

Condensed Consolidated Interim Financial Statements
(Expressed in thousands of United States dollars)

MINEFINDERS CORPORATION LTD.

Three and nine months ended September 30, 2011 and 2010

MINEFINDERS CORPORATION LTD.

Condensed Consolidated Interim Statement of Financial Position
(Unaudited)
(Expressed in thousands of United States dollars)

	Note	September 30, 2011	December 31, 2010
Assets			
Current assets:			
Cash and cash equivalents		\$ 209,180	\$ 126,927
Short term investments		19,433	40,004
Accounts receivable	3	7,128	7,283
Inventory	4	70,298	49,525
Prepaid expenses		1,537	1,454
		<u>307,576</u>	<u>225,193</u>
Mineral property, plant and equipment	5	254,804	240,437
		<u>\$ 562,380</u>	<u>\$ 465,630</u>
Liabilities and Equity			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 20,345	\$ 10,396
Current portion of long-term debt		50,988	47,402
		<u>71,333</u>	<u>57,798</u>
Non-current liabilities:			
Long-term debt	6	30,264	46,503
Provision for closure and reclamation	7	8,678	6,965
Deferred income taxes		40,451	13,665
Derivative and other financial liabilities	9	80,420	57,217
		<u>159,813</u>	<u>124,350</u>
Total liabilities		231,146	182,148
Equity:			
Share capital	8	440,235	416,662
Share-based payment reserve		14,712	22,045
Deficit		(123,713)	(155,225)
		<u>331,234</u>	<u>283,482</u>
		<u>\$ 562,380</u>	<u>\$ 465,630</u>

See accompanying notes to condensed consolidated interim financial statements.

MINEFINDERS CORPORATION LTD.

Condensed Consolidated Interim Statements of Income and Comprehensive Income
(Unaudited)
(Expressed in thousands of United States dollars, except per share amounts)

Three and nine months ended September 30, 2011 and 2010

	Note	Three months ended September 30,		Nine months ended September 30,	
		2011	2010	2011	2010
Revenue		\$ 53,759	\$ 13,623	\$ 179,166	\$ 61,651
Cost of sales:	11				
Production costs		16,310	8,404	56,504	34,027
Royalties		1,427	424	4,613	1,868
Amortization and depletion		3,548	1,682	12,978	7,760
		21,285	10,510	74,095	43,655
Mine operating earnings		32,474	3,113	105,071	17,996
Expenses:					
Exploration		1,746	949	4,170	4,185
Corporate administration		1,720	1,505	5,222	6,594
		3,466	2,454	9,392	10,779
Income from operations		29,008	659	95,679	7,217
Other income (expense):					
Finance income		301	1	826	103
Finance expense	12	(2,705)	(2,798)	(8,251)	(8,300)
Change in fair value of derivative liabilities	9	(14,513)	(7,874)	(27,360)	7,218
Foreign exchange		(3,994)	14	132	(65)
		(20,911)	(10,657)	(34,653)	(1,044)
Income (loss) before income taxes		8,097	(9,998)	61,026	6,173
Income tax expense		9,370	1,777	29,514	4,062
Net income (loss) and comprehensive income (loss) for the period		\$ (1,273)	\$ (11,775)	\$ 31,512	\$ 2,111
Income (loss) per share:	14				
Basic		\$ (0.02)	\$ (0.18)	\$ 0.39	\$ 0.03
Diluted		(0.02)	(0.18)	0.39	(0.01)
Weighted average shares outstanding:	14				
Basic		81,177,055	65,982,623	80,554,447	65,860,996
Diluted		81,177,055	65,982,623	80,623,459	68,292,108

See accompanying notes to condensed consolidated interim financial statements.

MINEFINDERS CORPORATION LTD.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited)
(Expressed in thousands of United States dollars)

Nine months ended September 30, 2011 and 2010

	Share capital		Share-based payment reserve	Deficit	Total
	Shares	Amount			
Balance, December 31, 2010	79,705,406	\$ 416,662	\$ 22,045	\$ (155,225)	\$ 283,482
Exercise of share options	1,245,385	17,167	(7,436)	-	9,731
Exercise of warrants	439,700	6,406	-	-	6,406
Share-based compensation	-	-	103	-	103
Net income and comprehensive income	-	-	-	31,512	31,512
Balance, September 30, 2011	81,390,491	\$ 440,235	\$ 14,712	\$ (123,713)	\$ 331,234

	Share capital		Share-based payment reserve	Deficit	Total
	Shares	Amount			
Balance, January 1, 2010	65,773,032	\$ 272,633	\$ 20,488	\$ (150,610)	\$ 142,511
Exercise of share options	236,224	1,966	(1,096)	-	870
Exercise of warrants	1,150	6	-	-	6
Share-based compensation	-	-	2,724	-	2,724
Net income and comprehensive income	-	-	-	2,111	2,111
Balance, September 30, 2010	66,010,406	\$ 274,605	\$ 22,116	\$ (148,499)	\$ 148,222

See accompanying notes to condensed consolidated interim financial statements.

MINEFINDERS CORPORATION LTD.

Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in thousands of United States dollars)

Three and nine months ended September 30, 2011 and 2010

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Cash provided by (used in):				
Operations:				
Net income (loss) for the period	\$ (1,273)	\$ (11,775)	\$ 31,512	\$ 2,111
Adjustments for:				
Amortization and depletion	3,548	1,682	12,978	7,760
Unrealized foreign exchange gain (loss)	991	(58)	255	(113)
Share-based compensation	35	258	103	2,724
Fair value change on derivative liabilities	14,513	7,874	27,360	(7,218)
Finance income	(301)	(1)	(826)	(103)
Finance expense	2,705	2,798	8,251	8,300
Income tax expense	9,370	1,777	29,514	4,062
Other	-	-	-	9
Changes in non-cash working capital balances:				
Accounts receivable	488	1,345	155	(2,379)
Inventory	(13,676)	(7,005)	(18,804)	(11,489)
Prepaid expenses	(206)	(802)	(83)	659
Accounts payable and accrued liabilities	2,063	(193)	5,067	768
Finance costs paid	(1,127)	(1,101)	(3,699)	(3,168)
Finance income received	301	1	826	103
	17,431	(5,200)	92,609	2,026
Investments:				
Purchase of mineral property, plant and equipment	(12,169)	(8,348)	(25,652)	(25,534)
Purchase of short term investments	-	-	(20,000)	-
Redemption of short term investments	-	-	40,203	-
	(12,169)	(8,348)	(5,449)	(25,534)
Financing:				
Net proceeds on issue of common shares	3,165	56	11,980	876
Repayment of revolving credit facility	-	-	(17,000)	-
	3,165	56	(5,020)	876
Effect of exchange rates on cash and cash equivalents	58	58	113	113
Increase (decrease) in cash and cash equivalents	8,485	(13,434)	82,253	(22,519)
Cash and cash equivalents, beginning of period	200,695	21,321	126,927	30,406
Cash and cash equivalents, end of period	\$ 209,180	\$ 7,887	\$ 209,180	\$ 7,887
Supplemental information:				
Non-cash investing and financing activities:				
Increase in provision for closure and reclamation included in mineral property, plant and equipment	\$ 1,284	\$ 180	\$ 1,508	\$ 686
Purchase of mineral property, plant and equipment included in accounts payable and accrued liabilities	2,379	1,078	2,379	1,078

MINEFINDERS CORPORATION LTD.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and nine months ended September 30, 2011 and 2010

1. Nature of operations:

The Company was organized on February 4, 1975 under the laws of the Province of Ontario and is engaged in the production and sale of gold and silver and the exploration, development and acquisition of mineral deposits.

The Company's primary asset is its 100% owned Dolores gold and silver mine which commenced commercial production on May 1, 2009.

The Company expects that revenues from production will finance the operation of the Company. The Company may have to raise additional funds over and above amounts raised to date to complete the acquisition, exploration and development of its property interests and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

2. Basis of preparation:

- (a) The Company adopted International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), effective January 1, 2011. These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and do not include all of the information required for full annual financial statements prepared using IFRS.

Prior period annual and interim financial statements were prepared in accordance with Canadian generally accepted accounting standards ("Canadian GAAP") but have been restated to be presented in accordance with IFRS. For a summary of the Company's accounting policies under IFRS, refer to notes 2 and 3 of the Company's condensed consolidated interim financial statements for the three months ended March 31, 2011. These accounting policies have been applied on a consistent basis to all periods presented. An explanation of the effect of the transition from Canadian GAAP to IFRS on the condensed consolidated interim statements of income and comprehensive income for the three and nine months ended September 30, 2010, is included in note 15. For a summary of the effects of IFRS adoption on the Company's consolidated statement of financial position as at January 1, 2010 and December 31, 2010, refer to note 16 of the Company's interim financial statements for the three months ended March 31, 2011.

These condensed consolidated interim financial statements were approved for issue by the Audit Committee on November 3, 2011.

- (b) Basis of presentation:

These financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value.

- (c) Functional currency and presentation currency:

Except as otherwise noted, these financial statements are presented in United States dollars, the functional currency of the Company and its subsidiaries. All financial information is rounded to the nearest thousand except share and per share amounts.

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2. Basis of preparation (continued):

(d) Use of estimates and judgments:

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements along with reported amounts of revenues and expenses during the period. Actual results may differ. All estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of estimates include the determination of impairment of long-lived assets, closure and reclamation provisions, valuation of derivative instruments and valuation of inventories. Key judgments and estimates made by management with respect to these areas have been disclosed in the notes to these financial statements as appropriate.

The determination of mineral reserves also requires the use of estimates. The Company estimates its ore reserves and mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101, *Standards for Disclosure of Mineral Projects*. Reserves are used in the calculation of amortization and depletion, impairment assessments and forecasting the timing of payment of mine closure and reclamation costs. There are numerous uncertainties inherent in estimating mineral reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecasted prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may result in the reserves being restated.

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2. Basis of preparation (continued):

(e) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations effective for annual periods beginning after January 1, 2013, including IAS 1 *Presentation of Financial Statements*, IAS 19 *Employee Benefits*, IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IFRS 13 *Fair Value Measurement*, and IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* have not been applied in preparing these financial statements. None are expected to have a significant effect on the consolidated financial statements of the Company, except for IFRS 9, *Financial Instruments* ("IFRS 9"), which could change the classification and measurement of financial assets and IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* ("IFRIC 20"), which could change the accounting for stripping costs. The extent of the effect of IFRS 9 and IFRIC 20 has not been determined.

