b>	<b>Contractor Option</b>
Number of amortized shares	23,147
Risk-free interest rate	1.45%-1.63%
Expected life of options	2 years
Annualized volatility	206.75%-207.85%
Dividend rate	0%
Value (accrual recovery)	(\$666)

The following is a summary of stock options and warrants outstanding at March 31, 2011 and changes during the year then ended:

<b>Description</b>	<b>Options</b>		<b>Warrants</b>	
	<b>Number of Shares</b>	<b>Weighted Avg Exercise Price</b>	<b>Number of Shares</b>	<b>Weighted Avg Exercise Price</b>
Balance, March 31, 2009	931,428	\$0.32	1,978,330	\$0.80
Expired or extended	(120,000)	(\$0.42)	(1,978,330)	\$0.80
Granted, issued or extended	1,740,000	\$0.22	7,478,330	\$0.27
Balance, March 31, 2010	2,551,428	\$0.25	7,478,330	\$0.27
Expired	(50,000)	(\$0.60)	(1,978,330)	(\$0.61)
Balance, March 31, 2011	2,501,428	\$0.24	5,500,000	\$0.15
Currently exercisable	2,501,428	\$0.24	5,500,000	\$0.15

The weighted average remaining contractual life of all exercisable options outstanding is 2.7 years. The weighted average remaining contractual life of all exercisable warrants outstanding is 0.9 years.

# Santa Fe Metals Corp.

## Notes to Consolidated Financial Statements March 31, 2011

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(expressed in Canadian dollars)

### 6. Commitments

The Company has leased office space to March 2011 and May 2012. The lease provides for payment of utilities, property taxes and maintenance costs in addition to base rent. Future aggregate base rent payments as at March 31, 2011 total \$4,613. In addition, the Company must make the option payments outlined in Note 4 on a timely basis in order to keep the property options in good standing.

### 7. Related party transactions

During the year ended March 31, 2011, the Company:

- Paid rent of \$63,120 (2010: \$63,120) to entities controlled by two of the Company's directors.
- Arranged a series of unsecured, revolving 6% loans from a private company owned by two of the Company's directors. Interest of \$1,475 (2010: \$11,286) was charged in respect of these loans, of which \$1,475 (2010: \$Nil) is included in payables. The balance of loan payable outstanding is \$175,000 (2010: \$Nil). The current loan has no specific terms of repayment but the lender has agreed not to demand payment prior to December 31, 2012.
- Paid geological consulting fees to an individual who is a director of the Company of \$Nil (2010: \$5,852).
- Paid and accrued legal fees of \$5,547 (2010: \$6,661) to a law firm, a partner of which is also a Company director. Payables includes \$11,970 (2010: \$6,370) owing to this firm.
- Accrued metallurgical consulting fees of \$Nil (2010: \$15,000) to a company, the principal of which is also a Company director. This company subsequently forgave fees accrued over several years totaling \$30,000. Payables includes \$Nil (2010: \$31,250) owing to this company.

In addition, payables includes \$Nil (2010: \$37,500) of unpaid salaries owing to two directors.

Each of these transactions occurred in the normal course of operations and is measured at the exchange amount.

### 8. Supplemental information with respect to cash flows

Financing activities during the year ended March 31, 2010 not affecting cash flows are as follows:

- A non-cash amount of \$Nil (2010: \$65,112) associated with the extension of warrants was charged to accumulated deficit.
- The balance of mineral properties includes a non-cash amount of \$Nil (2010: \$4,531) in respect of stock-based compensation.

# Santa Fe Metals Corp.

## Notes to Consolidated Financial Statements March 31, 2011

(expressed in Canadian dollars)

### 9 Income taxes

	<u>2011</u>	<u>2010</u>
	\$	\$
A reconciliation of taxes at statutory rates with reported taxes is as follows:		
Loss before income taxes	<b>(379,874)</b>	(2,508,259)
Statutory tax rate	<b>28.00%</b>	29.63%
Expected income tax recovery at statutory rate	<b>(106,365)</b>	(743,197)
Stock-based compensation and permanent differences	<b>412</b>	105,920
Difference in foreign tax rates (Canada and Mexico)	<b>(6,188)</b>	17,661
Difference in current and future tax rates	<b>17,050</b>	34,893
Change in valuation allowance and other	<b>95,091</b>	584,724
Future income tax recovery	<b>-</b>	-
The significant components of the Company's net future income tax assets are as follows:		
Tax losses	<b>1,180,466</b>	1,000,715
Tax value of financing costs in excess of book value	<b>7,836</b>	15,298
Tax cost of capital assets in excess of book value	<b>2,896</b>	2,351
Future tax assets	<b>1,191,198</b>	1,018,364
Book value of mineral properties in excess of tax value	<b>(337,155)</b>	(262,830)
Balance before valuation allowance	<b>854,043</b>	755,534
Valuation allowance	<b>(854,043)</b>	(755,534)
Net future income tax assets	<b>-</b>	-

The Company has non-capital losses for Canadian tax purposes of approximately \$2,413,867 that are available for deduction against future income and that begin to expire in 2027. The Company has non-capital losses for Mexican tax purposes of approximately \$2,060,711 that are available for deduction against future income and that carry forward indefinitely.

# Santa Fe Metals Corp.

## Notes to Consolidated Financial Statements March 31, 2011

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(expressed in Canadian dollars)

### 10. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

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

Cash and cash equivalents, accounts receivables are classified as loans and receivables which are measured at amortized costs. Accounts payable and accrued liabilities approximate their fair values due to their short term to maturity.

