GOLDREA RESOURCES CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended July 31, 2012 and 2011.

Goldrea Resources Corp., the "Company incorporated under the provisions of the Business Corporations Act (British Columbia) on March 2, 1981, is an exploration stage company engaged in the acquisition, exploration and development of mineral properties. In addition to the Company's ongoing work program on the properties, it continues to actively evaluate new potential projects. The Company is listed for trading on the TSX Venture Exchange under the symbol "GOR".

This management's discussion and analysis ("MD&A") reports on the operating results and financial condition of the Company for the year ended July 31, 2012 and is prepared as of November 30, 2012. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the year ended July 31, 2012 and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations expected to be effective as at the Company's first IFRS annual reporting date on July 31, 2012.

All dollar amounts referred to in this MD&A are expressed in Canadian dollars except where indicated otherwise.

Cautionary Note Regarding Forward-Looking Information

This document may contain "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this document and Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation.

Forward-looking statements relate to future events or future performance and reflect the Company management's expectations or beliefs regarding future events and include, but are not limited to, estimation of mineral reserves and mineral resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual consolidated financial statements and management's discussion and analysis of those statements, all of which are filed and available for review under the Company's profile on SEDAR at www.sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Date of report: November 30, 2012

1.1 Overall performance

Description of business

The Company is engaged in the business of exploring, acquiring, and if warranted, developing mineral properties and placing such properties into production. The Company currently holds interests in several resource properties as follows:

1. British Columbia – Wigwam
2. British Columbia – Crowrea/Empress
3. British Columbia –Dobbin I
4. British Columbia – Tadpole (Dobbin II)
5. British Columbia – Flap
6. U.S.A. – Gold Chain Arizona
7. U.S.A. – Gold Rush Arizona
8. China – Shandong Rushan Goldrea Gold (RGG)

Exploration and development requires significant amounts of capital and even if the funds were available, the outcome is dependent on finding sufficient quantities and grades of minerals, permitting the project, dealings with various stakeholder groups, constructing the processing and ancillary facilities and starting commercial production. This process takes time, and many factors including commodity prices, political and economic conditions may change; affecting the viability of the project.

The Company is incorporated in British Columbia with its head office in White Rock, British Columbia, Canada.

Operations, property interests and activities

The Company's interests are mainly in China (Shandong); Canada (British Columbia); and USA (Arizona). Mineral prospects focus on gold, copper, silver, platinum, palladium, molybdenum, and iron as the major metals of interest. Recently the Company managed to raise a total of $101,400 through private placement at a price of $0.03 per unit, the fund will be used toward paying the annual audit and filing fees and general administration expenses. In the meantime, management is working with several consulting firms to market and sell its interests in RGG.

Constrained by funding, the Company conducted limited exploration activities in its Canadian properties, and also optioned out 60% interests of its US Gold Chain and Gold Rush properties to Sandfield Resources Inc.

A summary of the status for each property is as follows:

Rushan Goldrea Gold, Shandong Province, China:

The Company has accumulated the required data to prepare a geological report that meets the Chinese government standards required to apply for mining permits for Rushan Goldrea Gold (RGG), and to this end, completed over 50,115 metres (164,400 ft) of diamond drilling. This is a necessary step toward applying for a Chinese mining permit. However, due to lack of financial resources, the Company has not completed its Chinese technical report, and therefore, not started mining permitting application. The Company's attempt to bring RGG into production was not as successful as expected due to financing difficulties. Daye Gold Mine ("Daye"), the 10% interest shareholder of RGG, was acquired by Qingdao Kingking Applied Chemistry Co Ltd. (herein QKAC or Kingking) on November 11, 2011, Kingking purchased 80% interests in Daye.

Late last year, Kingking began efforts to reopen an underground iron pyrite mine owned by Daye, but located some distance from the Daye Gold Mining Complex. The mine had been flooded and they pumped it out, and on January 11, 2012 lowered five people down the shaft. All five perished, apparently overcome by sulfur dioxide (SO_2) gas.