3. Receivables:

Of the \$7,128 in receivables (December 31, 2010 - \$7,283), \$6,282 (December 31, 2010 - \$6,516) is value added tax ("VAT") paid in Mexico on goods and services for the Dolores Mine and exploration activities. The VAT receivable is refundable from the Mexican tax authorities.

4. Inventory:

	September 30, 2011	December 31, 2010
Supplies	\$ 10,754	\$ 4,998
Ore stockpiles	5,620	2,197
Work in process	53,555	41,845
Finished goods	369	485
	\$ 70,298	\$ 49,525

Of the \$53,555 (December 31, 2010 - \$41,845) in work in process inventory, \$7,759 (December 31, 2010 - \$nil) is not expected to be processed within one year. Of the \$5,620 in ore stockpiles (December 31, 2010 - \$2,197), \$5,620 (December 31, 2010 - \$2,197) is not expected to be processed within one year.

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5. Mineral property, plant and equipment:

Net carrying costs at September 30, 2011 and December 31, 2010 are as follows:

	Mineral property	Plant and equipment	Capitalized stripping	Exploration and evaluation	Total
Cost					
Balance at December 31, 2010	\$ 114,567	\$ 148,643	\$ 17,702	\$ 98	\$ 281,010
Additions	5,434	18,112	6,475	-	30,021
Disposals	-	(214)	-	-	(214)
Balance at September 30, 2011	\$ 120,001	\$ 166,541	\$ 24,177	\$ 98	\$ 310,817
Accumulated amortization and depletion					
Balance at December 31, 2010	\$ 11,215	\$ 29,195	\$ 163	\$ -	\$ 40,573
Additions	6,229	8,614	658	-	15,501
Disposals	-	(61)	-	-	(61)
Balance at September 30, 2011	\$ 17,444	\$ 37,748	\$ 821	\$ -	\$ 56,013
Net book value					
At December 31, 2010	\$ 103,352	\$ 119,448	\$ 17,539	\$ 98	\$ 240,437
At September 30, 2011	102,557	128,793	23,356	98	254,804

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5. Mineral property, plant and equipment (continued):

At September 30, 2011, \$16,275 net book value of mineral property, plant and equipment is not currently subject to amortization.

Mineral property, plant and equipment relates to the following:

(a) Mexico properties:

(i) Dolores Mine:

The Dolores Mine is in the Madera Mining District, in the state of Chihuahua. In 2006, the Company unified seven of the nine claims resulting in three concessions totaling 27,700 hectares. The Company has a 100% interest in all three concessions. The property is subject to underlying net smelter return ("NSR") royalties totaling 3.25% on gold and 2% on silver. Commercial production of gold and silver at the Dolores Mine commenced on May 1, 2009.

(ii) Sonora properties:

The Company has a 100% interest in the mineral rights to 31 mineral concessions totaling 118,770 hectares in the State of Sonora. The Company makes annual rent payments to the landowners, currently approximately \$300, escalating each year. Should the properties be put in production, payments or royalties, as applicable, will be due to these landowners.

(b) United States properties:

The Company holds a 100% interest (subject to NSR royalties of 3%) in the Dottie property, located in Nevada. In addition, the Company holds claims in the Oro Blanco project area of Arizona.

6. Long-term debt:

	September 30, 2011	December 31, 2010
Convertible notes (a)	\$ 81,252	\$ 76,905
Scotia Capital revolving credit facility (b)	-	17,000
Balance of long-term debt	81,252	93,905
Current portion (a)	(50,988)	(47,402)
Balance, end of period	\$ 30,264	\$ 46,503

- (a) In October 2006, the Company issued \$85,000 in 4.5% unsecured convertible senior notes (the "2011 Notes") maturing on December 15, 2011, incurring a 3.5% underwriter's fee and other expenses aggregating \$3,451, for net proceeds of \$81,549. Interest is payable semi-annually in arrears on June 15 and December 15 of each year. The notes are convertible into common shares at approximately \$10.88 per share. The conversion feature is classified as a derivative as the Company has the option to settle in cash all or part of the obligation to issue shares on exercise by the holder of the conversion option (note 9).

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(Unaudited)

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6. Long-term debt (continued):

(a) Continued:

On November 3, 2010, the Company completed the exchange of an aggregate of \$32,941 of the principal due under the 2011 Notes for new unsecured convertible senior notes of an aggregate principal amount of \$36,235, due December 15, 2015 (the "2015 Notes"). The 2015 Notes bear interest at 4.5%, payable semi-annually in arrears on June 15 and December 15 of each year, beginning June 15, 2011. The 2015 Notes are convertible into common shares at approximately \$11.97 per share.

As at September 30, 2011, an aggregate of 7,811,985 common shares are issuable upon conversion of the 2011 Notes and the 2015 Notes and additional shares may become issuable following the occurrence of certain corporate acts or events. On conversion, the Company has the option to settle all or a portion of the obligation in cash.

