

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion is management's analysis of Azteca Gold Corp.'s operating and financial data for the quarters ended June 30, 2010 and 2009 as well as management's estimates of future operating and financial performance based on information currently available. It should be read in conjunction with the consolidated financial statements and notes for the period ending June 30, 2010 as well as our audited consolidated financial statements and notes for the years ended December 31, 2009 and 2008. The Management's Discussion and Analysis was prepared as of August 26, 2010. Additional information relating to Azteca can be found at www.sedar.com.

MATERIAL FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis contains forward-looking information as contemplated by Canadian securities regulators' Form 51-102F1, also known as forward-looking statements. All estimates and statements that describe the Company's objectives, goals or future plans are forward-looking statements. Forward-looking statements included in this document include statements with respect to:

- The Company's future exploration plans;
- The Company's expectations regarding the ability to raise capital to fund its programs.

Readers are cautioned that the forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking statements. The Company will issue updates where actual results differ materially from any forward-looking statement previously disclosed.

RESPONSIBILITY OF MANAGEMENT

The preparation of the financial statements, including the accompanying notes, is the responsibility of management. Management has the responsibility of selecting the accounting policies used in preparing the financial statements. In addition, management's judgment is required in preparing estimates contained in the financial statements.

2010 OVERVIEW

The Company is a development stage company engaged in the acquisition and exploration of mineral properties. The Company's main focus is on exploration for gold and silver in the United States and Mexico.

1. On March 29, 2010, the Company (on behalf of the Two Mile Joint Venture) entered into a Claim Purchase Agreement with Shoshone Silver Gold Mining Company for 15 unpatented mineral claims located in Idaho. The Company paid US \$175,000 total for the claims and holds 100% interest in all 15 unpatented claims.
2. On June 30, 2010, the Company entered into an Agreement of Purchase and Sale of Joint Venture Interest with Silver Royal Apex, Inc.. On July 26, 2010, the shareholders of Silver Royal Apex approved the transaction. Per the agreement, Silver Royal Apex sold its 50% ownership interest in the Two Mile Joint Venture to the Company thereby giving the Company 100% ownership interest in the Two Mile project. The Company has issued 128 million shares to Silver Royal Apex for a deemed value of \$6.4 million CDN (Silver Royal's portion of expenditures less their payable to the Company).
3. On July 1, 2010, the Company entered into a Settlement Agreement with Ruen Drilling Inc. to settle \$3,032,476.60 USD of outstanding debt. Per the Agreement, the Company issued 12 million common shares with warrants to purchase an additional 12,000,000 common shares at US\$0.125 expiring August 10, 2012. The Company must pay \$1,632,476.60 USD within 8 weeks of the date of signing and Ruen Drilling has an 18 month option, the timing to be determined by the Company, to receive the remaining US\$800,000 in cash or in the form of 10,000,000 units each unit consisting of 1 common share and a warrant to purchase 1 common share at US\$0.20.

RESULTS OF OPERATIONS

The Company incurred a net and comprehensive loss of \$641,173 during the six month period ended June 30, 2010 compared with a loss of \$3,338,461 during the six month period ended June 30, 2009.

Net Loss from Operations

For the six month period ending June 30, 2010, net loss from operations was \$634,300 compared to \$3,338,595 in 2009, resulting in a decrease of \$2,704,295. The decrease year over year is primarily related to a steep decline in exploration activities during the period as well as the recovery of receivables written down in 2009. The reduced exploration activities produced a corresponding decline in other expense categories. Warrant and stock-based compensation also decreased as the Company did not issue shares or options during the period. Interest expense increased due to the increase in payables carried by the Company.

The following table itemizes the net loss from operations for the quarters ended June 30, 2010 and 2009.

Drill Plan and Permitting

On April 7, 2010 the Company announced that it had received drill permits for holes DDH-007, -008, and -009. Drilling resumed on July 10, 2010. The Company plans to drill vertical hole DDH-009 to 7000 FT to test up-dip mineralization potential of the conceptual anticlinal hinge.

The purpose of DDH-009, as mentioned above, is to investigate the potential for hinge-related up-dip mineralization, especially as it relates to mineralization discovered at approximately 7900 FT in hole DDH-005A. The company also plans the recommended geophysical relog by Scintrex of hole DDH-006 due to instrument noise. Financing permitting, the Company plans a downhole gravity geophysical survey of DDH-009 prior to any wedge-off drilling which may preclude such activity.