Because of these multiple fatalities, the local government safety bureau has closed all of the mines operated by Daye, including Golden Rose, pending their evaluation of safety practices and working conditions. The Local safety inspection is finished, and Daye has re-started its operation when this report was being prepared, however, the accident has led to more stringent safety requirements, RGG will need to apply for its safety and mining permit before it can resume its underground operation.

The Golden Rose Shaft operation has 46,809 tonnes of mineralized material in stockpile at the Daye Mill. This material was originally planned to be processed when 60,000 tonnes have been accumulated. Since the suspension of underground operation delayed stockpile accumulation, further delay is expected due to safety and mining permitting, management is considering processing these 46,809 tonnes of mineral material sooner to recover its cash value.

The resource is located down dip from the Daye open pit mine and mill. Goldrea resumed contacting the new owners (Kingking) in regards to using Goldrea's resource as a potential Joint Venture or sale to Kingking. At the same time, the Company is also in talks with several other local mining companies for the sale of the property.

In preparing the consolidated financial statements, the Company made an assessment on the impairment of inventory by comparing the carrying amount of $1,616,296 of inventory, consist of mining costs of 46,809 tonnes of stockpiled ore, with its net realizable value based on expected recovery rate, grade and gold price. The assessment concluded that the net realizable value exceeded the carrying amount when the spot gold price was at around $1,600 per ounce on July 31, 2012. Therefore, no inventory impairment is recorded.

In accordance with its accounting policy, the Company assessed the carrying value of its Rushan Goldrea Gold property and has recorded an impairment charge as further discussed below.

For more information, visit the Company's website at www.goldrea.com or www.sedar.com.

Wigwam Property, Vancouver BC, Canada:

The Company acquired 100% interests in Wigwam Iron property in June, 2011 subject to 2% NSR, for a price of $20,000 in cash and the issuance of 400,000 of the Company's common shares, deemed at $22,000 based on closing price of the issuance date. The property is located at Wigwam Bay, eight kilometres southwest of the head of Seymour Inlet, British Columbia. In September 2011, the Company contracted a geologist to perform a property review and work out a future exploration plan. Lack of financing, there is no further work conducted.

Nevada Clean Magnesium Inc.(formerly Molycor Gold Corporation) JV, White Rocks Mountain, BC, Canada:

The Company's focus on Goldrea/Neveda Clean Magnesium Inc. JV will entail work on the following contiguous mineral properties as follows (Crowrea/Empress located 15 kms south of the past producing Brenda Molybdenum/Copper Mine near Penticton, BC; Dobbin, Tadpole Lake, and Flap properties located 27 kms northeast of Kelowna, BC) :

i. The Crowrea/Empress Molybdenum Property:

The Company has not performed exploration work on the property in the year ended July 31, 2012, the Company let two Crowrea claims expire with total area of 732 hectares during 2012 fiscal year. However, the Company still intends to keep the remaining claims in good standing and plans to conduct further exploration when financial conditions improve.

ii. Dobbin I Platinum/Palladium/Copper property:

The Company has not performed exploration work on the property for the year ended July 31, 2012, but it still keeps the property in good standing, and will temporarily cease exploration until market conditions improve.

iii. Tadpole Lake Molybdenum (Dobbin II) property:

The Company has not performed exploration work on the property for two years, it still keeps the property in good standing, and may try to option the property to a third party.

iv. Flap Gold property:

The Company has not performed exploration work on the property for the year ended July 31, 2012, but it still keeps the property in good standing, and will temporarily cease exploration until market conditions improve.

Gold Chain and Gold Rush Claims, Mohave County, Arizona, U.S.A.:

In December 2010, the Company entered into an option agreement with Sandfield Resources Inc. where Sandfield will incur $500,000 of exploration expenditures on the Gold Chain and Gold Rush properties in the next three years, as well as pay the Company $60,000 ($40,000 paid) in cash and issue 300,000 (100,000 issued) of Sandfield's common shares to earn a 60% interest in the properties. The arrangement releases the Company of cash expenditures to be incurred in the US properties in the short term. The Company has received total payments of $40,000 in December, 2011. According to the option agreement, Sandfield will be responsible to maintain the mineral claims in good standing during the option period, and it has paid the annual BLM fees in August, 2012. The Company is expected to receive $20,000 from Sandfield, the final cash payment, in relation to the option arrangement in December 2012.