The interest and principal amounts of the remaining 2011 Notes and 2015 Notes are classified as debt liabilities and the conversion options are classified as derivative liabilities. Measurement of the derivative liabilities is discussed in note 9. The debt liabilities are measured at amortized cost. As a result, the aggregate carrying value of the debt liabilities is lower than the aggregate face value of the 2011 and 2015 Notes. The differences between the carrying amount of the notes and the face value of the notes are characterized as note discounts. The difference between the \$50,988 (December 31, 2010 - \$47,402) carrying value and the \$52,059 face value of the 2011 Notes is \$1,071 (December 31, 2010 - \$4,657). The difference between the \$30,264 (December 31, 2010 - \$29,503) carrying value and the \$36,235 face value of the 2015 Notes is \$5,971 (December 31, 2010 - \$6,732). The unwinding of these discounts is recognized as finance expense over the terms of the notes using an effective interest rate of 14.7% for the 2011 Notes and 9.2% for the 2015 Notes. The fair value of the debt component of the remaining 2011 Notes is \$51,624 at September 30, 2011 (December 31, 2010 - \$50,368) using a market rate of 8.5% and the fair value of the debt component of the 2015 Notes is \$30,385 at September 30, 2011 (December 31, 2010 - \$29,494) using a market rate of 9.3%.

	September 30,	December 31,
2011 and 2015 Notes, debt liability component	2011	2010
Balance, beginning of period	\$ 76,905	\$ 71,405
Convertible notes extinguished	-	(29,539)
Convertible notes issued (net of issue costs)	-	29,338
Unwinding of discount for period	4,347	5,701
Balance, end of period	\$ 81,252	\$ 76,905

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Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and nine months ended September 30, 2011 and 2010

6. Long-term debt (continued):

- (b) On December 19, 2007, the Company signed an agreement for a \$50,000 revolving three year term credit facility with Scotia Capital, a subsidiary of the Bank of Nova Scotia ("BNS"). On December 9, 2010, the Company renewed the facility, extending the term an additional three years to December 2013. The facility is available for drawdown in US or Canadian dollars at a bank base rate or a LIBOR-based rate (plus 200 to 400 basis points depending on the type of loan and financial and operating measures), payable according to the quoted rate term. The Company has the ability to repay the principal in part or in its entirety at any time without penalty. The facility is collateralized by a pledge of the Company's shares in its subsidiaries and by physical assets at the Dolores Mine. The carrying values of these pledged assets total \$324,400 which is comprised of inventories and mineral property, plant and equipment at Dolores.

As at September 30, 2011, \$nil (December 31, 2010 - \$17,000) was outstanding on the credit facility.

7. Provision for closure and reclamation:

The Company's environmental permit requires that it reclaim any land it disturbs during the mine construction and mine operations. Although the timing and the amount of the actual expenditures are uncertain, the Company has estimated the present value of the future closure and reclamation obligation arising from its activities to September 30, 2011, to be \$8,678 (December 31, 2010 - \$6,965). The present value of the future closure and reclamation obligation assumes a discount rate specific to the liability of 2.29% (December 31, 2010 - 3.72%), an inflation rate of 1.92%, an undiscounted amount to settle the obligation of \$11,323 and the commencement of closure and reclamation activities in 11.75 years.

	September 30, 2011	December 31, 2010
Balance, beginning of the period	\$ 6,965	\$ 5,045
Liabilities incurred in the period	503	1,354
Unwinding of discount for the period	205	231
Change in liability due to change in discount rate	1,005	335
Balance, end of the period	\$ 8,678	\$ 6,965

MINEFINDERS CORPORATION LTD.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

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8. Share capital:

At September 30, 2011, the Company had unlimited authorized common shares and 81,390,491 shares outstanding (December 31, 2010 – 79,705,406). All per share amounts below are in Canadian dollars which, at September 30, 2011, is equivalent to 0.9684 US dollars.

(a) Share purchase warrants:

As at September 30, 2011, 4,158,650 warrants (December 31, 2010 – 4,598,350) were outstanding and exercisable at a price of CAD\$5.00. During the three and nine month periods ended September 30, 2011, 408,900 and 439,700 (2010 – 400 and 1,150) warrants were exercised for cash proceeds of \$2,091 and \$2,249 (2010 - \$3 and \$6) respectively.

(b) Stock options:

The Corporation has an incentive stock option plan dated April 16, 2003, as amended (the “2003 Plan”) and an incentive stock option plan dated May 20, 2011 (the “2011 plan”). Under the 2003 and 2011 Plans, 5,574,000 and 6,000,000 common shares, respectively, are reserved for issuance. Under both plans, the term of options granted cannot exceed ten years. The vesting of each option is determined by the Board of Directors and the exercise price of an option may not be less than the closing trading price of the Company’s common shares on the last trading day immediately preceding the date on which the option is granted. At September 30, 2011, options to purchase 2,917,000 common shares are outstanding. 139,000 common shares under the 2003 Plan and 4,805,000 common shares under the 2011 Plan are available for future awards of options.