The drill plan and purposes for DDH-007 and -008 were outlined in the January 6th, 2010 press release to test for down-dip extension of the Harlow silver vein zone mineralization.

In addition to investigating potential mineralization in the vicinity of the massive sulfide discovery in DDH-005A at approximately 7900 FT, the Company may remove the wedge at approximately 3900 FT for hole DDH-005B and insert wedge(s) at approximately 6500 FT – 7500 FT in DDH-005A from which to further investigate potential massive sulfide mineralization.

Guerra al Tirano (Temoris, Chihuahua, Mexico) (Includes Reyna de Oro and Tres de Mayo concessions)

| | |
|--------------------------------------|--------------|
| Expenditures during the year | \$ 38,527 |
| Total expenditures to June 30, 2010: | \$ 6,403,881 |

The Guerra al Tirano silver-gold property consists of three mining concessions in the Temoris district in the Sierra Madre Occidental, southwestern Chihuahua State, Mexico. In aggregate the three concessions cover 94.5 hectares.

The silver-gold mineralization is contained within a classic low-sulfidation epithermal system consisting of quartz veins, stockworks, and breccias. The breccias range in thickness from 2 to 17 meters wide and have a strike length of over 1.4 kilometers. These structures generally trend north-south and have dips ranging from 50 to 75 degrees.

The initial mapping, trenching, and sampling that originally attracted our attention was followed up with a detailed soil sampling program. In addition a contract was put in place with M2 Technical Services to provide skilled drillers to carry out an initial 8 hole drilling program utilizing a Longyear 44 type core drilling rig that was purchased by the Company's Mexican subsidiary Minera de Oro y Plata de S.A. de CV.

As disclosed in the Company's news release dated March 5, 2007, Minera Azteca de Oro y Plata S.A. de C.V. (the Mexican subsidiary of Azteca Gold Corp. (the "Company")) has the right to use Ejido land covering approximately 95 hectares of the Company's mining concessions in Chihuahua for all activities necessary for the exploration, development and production of potential ore deposits. The Company may apply in the future for an increase in the amount of land covered by this agreement. In addition, the Company may travel through adjoining and nearby Ejido land outside the boundaries of the mining concessions for the purpose of constructing, operating and maintaining improvements or facilities necessary for the project. Initial payments are US \$10,000 per year for the first 3 years. The Company may terminate the agreement at any time.

An Ejido is a fundamental Mexican political unit that operates at the rural level. Mexican law gives Ejidos control of surface access to specific defined geographic boundaries. As such, Ejido consent is required to access land for mineral resource exploration, development, and exploitation (production) on the Company's Guerra al Tirano and Tres de Mayo concessions.

The Guerra al Tirano/Tres de Mayo exploration target area falls near the middle of a historically productive gold-silver belt near Temoris, Chihuahua. The closest gold exploration and development to the Guerra al Tirano/Tres de Mayo targets is the Palmarejo deposit controlled by Palmarejo Gold, 11 km on trend to the northwest.

With the Ejido agreement in place, the Company kicked off a two phase exploration program aimed at outlining a gold equivalent resource. The first phase of surface work saw the exposed vein mapped and sampled over the majority of the Guerra al Tirano and Reyna de Oro concessions and the Northern-most part of the Tres de Mayo concession. Results from the first phase of exploration work were disclosed by the Company in a press release dated September 19, 2007 wherein soil geochemical statistical assay results were presented and reinforced in graphic form on the Company's website page for the Guerra al Tirano (GAT) Project. The second phase employed step-out diamond drilling and RC drilling for a total of 34 holes. Initial results of the second phase of exploration work were disclosed by the Company in a press release dated November 1, 2007 wherein diamond drill core assay results were presented. In January and February of 2008 results of this drilling program were released. Work on a resource estimate from the data of Phase I and Phase II is underway. Results of this resource model will guide the Company in making decisions as to the further work program on these three concessions.

The Company paid the Year 4 payment of 350,000 Pesos in February 2010. The Company is evaluating exploration plans for 2010 in light of higher precious metal prices.

Marietta (Mineral County Nevada) – Gold-Silver Property in Historic Silver District

| | |
|--------------------------------------|--------------|
| Expenditures during the year | \$ 0 |
| Total expenditures to June 30, 2010: | \$ 3,802,840 |

On September 7, 2007 the Company announced it had completed the arms-length purchase of a 100% interest in the Marietta property, which consists of approximately 122 patented and unpatented claims located in Mineral County, Nevada. There is a 1% NSR royalty on the 13 patented claims. The Company has received an independent technical report, compliant with NI 43-101, on this property from Edward Brennan of Brisbane, Australia, which is available on SEDAR and the Company's website.