1.2 Selected annual information

	Year ended July 31, 2012	Year ended July 31, 2011	Year ended July 31, 2010
Net loss			
In total	$ 7,531,369	$ 2,247,742	$ 2,321,904
Per-share (basic and diluted)	0.10	0.02	0.04
Working capital	(1,693,080)	(927,033)	(1,102,917)
Total assets	5,233,428	11,267,388	12,035,675
Exploration and evaluation assets	841,367	845,361	834,911
Mineral properties	$ 1,700,000	$ 8,316,859	$ 9,510,332

1.3 Results of operations

During the year ended July 31, 2012, the Company still has no revenue. It recorded a net loss of $$7,531,369 or $0.10 per share, a significant increase of $5,283,627, as compared to $2,247,742, or $0.02 per share in the same period a year ago. The Company recorded $9,204 share-based payment during the year ended July 31, 2012 as compared to $140,477 over the same period in the prior year.

The Company recorded a mineral property impairment loss of $6,670,833 in 2012. This impairment loss was triggered in that the Company's market capitalization is less than the carrying value of its assets and it is therefore obligated to make an assessment of the recoverable amount of the asset. Although the Company's RGG mineral property has an NI 43-101 indicated gold resources of 169,000 oz remaining, the book value of the property before impairment loss was $8,370,833 much higher than its market capitalization. As a result, the Company used two months average closing prices immediate before July 31, 2012 at $0.02 per share and determined the value of the RGG mineral property at $1,700,000 by calculating its market capitalization and adding 20% control premium. The difference of $6,670,833 between the book value and estimated value is recorded as impairment loss in the current period.

Under the same IFRS standards, an impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates, i.e. the company's closing share price over a reasonable length of time, used to determine the asset's recoverable amount since the last impairment loss was recognized.

General and administrative expenses excluding share-based payments were $680,812 in 2012, a decrease of $64,882 compared to $745,694 in 2011, as a result of cost control efforts. .

On year over year basis, advertising and promotion expenses decreased by $30,245 to $45,732 and consulting fees reduced by $73,142 to $123,756 in 2012 compared to 2011 fiscal year; office and administration expenses decreased by $116,889 to $314,987 in 2012 from $431,876 in 2011. Shareholder communication and transfer agent expenses decreased by $21,338 and $11,507 to $22,896 and $18,089 respectively compared to 2011. There is a small increase in professional fees and Travel expense of $14,176 and $4,787 respectively in 2012 as compared to 2011.

The Company recorded a total of $18,737 gains on the disposal of 3,333 shares of La Ronge Gold Corp and 69,000 shares of American Manganese Inc in 2012, whereas in 2011, the Company realized $67,805 gains on disposal of marketable securities.

Due to limited funds available for exploration and evaluation activities, mineral property expenditures were at minimum of $53,974 during the year ended July 31, 2012, (see Schedule of Mineral Properties Costs for details).

Fourth quarter

For the quarter ended July 31, 2012, the Company recorded a total loss of $6,826,882 or $0. 09 per share, of which, $6,670,833 or $0.09 per share were due to the mineral property impairment loss, as compared to a loss of $178,632 or $0.005 per share in the quarter ended July 31, 2011.

The $6,670,833 mineral property impairment loss was triggered in that the Company's market capitalization is less than the carrying value of its assets. Under the same standards, an impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates, i.e. the company's closing share price over a reasonable length of time, used to determine the asset's recoverable amount since the last impairment loss was recognized.