	Number of options	Weighted average exercise price (CAD\$)
Outstanding, January 1, 2010	3,948,500	\$ 9.45
Granted	640,000	9.93
Cancelled	(510,000)	10.62
Exercised for cash	(153,500)	5.86
Exercised - cashless	(355,000)	7.95
Outstanding, September 30, 2010	3,570,000	9.66
Exercised for cash	(45,000)	9.94
Outstanding, December 31, 2010	3,525,000	9.66
Granted	1,195,000	15.40
Cancelled	(70,000)	11.02
Exercised for cash	(983,000)	9.69
Exercised - cashless	(750,000)	9.19
Outstanding, September 30, 2011	2,917,000	\$ 12.10
Exercisable, September 30, 2011	1,722,000	\$ 9.80

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(Unaudited)

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8. Share capital (continued):

(b) Stock options (continued):

Of the 1,733,000 options exercised during the nine month period ended September 30, 2011 (2010 – 508,500), 750,000 vested options (2010 – 355,000) were exercised by the holders in exchange for the issue of 262,385 common shares (2010 – 82,724) by way of a cashless stock option exercise. The Company accounted for the 487,615 (2010 – 272,276) shares not issued on exercise of the options as a deemed re-purchase of these shares at the market value on the date of exercise. On the re-purchase of these shares, the Company recognized a net \$56 debit (2010 - \$486 credit) to share based payment reserve, being the excess of their carrying value over the deemed cost.

As at September 30, 2011, 1,722,000 options with a weighted average exercise price of CAD\$9.80 are fully exercisable and 1,195,000 options with a weighted average exercise price of CAD\$15.40 remain unvested.

At September 30, 2011, the following stock options were outstanding and exercisable.

Options Outstanding			Options Exercisable
Number	Exercise price (CAD\$)	Expiry date	
657,000	\$ 9.57	September 5, 2012	657,000
135,000	10.58	May 7, 2013	135,000
495,000	9.76	May 7, 2013	495,000
385,000	10.02	May 19, 2015	385,000
50,000	9.52	September 1, 2015	50,000
1,195,000	15.40	September 27, 2016	-
<u>2,917,000</u>			<u>1,722,000</u>

(c) Share-based compensation:

Compensation expense is determined using the Black-Scholes option pricing model. The Company granted 1,195,000 options during the three and nine months ended September 30, 2011 (2010 – 100,000 and 640,000, respectively). The weighted average assumptions used in calculating the fair value of the options granted during the three and nine months ended September 30, 2011 were: risk-free interest rate – 1.17% (2010– 2.10% and 2.33%), expected volatility – 53% (2010 – 54% and 52%), forfeiture rate – 5% (2010 – nil and nil) and expected life of the option – 45 months (2010 – 59 and 59 months). The weighted average grant-date fair value of the options granted during the three and nine months ended September 30, 2011 was CAD\$6.18 (2010 – CAD\$4.54 and CAD\$4.67). Total compensation expense charged to income for the three and nine months ended September 30, 2011 was \$35 and \$103 (2010 – \$258 and \$2,724). As of September 30, 2011, the non-vested share-based compensation expense not yet recognized was \$6,766 which is expected to be recognized over the next 36 months.

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9. Derivative and other financial liabilities:

		September 30, 2011		December 31, 2010
Share purchase warrants (note 8(a))	\$	38,251	\$	28,145
Conversion feature on convertible notes (note 6)		42,169		29,072
Total derivative liabilities	\$	80,420	\$	57,217

As the exercise price of the share purchase warrants is fixed in Canadian dollars and the functional currency of the Company is the US dollar, the warrants are considered a derivative as a variable amount of cash in the Company's functional currency will be received on exercise. Accordingly, the Company's share purchase warrants are classified and accounted for as a derivative liability at fair value through profit and loss. The conversion feature on the convertible notes is considered an embedded derivative and re-measured at fair value each reporting period. The fair value of the warrants is determined using the warrant price on the Toronto Stock Exchange. The fair value of the conversion feature of the convertible notes is determined using a model that includes the volatility and price of the Company's common shares and a credit spread structure with reference to the corresponding fair value of the debt component of the convertible notes.

		Conversion option		Warrants		Total
Balance, January 1, 2010	\$	21,239	\$	25,166	\$	46,405
Change in fair value		(4,488)		(2,730)		(7,218)
Balance, September 30, 2010		16,751		22,436		39,187
Change in fair value		12,321		5,709		18,030
Balance, December 31, 2010		29,072		28,145		57,217
Exercise of warrants		-		(4,157)		(4,157)
Change in fair value		13,097		14,263		27,360
Balance, September 30, 2011	\$	42,169	\$	38,251	\$	80,420

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10. Financial instruments:

(a) Financial assets and liabilities:

	September 30, 2011	December 31, 2010
Financial assets:		
Cash and cash equivalents	\$ 209,180	\$ 126,927
Short term investments	19,433	40,004
Accounts receivable	7,128	7,283
Total financial assets	\$ 235,741	\$ 174,214
Financial liabilities:		
Accounts payable and accrued liabilities	\$ 20,345	\$ 10,396
Convertible notes	81,252	76,905
Revolving credit facility	-	17,000
Derivative and other financial liabilities	80,420	57,217
Total financial liabilities	\$ 182,017	\$ 161,518

The fair value hierarchy establishes three levels in which to classify the inputs of valuation techniques used to measure fair value. Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly, such as prices, or indirectly (derived from prices). Level 3 inputs are unobservable (supported by little or no market activity) such as non-corroborative indicative prices for a particular instrument provided by a third party.

There were no transfers between Level 1 and 2 or any transfers into or out of Level 3 during the year. Cash and cash equivalents, short term investments and the warrants are stated at fair value and classified within Level 1. The fair value of the conversion option is classified within Level 2. The fair values of accounts receivable, accounts payable and accrued liabilities approximate carrying values because of the short term nature of these instruments. The fair value of long term debt is disclosed in note 6.