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

#### (a) Currency risk

As at March 31, 2011 and 2010, the company's expenditures are predominantly in Mexican pesos and US dollars, and any future equity raised is expected to be predominantly in Canadian dollars. The company conducts the majority of its business in Mexico which uses the Mexican peso as its primary economic currency, however, some suppliers bill in US dollars and property option payments are denominated in US dollars. Future project exploration and development expenditures are expected to be paid primarily in Mexican pesos and secondarily in US dollars. A significant change in the relative currency exchange rates between the Canadian dollar, the Mexican peso and the US dollar could have an effect on the company's results of operations, financial position or cash flows. The company has not hedged its exposure to currency fluctuations. As such, the company is subject to risk due to fluctuations in the exchange rates for the US and Canadian dollar.

At March 31, 2011, the company is exposed to currency risk through the following assets and liabilities denominated in Mexican pesos and US dollars and expressed in Canadian dollar equivalents:

Description	Amount
	\$
Cash and cash equivalents	15,784
Receivables	104,697
Payables and accrued liabilities	(24,057)

Based on the above net exposures as at March 31, 2011, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against either the Mexican peso or the US dollar would result in an increase/decrease of approximately \$9,642 in the company's net loss.

# Santa Fe Metals Corp.

## Notes to Consolidated Financial Statements March 31, 2011

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(expressed in Canadian dollars)

### 10. Financial instruments (continued)

(b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The company's cash and cash equivalents are in interest bearing accounts held at a large Canadian chartered financial institution. Minimal cash balances are held in Mexican financial institutions. The company has no investments in asset-backed commercial paper. The company's accounts receivable consist mainly of prepaids, goods and services tax (GST) due from the Government of Canada and value-added tax (IVA) due from the government of Mexico. As at March 31, 2011, the balance of receivables includes an amount of \$105,871 in respect of IVA. Although full recovery is expected by management, recoveries to date have been intermittent

(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 its capital management as outlined in note 11 to the consolidated financial statements. Accounts payable relating to mineral properties and other accounts payable and accrued liabilities are due within the current operating period. Additional information regarding liquidity is set out in note 1.

(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 short-term investments included in cash and cash equivalents is minimal because these investments roll over daily.

(e) Price risk

The company is exposed to price risk with respect to commodity prices, particularly as it moves toward production on its Cuatro Ciénegas property. The company closely monitors commodity prices to determine the appropriate course of action to be taken by the company.

### 11. Capital management

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 exploration and development of its mineral properties, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the company includes its cash and cash equivalent balances and components of shareholders' equity.

# Santa Fe Metals Corp.

## Notes to Consolidated Financial Statements March 31, 2011

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(expressed in Canadian dollars)

### 11. Capital management (continued)

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 debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

In order to facilitate the management of its capital requirements, the company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

At this stage of the company's development, in order to maximize ongoing development efforts, the company does not pay out dividends.

The company's investment policy is to invest its cash in highly liquid short-term interest-bearing R1-High investment rated (DBRS) investments with maturities 90 days or less from the original date of acquisition.

The company expects its current capital resources to be insufficient to carry its exploration and development plans and operations through its current operating period. Cost cutting measures have been implemented and attempts are being made to raise additional capital.

The company currently is not subject to externally imposed capital requirements.

### 12. Segmented information

The Company operates in one reportable operating segment, being the acquisition, exploration and development of natural resources properties, which is conducted principally in Mexico.

### 13. Subsequent events

On April 15, 2011, the Company completed a private placement of 11,093,750 units at \$0.08 per unit generating gross proceeds of \$887,500. Each unit consisted of one common share and one-half of a warrant. One whole warrant entitles the holder to purchase one additional common share at \$0.11 each for a two year period expiring April 15, 2013. Finder's fees of \$7,560 cash and 108,000 "B" warrants, exercisable into 108,000 common shares at a price of \$0.10 per share for a two year period expiring April 15, 2013, were paid in connection with the placement of 1,350,000 units.

In June 2011 the Company agreed to acquire all of the issued and outstanding shares of Interior Gold Corp., a private Canadian company in consideration for one million units to be issued on receipt of regulatory approval and another one million units to be issued one year after the receipt of regulatory approval. Each unit consists of one common share and a one year share purchase warrant. Each warrant entitles the holder to purchase another common share at \$0.10 each. Interior has a 100% interest in the "Ahbau Creek" Gold prospect, located to the Northwest of Barkerville Gold Mines' "Bonanza Ledge" deposit in central British Columbia. The prospect includes a large percentage of a historic gold placer deposit.

# Santa Fe Metals Corp.

Notes to Consolidated Financial Statements  
March 31, 2011

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(expressed in Canadian dollars)

## 13. Subsequent events (continued)

In June 2011, the Company signed a letter of intent to option up to 100% of the Cuyoaco Gold and Base Metal Property in the State of Puebla, Mexico. The Company can earn up to 100% of the property by making cash payments and issuing shares as follows:

	<u>Cash – US\$</u>	<u>Shares</u>	<u>Interest earned</u>
On receipt of regulatory approval	100,000	360,000	-
1 <sup>st</sup> year anniversary	100,000	360,000	20%
2 <sup>nd</sup> year anniversary	100,000	360,000	20%
3 <sup>rd</sup> year anniversary	100,000	360,000	20%
4 <sup>th</sup> year anniversary	100,000	360,000	20%
5 <sup>th</sup> year anniversary	-	6,000,000	20%
TOTAL	500,000	7,800,000	100%

SFM may, at its option, accelerate the schedule of payments and share issuances.