Operating expenses (excluding stock-based compensation) decreased to $141,960 in Q4 2012 compared to $269,085 in Q4 2011, due to the fact that the Company has cut almost all un-necessary expenses. Office and administration expenses decreased from $96,626 in Q4 2011 to $82,867 in Q4 2012; consulting expenses decreased from $67,075 in Q4 2011 to $8,000 in Q4 2012; advertising expenses decreased from $12,901 in Q4 2011 to $2,644 in Q4 2012; shareholder communication expenses decreased from $17,386 in Q4 2011 to $8,564 in Q4 2012, professional fees decreased from $50,201 in Q4 2011 to $33,065 in Q4 2012; transfer agent fees decreased from $14,396 in Q4 2011 to $1,194 in Q4 2012;

1.4 Summary of quarterly results

	Quarter ended Jul. 31, 2012	Quarter ended Apr. 30, 2012	Quarter ended Jan. 31, 2012	Quarter ended Oct. 31, 2011
Net loss	$ 6,826,882*	$ 215,768	$ 196,023	$ 292,696
Loss per-share (basic and diluted)	0.090	0.003	0.003	0.004

	Quarter ended Jul. 31, 2011	Quarter ended Apr. 30, 2011	Quarter ended Jan. 31, 2011	Quarter ended Oct. 31, 2010
Net loss	$ 865,535*	$ 829,292*	$ 312,293	$ 240,622
Loss per-share (basic and diluted)	0.005	0.015	0.005	0.005

*Note: the Company ceased participation in LGG, this resulted in a write-down of mineral properties of approximately $661,039 in 2011 Q3; the Company recorded write-down charges of $6,670,833 in 2012 Q4.and $686,903 in 2011 Q4 respectively.

1.5 Liquidity and solvency

The Company has no revenue in the year ended July 31, 2012. The Company has financed its operations and met its capital requirements primarily through the sale of capital stock by way of private placements and increase of accounts payable. During 2012, the Company borrowed from three individual lenders a total of Rmb 1,200,000 to finance its Chinese operation. The Company's main source of liquidity consisted of cash and cash equivalents. As at July 31, 2012, the Company had cash and cash equivalents of $134,141. Cash flow from operations for the year ended July 31, 2012 was a net cash outflow of $176,813, compared to net cash outflow of $892,318 in the same period a year ago.

The Company borrowed Rmb 1,200,000 ($188,800) in 2012 and issued 1,000,000 shares as bonus for the borrowing, those shares were valued at $30,000 and recorded as 2012 administration expenses.

Cash expenditures for investing activities include $24,425 spent on mineral exploration and acquisition, the Company also received $25,637 cash from sale of marketable securities. (See Consolidated Statement of Cash Flows for details).

As at July 31, 2012, the Company had cash of $134,141 and Rmb 954,992 (CAD$150,316 equivalent) held in China of which Rmb 903,386 (CAD$142,193 equivalent) is held in a trust account under the terms of a trust agreement between the Company and one of its lenders (note 11(e)). The Company can access these funds without restriction. The Company's current assets were at $1,853,325 and total current liabilities were at $3,546,405.

The financial statements have been prepared assuming the Company will continue on a going concern basis. The Company has incurred losses since inception. As at July 31, 2012, the Company has a working capital deficiency of $1,693,080. The ability of the Company to continue as a going concern depends upon its ability to raise adequate financing to pursue its business objectives and develop profitable operations. There can be no assurance that the Company will be able to continue to raise funds, in which case, the Company may be unable to meet its obligations. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities, contingent obligations and commitments in other than the normal course of business and at amounts different from those in the financial statements.

The Company has insufficient cash resources to meet its current obligations and planned expenditures and is in the process of seeking additional financing. On October 5, the Company closed the first portion of a private placement for proceeds of $95,400 (Consolidated Financial Statements note 18). These conditions raise substantial doubt about the Company's ability to continue as a going concern.

1.6 Capital resources

As at July 31, 2012, the Company has 6,030,000 outstanding options with exercise price of $0.14 per share; it also has 9,046,000 outstanding share purchase warrants with exercise prices between $0.10 and $0.16 per share.

On November 5, 2012, 128,000 warrants with exercise price of $0.10 per share were expired, while 7,918,000 warrants with exercise price of $0.10 per share were extended by two years to be exercisable until November 5, 2014.

On October 5, 2012, the Company closed the first portion of its Non-Brokered Private Placement for gross proceeds of $95,400 comprising of 3,180,000 units (the Unit") at a price of $0.03 per Unit. Each Unit is comprised of one common share in the capital of the Company plus a two year share purchase warrant. Each Warrant entitles the holder to purchase one common share at a price of $0.05 in the first year and $0.10 in the second year at any time up to 5:00 pm (Vancouver time) on October 5, 2014.