In the same press release, the Company disclosed completion of geophysical and geochemical testing on approximately the southern 1/3 of the claim block at this wholly owned gold/silver/copper project in the Walker Lane trend of west central Nevada. From the work, the Company identified multiple drill ready targets for primarily gold and silver mineralization with significant base metal potential. Results of this work can be found on the Marietta (MAR) project web page of the Company's website.

There are currently no plans in 2010 for this property except to evaluate offers for partnering.

Clayton Silver Mine (Clayton, Idaho)

During the quarter the Company ended discussions to renegotiate the option to purchase and abandoned the property.

Geroe Creek (Brooks Range, Alaska) - Molybdenum Prospect

Azteca Gold Corp. acquired a 100% interest in the Geroe Creek project. The property consists of 25 contiguous Alaska state mining claims covering approximately 4,000 acres. The property lies northeast of the Hogatza porphyry copper belt in the eastern Brooks Range of northern Alaska. It is located within an identified copper-lead-zinc metal province and adjacent to a gold (antimony-tungsten) province. The copper-lead-zinc belt hosts at least one major metalliferous lode deposit, as well as a large number of minor deposits. A geochemical survey was conducted during the fall of 2007, and assays indicate the presence of a large, strong molybdenum-lead-zinc-copper anomaly. Geochemical data, consisting 224 outcrop, 209 stream sediment, and 39 float samples, show strong anomalies for molybdenum, lead, zinc, copper, a moderate anomaly for nickel, and anomalous elevations beyond background for gold, silver, and antimony. Mineralization is concentrated within the north-northeast trending cirque and glacial valley, but has been traced for at least three miles to the east-southeast, possibly along a structural zone. Geroe Creek mineralization outcrops over an area measuring approximately 12 square kilometers and preliminary geologic work suggests it is predominantly hosted in paleozoic metasediments that are locally intruded by paleozoic- to mesozoic-aged mafic and granitic intrusives. Lithologic and alteration characteristics appear to be indicative of porphyry-style mineralization. Based on the geochemical survey, as well as results from two diamond core drill holes drilled prior to the onset of winter, the independent members of the board of directors approved the project's acquisition from Mr. Russell and two other arms-length owners who received a total of US \$60,000 for reimbursement of certain expenses. The three vendors will receive in total a 1.5% net smelter royalty. The President of the Company and his wife will receive .5% of the Net Smelter Royalty. Azteca has no obligation to spend any funds on the property nor make any other payments in respect to the acquisition of the Geroe Creek project. Plans have been developed for a second-stage exploration of the property, including a higher resolution geochemical survey and mapping designed to delineate drilling targets. Azteca will take the time to consider its options in regards to progressing the property before committing further resources to it. This includes potentially partnering with an Alaska-focused exploration company or a molybdenum-focused company in some form.

Project Orange (Shoshone and Kootenai County, Idaho)

The Company has staked a total of 147 claims covering 3,037 acres in Idaho and is currently assessing potential drill targets.

Equipment

The Company owns equipment carried at a depreciated value of \$313,948 (2009- \$432,782) and land held in its Mexican subsidiary carried at its cost value of \$128,543 which approximates its current real value.

SUMMARY OF QUARTERLY RESULTS

| | 2010 | | | 2009 | | | 2008 | |
|---|------------|------------|-------------|------------|------------|------------|-------------|------------|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Net loss from operations | \$ 445,652 | \$ 188,648 | \$7,288,432 | \$ 366,929 | \$ 557,619 | \$ 447,485 | \$7,209,634 | \$ 334,969 |
| Net loss from operations on a per share basis | 0.002 | 0.001 | 0.040 | 0.002 | 0.003 | 0.003 | 0.063 | 0.003 |
| Net loss | 445,651 | 195,522 | 3,975,603 | 1,498,013 | 1,249,261 | 2,021,418 | 4,002,745 | 1,740,185 |
| Net loss on a per share basis | \$ 0.002 | \$ 0.001 | \$ 0.022 | \$ 0.008 | \$ 0.007 | \$ 0.011 | \$ 0.035 | \$ 0.015 |

LIQUIDITY AND CAPITAL RESOURCES

The net loss from operations for the quarter ended June 30, 2010 was funded with cash reserves and receipts against its receivable from its Joint Venture partner. At June 30, 2010 the Company had net working capital deficiency of \$3,950,229 as compared to a net working capital deficiency of \$3,396,318 at December 31, 2009 and working capital of \$617,550 at June 30, 2009. Future operations will continue to be funded from the issuance of capital stock.