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10. Financial instruments (continued):

(b) Financial instrument risk exposure and risk management:

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management process. The types of risk exposure and the way in which such exposure is managed is equal to the carrying values of cash and cash equivalents, short term investments and accounts receivable.

(i) Credit risk:

The Company is primarily exposed to credit risk on its cash and cash equivalents, short term investments and accounts receivable. Credit risk exposure is limited through maintaining its cash and equivalents and short term investments with high-credit quality financial institutions and instruments. Credit risk associated with accounts receivable is considered minimal as the majority of the balance outstanding is with the Mexican government.

(ii) Liquidity risk:

The Company ensures that there is sufficient capital in order to meet short term business requirements after taking into account the Company's holdings of cash and cash equivalents, short term investments and available cash under the revolving credit facility. The Company believes that these sources, in addition to revenues earned at the Dolores Mine, will be sufficient to cover the expected short and long term cash requirements.

In the normal course of business the Company enters into contracts that give rise to future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities and operating and capital commitments at September 30, 2011:

	Within 1 year	2 - 3 years	4 - 5 years	Over 5 years	2011 Total
Accounts payable and accrued liabilities	\$ 20,345	\$ -	\$ -	\$ -	\$ 20,345
Provision for closure and reclamation, non-discounted	-	-	-	11,323	11,323
Convertible notes, including interest	54,861	3,261	38,681	-	96,803
Minimum rental and lease payments	162	-	-	-	162
	\$ 75,368	\$ 3,261	\$ 38,681	\$ 11,323	\$ 128,633

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10. Financial instruments (continued):

(b) Financial instrument risk exposure and risk management (continued):

(iii) Market risk:

The significant market risk exposures to which the Company is exposed are foreign currency risk, interest rate risk, commodity price risk and equity price risk.

Foreign currency risk:

The Company's operations in Mexico, Canada and the United States create exposure to foreign currency fluctuations. Some of the Company's operating expenditures are incurred in Canadian dollars and Mexican pesos, and the fluctuation of the US dollar in relation to these currencies will have an impact upon the profitability of the Company and may also affect the value of the Company's financial assets and liabilities. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks.

Financial assets and liabilities denominated in currencies other than the US dollar are as follows:

	September 30, 2011		December 31, 2010	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Canadian dollars	\$ 24,335	\$ 38,404	\$ 114,711	\$ 29,406
Mexican pesos	39,975	8,717	7,330	8,753
	<u>\$ 64,310</u>	<u>\$ 47,121</u>	<u>\$ 122,041</u>	<u>\$ 38,159</u>

Of the financial assets listed above, \$24,269 (December 31, 2010 - \$114,711) represents cash and cash equivalents and short term investments held in Canadian dollars and \$33,060 (December 31, 2010 - \$360) represents cash and cash equivalents held in Mexican pesos. The remaining cash and cash equivalents and short term investments are held in US dollars.

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10. Financial instruments (continued):

(b) Financial instrument risk exposure and risk management (continued):

(iii) Market risk (continued):

As at September 30, 2011, with other variables unchanged, a 10% change in the US dollar against the Canadian dollar would result in a change in income for the period of \$1,406. A 10% change in the US dollar against the Mexican peso would result in a change in income for the period of \$3,126.

Interest rate risk:

With respect to financial assets, the Company's practice is to invest cash in investment vehicles with floating rates of interest and cash reserves are invested in cash equivalents in order to maintain liquidity. Fluctuations in interest rates affect the fair value of cash equivalents.

With respect to financial liabilities, the convertible notes are not subject to interest rate risk given the fixed rate of 4.5% per annum. The revolving credit facility is subject to interest rate risk as amounts outstanding are subject to charges at a bank base rate or a LIBOR-based rate (plus 200 to 400 basis points depending on type of loan and financial and operating measures), payable according to the quoted rate term. As no amount is outstanding on the facility there is no interest rate risk to the Company at September 30, 2011.

Commodity price risk:

Gold and silver prices have historically fluctuated significantly and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities and certain other factors. The Company has never engaged in any hedging to reduce its exposure to commodity price risk.

Equity price risk:

Fair value changes in the Company's derivative liabilities related to the outstanding warrants and the conversion feature of the convertible notes are subject to equity price risk. Changes in the market price of the Company's publicly traded warrants may have a material effect on the fair value of the associated derivative liability and on net income. Changes in the market price of the Company's publicly traded common shares may have a material effect on the fair value of the conversion feature of the convertible notes and on net income.