As of November 30, 2012, the Company has 6,030,000 outstanding options with exercise price of $0.14 per share; it also has 12,098,000 outstanding share purchase warrants with exercise prices between $0.05 and $0.16 per share. Company's common share is trading at about $0.02 per share; therefore, it is unknown whether these stock options and share purchase warrants will be exercised.

1.7 Off-balance sheet arrangements

As of the report date, the Company has no material off-balance sheet arrangements.

1.8 Transactions with related parties

Amounts due to and from officers, directors and companies with common directors are interest free, unsecured and have no specified terms of repayment. They have arisen from the provision of services and expense reimbursements or advances.

The Company has directors and officers in common with Nevada Clean Magnesium Inc. (formerly Molycor Gold Corporation), and American Manganese Inc. (formerly Rocher Deboule Minerals Corp.,) (American Manganese). The Company and Nevada Clean Magnesium Inc. are 50/50 joint venture participants in various properties in British Columbia.

Related party balances are as follows:

	31-Jul-12	31-Jul-11	01-Aug-10
Due from Nevada Clean Magnesium Inc. [(2)]	$ 22,279	$ 19,233	$ 139,765
Due from directors and officers of the Company	1,609	16,008	11,977
Due from American Manganese Inc.			22,957
Subtotal due from related party	$ 23,888	$ 35,241	$ 174,699
Due to American Manganese Inc.	(240,139)	-	-
Due to directors	(20,677)	-	-
RGG accounts payable to Daye Gold Mine	(2,521,113)	(1,633,497)	(1,161,297)
Subtotal due to related party	$ (2,781,929)	$ (1,633,497)	$ (1,161,297)

[(2)] Molycor Gold Corp changed name into Nevada Clean Magnesium Inc. ("NVM") and its shares converted 1:1 on April 17, 2012.

During the year ended July 31, 2012:

- consulting fees of $70,000 (2011 - $120,000) were payable to a company owned by a director and $13,574 (2011 - $24,020) was paid to a director;
- administrative fees of $126,300 (2011 - $169,585) were paid to executive directors and officers of the Company;
- office building use and technical support service fees of Rmb 36,000 (CAD$5,763) (2011 – Rmb 36,000 (CAD$5,374)) and ore mining fees of Rmb 4,905,414 (CAD$887,716) (2011 – Rmb 3,920,220 (CAD$554,699)) were accrued payable to Daye Gold Mine, a 10% owner of RGG. As at July 31, 2012, total accounts payable to Daye Gold Mine amounted $2,521,113 (2011 – $1,633,497; 2010 – $1,161,297). The Company intends to settle the amount owing to Daye Gold Mine with proceeds from the processing and sale of inventory.

The above transactions were in the normal course of business and were measured at the exchange amount which is the amount agreed to by the related parties.

1.9 **Proposed transactions**

None of the proposed transactions have materialized, and management's attempt to work with Kingking, Daye Gold Mine's new controlling party, has been affected by the fatal accident happened in early 2012 on Daye's underground iron pyrite mine. Management has re-started talks with Kingking and also in contact with several other local miners in November 2012.

1.10 **Changes in accounting policies including initial adoption**

Adoption of IFRS

These consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting" and IFRS 1, "First time adoption of International Financial Reporting Standards ("IFRS")" using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC").

The company adopted IFRS on August 1, 2011, with the conversion date of August 1, 2010 representing the Company's opening IFRS statement of financial position balances. As required by IFRS 1, First-time Adoption of IFRS, the Company has applied the IFRS as at July 31, 2012 on a full retrospective basis, except where permitted or required under an IFRS 1 exemption.

The impact of the conversion from GAAP to IFRS is explained in note 15. Note 15 includes reconciliations of the Company's interim condensed consolidated statements of financial position and consolidated statements of loss and comprehensive loss. The adoption of IFRS had no material impact on cash flows.