As at June 30, 2010, the Company had an outstanding receivable of US\$2,693,316 due from its then joint venture partner Silver Royal Apex (see 2010 overview item 3 above). On December 31, 2009, the Company made an allowance for doubtful receivable in the amount of US\$3,057,907 as its future recovery was uncertain. As at June 30, 2010 the Company had recovered US\$364,591 of this allowance which was netted against mineral and exploration expenditures on the Statement of Operations and Deficit for the period (see mineral exploration expenditures note 7).

Cash Flow Requirements for Next 12 months

| | |
|--|------------------|
| Exploration programs | \$ 5,500,000 |
| Claims, concessions fees, and taxes | 500,000 |
| Land Acquisitions | 1,000,000 |
| Debt settlements * | 1,630,000 |
| General and administration | <u>1,300,000</u> |
| Total estimated cash flow requirements | \$ 9,930,000 |

Exploration program and Land acquisition requirements will be adjusted based on cash that is available through equity fund raises.

* Two Mile driller settlement

Property Commitments:

The next annual Guerra al Tirano Ejido payment is 350,000 Pesos and is due February 25, 2011.

OTHER COMMITMENTS:

a) Management Contracts - The Company and its subsidiaries have contracts with certain members of management where they will receive severance payments upon termination without cause. The current commitment upon termination is US \$820,000.

b) The Company has entered into two commercial lease agreements. Both leases are month-to-month and the total due each month is \$2,200.

c) The Company has entered into a two-year consulting agreement effective August 1, 2010 with one of its directors. As a consultant the director will receive \$14,500 USD per month.

SUBSEQUENT EVENTS OR PROPOSED TRANSACTIONS

Other than as noted in the 2010 overview there have been no other subsequent events.

ARRANGEMENTS

The Company does not have any off-balance sheet arrangements and it is not likely that the Company will enter into off-balance sheet arrangements in the foreseeable future.

OUTSTANDING SHARE DATA as at August 26, 2010

| | |
|--------------------------------------|-------------|
| Common shares issued and outstanding | 339,461,432 |
|--------------------------------------|-------------|

| | |
|--|------------|
| Stock Options outstanding ⁽¹⁾ | 6,900,000 |
| Warrants Outstanding ⁽²⁾ | 77,541,847 |

- (1) a) 3,600,000 fully vested options were issued in 2006 under the Company's Stock Option Plan with exercise prices of \$0.50;
- b) 2,000,000 stock options with exercise prices ranging between \$0.75 and \$0.77 and 600,000 stock options with exercise prices of US\$0.70 were granted in 2007 to directors, senior officers and consultants of the Company. 2,300,000 are fully vested and 300,000 vest during 2010;
- c) 700,000 options were granted to directors in 2008 at an exercise price ranging between \$0.25 and \$0.50. 600,000 are fully vested with 100,000 vesting in 2010;

All the above issued options expire 5 years from the date of issue.

- (2) a) In 2007-11,125,331 warrants were issued with an exercise price of US \$0.70 and expiration date of August 31, 2009, 949,750 were exercised and 10,175,581 expired; 7,260,949 warrants were issued with an exercise price of \$0.88 and expiration date of November 9, 2009, 1,489,221 were exercised and 5,771,728 expired.
- b) In 2008 - 27,042,749 warrants were issued with an exercise price of \$0.25 and expiration date of September 30, 2010, 566,800 were exercised on September 30, 2009; 11,833,023 warrants were issued with an exercise price of \$0.25 and expiration date of December 31, 2010.
- c) In 2009- 4,923,934 warrants were issued with an exercise price of \$0.25 and expiration date of January 09, 2011, and 1,408,017 of those warrants have been exercised; 3,525,807 warrants were issued with an exercise price of \$0.35 and expiration date of April 17, 2011; 2,046,600 warrants were issued with an exercise price of \$0.35 and expiration date of May 14, 2011; 577,500 warrants were issued with an exercise price of \$0.35 and expiration date of June 10, 2011; 1,666,750 warrants were issued with an exercise price of \$0.75 and expiration date of June 29, 2011; 6,249,384 warrants were issued with an exercise price of \$0.25 and expiration date of September 19, 2011; 9,650,917 warrants were issued with an exercise price of \$0.15 and expiration date of October 9, 2011.
- d) In 2010- 12,000,000 warrants were issued with an exercise price of US\$0.125 and expiration date of August 10, 2012.