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11. Cost of sales:

Cost of sales for the Company consists of the following components by nature:

	Three months ended September 30, 2011		2010		Nine months ended September 30, 2011		2010	
Production costs:								
Employee compensation	\$	2,917	\$	2,067	\$	8,384	\$	7,160
Other mining, processing, and mine site general and administrative costs		23,525		17,351		67,190		49,279
Capitalized stripping costs		(1,296)		(4,048)		(6,023)		(9,774)
Change in inventory		(8,836)		(6,966)		(13,047)		(12,638)
Total production costs		16,310		8,404		56,504		34,027
Royalties		1,427		424		4,613		1,868
Amortization and depletion		3,548		1,682		12,978		7,760
Total cost of sales	\$	21,285	\$	10,510	\$	74,095	\$	43,655

12. Finance expense:

The finance expense for the Company is comprised of the following:

	Three months ended September 30, 2011		2010		Nine months ended September 30, 2011		2010	
Unwinding of convertible note discount	\$	1,511	\$	1,620	\$	4,347	\$	4,919
Interest on convertible note		956		964		3,036		2,861
Unwinding of discount on provision for closure and reclamation		67		101		205		213
Other		171		113		663		307
	\$	2,705	\$	2,798	\$	8,251	\$	8,300

13. Employee Benefits

Total employee salaries and benefits incurred during the three and nine months ended September 30, 2011, totaled \$4,110 and \$11,948 (2010 – \$3,314 and \$13,125) and included \$35 and \$103 in share-based compensation (2010 – \$258 and \$2,724) respectively. Of the total expenses incurred for the three and nine month periods ended September 30, 2011, \$2,917 and \$8,384 are included in costs of sales (2010 – \$2,067 and \$7,160), \$474 and \$1,094 are included in exploration expense (2010 – \$289 and \$1,506) and \$718 and \$2,469 are included in corporate administration expense (2010 – \$958 and \$4,459) respectively.

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14. Earnings per share:

The calculation of basic and diluted earnings per share for the relevant periods is based on the following:

	Three months ended September 30, 2011		2010	Nine months ended September 30, 2011		2010		
Net income (loss) for the purpose of calculating basic earnings per share	\$	(1,273)	\$	(11,775)	\$	31,512	\$	2,111
Effect of change in fair value of warrant derivative liability		-		-		-		(2,730)
Net income (loss) for the purpose of calculating diluted earnings per share	\$	(1,273)	\$	(11,775)	\$	31,512	\$	(619)
Weighted average number of shares outstanding for the purpose of calculating basic earnings per share		81,177,055		65,982,623		80,554,447		65,860,996
Shares issuable on exercise of share options and warrants		-		-		69,012		2,431,112
Weighted average number of shares outstanding for the purpose of calculating diluted earnings per share		81,177,055		65,982,623		80,623,459		68,292,108

The effect of 1,195,000 and 1,195,000 shares issuable on exercise of share options for the three and nine month periods ended September 30, 2011 (2010 – 3,095,000 and 825,000) was anti-dilutive because the option prices exceeded the average market price of the underlying common shares during the period of CAD\$15.31 and CAD\$13.07, respectively (2010 – CAD\$9.51 and CAD\$9.89).

The effect of 4,158,650 and 4,158,650 shares issuable on exercise of share purchase warrants for the three and nine month periods ended September 30, 2011 (2010 – 4,598,350 and nil) was anti-dilutive because the Company recognized losses in the respective periods as a result of the change in fair value.

The effect of outstanding convertible notes of 7,811,895 and 7,811,895 for the three and nine month periods ended September 30, 2011 (2010 – 7,812,500 and 7,812,500) was anti-dilutive because the Company recognized losses in the respective periods as a result of the change in fair value, interest, and unwinding of the discount.

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15. Transition to IFRS:

Adoption of IFRS has resulted in changes to the Company's reported financial position and results of operations. The Company's Canadian GAAP statements of financial position and comprehensive income for the three and nine months ended September 30, 2010, have been reconciled to IFRS, with the resulting differences explained below.

(a) Provision for closure and reclamation:

Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, a change in the current market-based discount rate will result in a change in the measurement of the provision whereas under Canadian GAAP, discount rates are not changed unless there is an increase in the estimated future cash flows in which case the incremental cash flows are discounted at current market based rates. In addition, under Canadian GAAP, a credit adjusted risk free discount rate is used whereas under IFRS, the discount rate reflects the current market assessments of the time value of money and the risks specific to the liability. As a result, the provision for closure and reclamation recorded has been re-measured using the discount rate in effect at the transition date and an adjustment has been recorded to the corresponding asset.

(b) Warrant liability:

At September 30, 2010, 4,598,350 warrants were outstanding and exercisable at a price of CAD\$5.00. As the exercise price of the warrants is fixed in Canadian dollars and the functional currency of the Company is the US dollar, the conversion option is considered a derivative as the Company will receive a variable amount of cash when the warrants are exercised. Accordingly, the warrants are recorded as a financial liability and stated at fair value at the end of each period. Under Canadian GAAP, these instruments were considered equity instruments and changes in fair value subsequent to initial recognition were not recognized.

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15. Transition to IFRS (continued):

(c) Conversion feature of convertible notes:

Under IFRS, the issuer's option to settle in cash the obligation to issue shares upon conversion of the notes results in the conversion feature of convertible debt being accounted for as an embedded derivative which must be separated from the host contract, recognized at fair value on initial recognition and re-measured at fair value at the end of each period. Under Canadian GAAP, the conversion feature was considered an equity instrument and changes in fair value subsequent to initial recognition were not recognized. In addition, under IFRS, the transaction costs allocated to the derivative component are expensed in the period incurred.

(d) Income taxes:

Under IFRS deferred tax has been recognized on temporary differences arising from differences between the functional currency in which an asset or liability is reported and its tax basis as determined in its local currency, translated at current exchange rates. Under Canadian GAAP, a deferred income tax asset or liability is not recognized for such a temporary difference.