Recent Accounting Pronouncements

The following IFRS standards have been recently issued by the International Accounting Standards Board ("IASB"): IFRS 9 - Financial Instruments, IFRS 10 – Financial Statements and IFRS 13 - Fair Value Measurement. The Company is assessing the impact of these new standards, but does not expect them to have a significant effect on the financial statements.

(a) IFRS 9, Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009, and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized costs or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

(b) IFRS 10, Consolidated Financial Statements

IFRS 10 Consolidated Financial Statements ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on April 1, 2013 and is currently evaluating the impact on its consolidated financial statements.

(c) IFRS 11, Joint Arrangements

IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Company does not expect this standard to have a significant impact on the financial statements.

(d) IFRS 12, Disclosure of Interests in Other Entities

IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The Company does not expect this standard to have a significant impact on the financial statements.

(e) IFRS 13, Fair Value Measurement

IFRS 13, Fair Value Measurement ("IFRS 13") was issued by the IASB on May 12, 2011. The new standard converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

1.11 **Commitments and contingencies**

As of July 31, 2012, the Company has contributed $5,012,700 to Rushan Goldrea Gold Corp. (RGG), and earned the 90% interest according to the joint venture contract. RGG has over Rmb 21,342,121 (equivalent of $3,373,349) outstanding payable as of July 31, 2012, while its cash balance is only Rmb 51,606 (equivalent of $8,123). Although the Company's liability is limited to its share contribution to RGG, it is management's intention to keep RGG in good standing by settling RGG's outstanding payables to facilitate the Company's efforts to realize RGG's estimated resource value.

The Company borrowed Rmb 1,200,000 ($188,800) from Chinese lenders in March 2012, the funds will be used for its China operation. The loan has a term of eighteen months and bears an annual interest rate of 11%. The Company issued 1,000,000 shares as a bonus in connection to the loan.

1.12 **Risks and uncertainties**

The exploration and development of mineral properties are highly speculative activities and are subject to significant risks, including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in size to return a profit from production. The Company's ability to realize on its investments in exploration projects is dependent upon a number of factors; including management's ability to continue to raise the financing necessary to complete the exploration and development of those projects and the existence of economically-recoverable reserves within the projects.

At the present time the Company does not hold any interest in a mining property in commercial production. The Company has incurred net losses since inception, and has limited financial resources and no positive mineral operating cash flow. No assurance can be given that additional funding will be available for further exploration and development of the Company's projects or to fulfill the Company's obligations under any applicable agreements. Other uncertainties include currency and metal price fluctuations, permits and licences, environmental regulatory requirement changes, mineralization estimates, and political risks.

Competitive industry

Mining industry is intensely competitive and the company will compete with other companies that have far greater resources.

Fluctuating metal and share prices

Factors beyond the control of the Company may affect the marketability of gold, molybdenum, or any other metals or minerals discovered. Commodity prices fluctuate widely and are affected by numerous factors beyond the Company's control whose effect cannot accurately be predicted.

In recent years, the securities markets in the United States and Canada have experience a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered exploratory and development stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying assets values or prospects of such companies. There can be no assurance that continual and extreme fluctuations in price will not occur.

Permits and licences

The operations of the Company will require licences and permits from various governmental authorities, which have been applied for and/or will be applied for at the proper time. There can, however, be no assurance that the Company will be able to obtain all necessary licences and permits required to carry out exploration, development and mining operations of its projects.

Environmental regulation

The operations of the Company are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions or various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are becoming more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of future operations. The Company may become subject to liability for pollutions or hazards against which it cannot insure or again which it may elect not to insure where premium costs are disproportionate to the Company's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration and production activities.

Estimates of mineral resources may not be realized

The mineral resource estimates published from time to time by the Company with respect to its properties are estimates only and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified resource will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations, inaccurate or incorrect geologic, metallurgical or engineering work, and work interruptions, among other things. Short-term factors, such as the need for orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations or the results of operations. There can be no assurance that minerals recovered in small-scale laboratory tests will be duplicated in large-scale tests under on-site conditions or in production scale operations. Material changes in resources, grades, stripping ratios or recovery rates may affect the economic viability of projects. The estimated resources described herein should not be interpreted as assurances of mine life or of the profitability of future operations. The Company has engaged expert independent technical consultants to advise it with respect to mineral resources and project engineering, among other things. The Company believes that those experts are competent and that they have carried out their work in accordance with all internationally recognized industry standards. However, if the work conducted by those experts is ultimately found to be incorrect or inadequate in any material respect, the Company may experience delays and increased costs in developing its properties.