TRANSACTIONS WITH RELATED PARTIES

Matt Russell
(President and Director)

| | | 2010 | | 2009 |
|---|----|---------|----|---------|
| Due to Matt Russell | \$ | 233,903 | \$ | 333,147 |
| Management fees charged to the Company | \$ | 119,768 | \$ | 135,641 |
| Private Placement of shares of the Company and exercise of warrants | \$ | - | \$ | 453,312 |

Completed private placements of 4,439,688 shares and exercised 2,818,750 warrants in 2009.

Randal Squires
(Chief Financial Officer)

| | | 2010 | | 2009 |
|--|----|---------|----|---------|
| Due to Randal Squires | \$ | 119,700 | \$ | 116,912 |
| Management fees charged to the Company | \$ | 26,615 | \$ | 30,143 |
| Private Placement of share of the Company and exercise of warrants | \$ | - | \$ | 192,250 |

Completed private placements of 1,648,750 shares and exercised 875,000 warrants in 2009.

Jan Alston
(Director)

| | | 2010 | | 2009 |
|--|----|-------|----|--------|
| Directors fees charged to the Company | \$ | 3,000 | \$ | 3,000 |
| Private Placement of shares of the Company | \$ | - | \$ | 13,000 |

Completed private placements of 260,000 shares in 2009.

Richard Nanna
(Director)

| | | 2010 | | 2009 |
|---------------------------------------|----|-------|----|-------|
| Directors fees charged to the Company | \$ | 3,000 | \$ | 3,000 |

Jon Slizza
(VP Finance and Investor Relations)

| | | 2010 | | 2009 |
|--|----|---------|----|--------|
| Due to Jon Slizza | \$ | 156,141 | \$ | - |
| Management fees charged to the Company | \$ | 85,168 | \$ | 96,456 |
| Exercised warrants of the Company | \$ | - | \$ | 16,313 |

Exercised 108,750 warrants in 2009.

The amounts due to related parties are non-interest bearing, unsecured and have no set repayment terms.

CONTINGENT LIABILITIES

The Company has no contingent liabilities and is not aware of any pending or potential liabilities that would affect the liquidity or operations of the Company.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Commencing January 1, 2011 IFRS will replace the current Canadian standards and interpretation as Canadian generally accepted accounting principles (Canadian GAAP). As part of the implementation process the Company adopted the following change in accounting policy:

Effective for the year ended December 31, 2009 the Company has adopted a new policy to expense acquisition and exploration costs related to mineral properties in the year in which they occur. Once a property reaches the development stage the Company will then commence to capitalize those costs related to the development of that property to be amortized over the useful life of the property. The company has adopted this change on a retroactive application with the restatement of prior periods. The Company has done this change of accounting policy to provide more reliable and relevant information to the user as it will show the costs incurred per year as a period expense for the exploration as decisions are not made based on the costs already incurred on a property but rather on its future production potential.

This change in accounting policy has resulted in the restatement of the 2009 comparative numbers presented in the statements of operation and deficit and statements of cash flows as at June 30, 2010 and 2009.

The change of accounting policy has no impact on the Company's cash flows.

The Company has also determined that under IFRS the Company's functional currency is US dollars and therefore commencing January 1, 2011 the Company will report its financial statements denominated in US dollars. The Company has therefore commenced the conversion of the 2010 statements into US dollars which will be required for comparative purposes when the Company commences its 2011 reporting.

Other than as outlined above the Company does not expect the conversion to IFRS to result in any other accounting policy changes.

FINANCIAL INSTRUMENTS

Property Risk

Unless the Company acquires or develops additional properties, the Company will be solely dependent upon the projects currently held by the Company. Any adverse development affecting these projects would have a material adverse effect on the Company's financial condition and results of operation.

Financial risk

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, currency risk and market risk.

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

(a) Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and accounts receivable. Cash and cash equivalents are held with reputable chartered banks from which management believes the risk of loss is minimal.

Included in accounts receivable are amounts due from joint venture partners and taxes receivable from Canadian and Mexican government authorities.

(b) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2010, the Company had net working capital deficiency of \$3,950,229 (2009 deficiency- \$617,550). Management of the Company is continuously monitoring its working capital position and will raise funds through the equity markets as they are required; however, there is no certainty that the Company will be able to obtain funding by share issuances in the future.