Under IFRS there is an initial recognition exemption for temporary differences arising from assets or liabilities subject to a transaction that is not a business combination and, at the time of the transaction, do not affect profit and loss for accounting or tax purposes. No such exemption is available under Canadian GAAP. On transition to IFRS, a tax liability associated with an asset that did not constitute a business combination was reversed with an associated reduction of mineral property. In addition, the re-measurement of the provision for closure and reclamation and the related asset resulted in changes to temporary differences and the deferred tax liability.

(e) Foreign currency translation :

IFRS 1 *First-time Adoption of International Financial Reporting Standards* permits the transfer of foreign currency translation differences recognized as a separate component of equity to deficit on the transition date. The Company has elected this exemption and reclassified \$5,069 from accumulated other comprehensive income to deficit.

(f) Presentation:

The presentation of the cash flow statement in accordance with IFRS differs from the presentation of the cash flow statement in accordance with Canadian GAAP as the changes made to the statements of financial position and statements of income and comprehensive income have resulted in reclassifications of various amounts on the statement of cash flows. However, as there have been no changes to the total operating, financing or investing cash flows, no reconciliations have been provided. The classification of certain items within the statement of income and comprehensive income has been adjusted with no net effect to net income or loss.

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15. Transition to IFRS (continued):

The September 30, 2010, Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

	Note	Canadian GAAP as reported	Effect of transition to IFRS	IFRS
Assets				
Current assets:				
Cash and cash equivalents		\$ 7,887	\$ -	\$ 7,887
Accounts receivable		6,598	-	6,598
Inventory		40,887	-	40,887
Prepaid expenses		1,291	-	1,291
		56,663	-	56,663
Mineral property, plant and equipment	(a)	236,876	(578)	236,298
		\$ 293,539	\$ (578)	\$ 292,961
Liabilities and Equity				
Current liabilities:				
Accounts payable and accrued liabilities		\$ 10,902	\$ -	\$ 10,902
Non-current liabilities:				
Long-term debt		76,324	-	76,324
Provision for closure and reclamation	(a)	4,344	2,885	7,229
Deferred income taxes	(d)	8,390	2,707	11,097
Derivative and other financial liabilities	(b),(c)	-	39,187	39,187
		89,058	44,779	133,837
Equity:				
Share capital		274,605	-	274,605
Equity portion of convertible notes	(c)	27,366	(27,366)	-
Share-based payment reserve		22,116	-	22,116
Deficit		(135,577)	(12,922)	(148,499)
Accumulated other comprehensive income	(e)	5,069	(5,069)	-
		193,579	(45,357)	148,222
		\$ 293,539	\$ (578)	\$ 292,961

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15. Transition to IFRS (continued):

The Canadian GAAP income statement for the three months ended September 30, 2010 has been reconciled to IFRS as follows:

	Note	Canadian GAAP as reported	Effect of transition to IFRS	IFRS
Revenue		\$ 13,623	\$ -	\$ 13,623
Cost of sales:				
Production costs	(f)	8,272	132	8,404
Royalties		424	-	424
Amortization and depletion		1,682	-	1,682
		10,378	132	10,510
Mine operating earnings		3,245	(132)	3,113
Expenses:				
Exploration	(f)	949	-	949
Corporate administration	(f)	1,379	126	1,505
Share-based compensation expense	(f)	258	(258)	-
		2,586	132	2,454
Income from operations		659	-	659
Other income (expense):				
Finance income		1	-	1
Finance expense	(a)	(2,797)	(1)	(2,798)
Change in fair value of derivative liabilities	(b),(c)	-	(7,874)	(7,874)
Foreign exchange		14	-	14
		(2,782)	(7,875)	(10,657)
Income (loss) before income taxes		(2,123)	(7,875)	(9,998)
Income tax expense	(d)	2,698	(921)	1,777
Net income (loss) and comprehensive income (loss) for the period		\$ (4,821)	\$ (6,954)	\$ (11,775)

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15. Transition to IFRS (continued):

The Canadian GAAP income statement for the nine months ended September 30, 2010 has been reconciled to IFRS as follows:

	Note	Canadian GAAP as reported	Effect of transition to IFRS	IFRS
Revenue		\$ 61,651	\$ -	\$ 61,651
Cost of sales:				
Production costs	(f)	33,575	452	34,027
Royalties		1,868	-	1,868
Amortization and depletion		7,760	-	7,760
		43,203	452	43,655
Mine operating earnings		18,448	(452)	17,996
Expenses:				
Exploration	(f)	3,638	547	4,185
Corporate administration	(f)	4,869	1,725	6,594
Share-based compensation expense	(f)	2,724	(2,724)	-
		11,231	(452)	10,779
Income from operations		7,217	-	7,217
Other income (expense):				
Finance income		103	-	103
Finance expense	(a)	(8,324)	24	(8,300)
Change in fair value of derivative liabilities	(b),(c)	-	7,218	7,218
Foreign exchange		(65)	-	(65)
		(8,286)	7,242	(1,044)
Income before income taxes		(1,069)	7,242	6,173
Income tax expense	(d)	4,938	(876)	4,062
Net income (loss) and comprehensive income (loss) for the period		\$ (6,007)	\$ 8,118	\$ 2,111