(c) Currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on cash held in U.S. dollars and Mexican pesos. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

(d) Market risk

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

i. Interest rate risk

The Company has cash balances and its current policy is to invest excess cash in investment-grade short-term money market accounts. The Company periodically monitors the investments it makes and is satisfied with the credit worthiness of its investments.

The Company does not have any bank debt and is therefore not exposed to the associated risk due to interest rate fluctuations.

ii. Commodity price risk

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

Sensitivity analysis

As at June 30, 2010 and 2009 the carrying and fair value amounts of the Company's financial instruments are approximately equivalent. Based on management's knowledge and experience, the Company believes that over the next year:

Interest rate risk is minimal as interest rates are anticipated to remain at historically low levels with little fluctuation and any excess cash is invested in money market funds.

Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability depends upon the world market price of base and precious metals. Base and precious metal prices have fluctuated widely in the recent years. There is no assurance that, even if commercial quantities of base and precious metals may be produced in the future, a profitable market will exist. As at June 30, 2010 the Company had not defined any mineral resources on its properties. Commodity price risk may affect the completion of future equity offerings and the exercise of stock options and warrants.

Foreign currency risk could adversely affect the Company. In particular, the Company's ability to operate in foreign markets. Foreign currency exchange has fluctuated greatly in recent years. There is no assurance that the current exchange rates will mirror rates in the future. A decline in the foreign exchange rate between the Canadian dollar and Mexican Peso and US dollar may affect the amount of exploration the Company is able to perform in these foreign markets. As a result, foreign currency risk may affect the level of operations of the Company and affect the Company's liquidity and its ability to meet its ongoing obligations.

Any change in the exchange rate between the Canadian dollar and the Mexican Peso would have a minimal effect on the Company as activity in Mexico is currently at a minimum and the Company does not carry any significant Mexican currency. The Company has greater exposure with respect to its holdings of US dollars. After taking into account the allowance for doubtful accounts a \$0.10 increase or decrease in the Canadian/US foreign exchange rate would have resulted in an increase or decrease of \$365,362 in the Company's working capital deficiency balance as at June 30, 2010. The Company raises much of its private placement funds in US dollars which could affect the overall exposure to exchange rates in the future.

CAPITAL MANAGEMENT

The Company's objectives in managing its capital are:

- i) To have sufficient capital to ensure that the Company can continue to meet its commitments with respect to its mineral exploration properties and to meet its day to day operating requirements in order to continue as a going concern.
- ii) To provide a long-term adequate return to shareholders.

The Company is an exploration stage company which involves a high degree of risk. The Company has not determined whether its properties contain economically recoverable reserves of ore and currently has not earned any revenue from its mineral properties and therefore does not generate cash flow from its operations. The Company's primary source of funds comes from the issuance of capital stock.

The Company considers its capital under management to be its capital stock, as presented on the balance sheet.

The Company manages its capital structure and makes adjustments to it in order to support the acquisition, exploration and development of mineral properties and to maintain the Company in good standing with the various regulatory authorities. The Company's policy is to invest its excess cash in highly liquid, fully guaranteed, bank sponsored instruments.

The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management to sustain future development of the Company. The Company has long-term debt with certain management of the Company and is subject to externally imposed capital requirements as referenced in the related party section.

RECENT ACCOUNTING PRONOUNCEMENTS

The following standards were issued by the AcSB during 2009 and will be effective for the Company beginning on January 1, 2011:

Business combinations

Section 1582, *Business Combinations* will provide the Canadian equivalent to International Financial Reporting Standard IFRS 3, "Business Combinations" and replace the existing Section 1581, *Business Combinations*. The new Section 1582 will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-controlling Interests*. This change would have no effect on the Company's current financial statement.

Consolidated financial statements

Section 1601, *Consolidated Financial Statements* establishes standards for the preparation of consolidated financial statements and will replace the existing Section 1600, *Consolidated Financial Statements*. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, *Business Combinations* and Section 1602, *Non-Controlling Interests*. The major impacts of these new standards on its consolidated financial statements are outlined in the IFRS section above.

Non-controlling interests

Section 1602, *Non-controlling Interests* establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, *Business Combinations* and Section 1601, *Consolidated Financial Statements*.

International Financial Reporting Standards ("IFRS")

The AcSB has confirmed that the use of the IFRS will be required in 2011 for publicly accountable profit oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. See the IFRS section above.

ADDITIONAL INFORMATION

Additional information relating to the Company can be found on SEDAR at www.sedar.com.