Dependence on key personnel

The Company is dependent on the services of its senior management, including Larry Reaugh, its President and Chief Executive Officer, and a small number of other skilled and experienced employees and consultants. The loss of any such individuals could have a material adverse effect on the Company's operations.

The following are the risks related to the Company's financial instruments:

a. 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 is subject to credit risk on the cash balances at the bank, its short-term bank guaranteed investment certificates and amounts receivable. Cash and investments are with Schedule 1 banks or equivalent, with majority of cash held in Canadian based banking institutions, authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. The credit risk in amounts receivable is considered low by management as they consist primarily of amounts owing from government authorities in relation to HST refund of $80,775 and $2,772 in other receivables which are not considered past due.

b. 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 has in place a planning and budgeting process to assist in determining the funds required to support normal operating requirements on an ongoing basis, including capital development and exploration expenditures. This process resulted in the decision in October 2008 to enter into a service agreement with Daye Gold Mine for the underground operation of Golden Rose Shaft. As at July 31, 2012, the Company had a cash and cash equivalent balance of $134,141 (2011 - $121,125) to settle accounts payable and accrued liabilities of $3,546,405 (2011 - $2,122,714). Accounts payable and accrued liabilities are due within the current operating period. See note 1 of the consolidated financial statements Going concern.

c. Market risk

The Company's primary market risk is in the areas of metal prices and foreign exchange risk on financial instruments in other than Canadian dollars. At July 31, 2012, the Company had no hedging agreements in place with respect to metal prices or exchange rates:

(*i*) Commodity price risk:

The value of the Company's primary mineral property is dependent on the price of gold and the outlook for this metal. The value of exploration stage gold and molybdenum properties is also dependent on the price of gold and molybdenum and the outlook for these metals.

Market prices for these metals historically have fluctuated widely and are affected by numerous factors outside of the Company's control including but not limited to, levels of worldwide production, short-term changes in supply and demand, industrial and retail demand, central bank lending, and forward sales by producers and speculators, as well as certain other factors related specifically to gold.

The profitability of the Company's primary property is highly correlated to the market price of gold. If gold prices decline for a prolonged period below the cost of production it may not be economically feasible to continue towards production.

The Company has not entered into any hedging or commodity based risk instruments.

(ii) Currency risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company has offices in Canada, the United States, and China and holds cash in Canadian, United States and Chinese currencies in line with forecasted expenditures. A significant change in the currency exchange rates between the Canadian dollar relative to US dollar and Chinese Renminbi could have an effect on the Company's results of operations, financial position or cash flows. At July 31, 2012 the Company had no hedging agreements in place with respect to foreign exchange rates.

Based on the net currency rate exposures as of July 31, 2012, and assuming that all the other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against Chinese Rmb would result in an increase/decrease of approximately $151,367 liabilities; a 10% depreciation or appreciation of the Canadian dollar against US dollar would result in an increase/decrease of approximately $26 cash balance.

(iii) Equity price risk:

Equity price risk arises from available-for-sale equity securities. The Company's exposure at July 31, 2012 was $19,341. The shares are publicly traded, market-prices are readily available, and their carrying value is equal to the market value at July 31, 2012.

(iv) 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 Company's cash and cash equivalents contain highly liquid investments that earn interest at market rates and have maturities of 90 days or less. The interest is typical of Canadian banking rates, which are presently low, however this conservative investment strategy mitigates the risk of deterioration to the investment. A change of 100 basis points in the interest rates would not be material to the consolidated financial statements.

1.13 **Disclosure controls and procedure and internal control over financial reporting**

In connection with Exemption Orders issued in November 2007 and revised in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the annual audited consolidated financial statements and respective accompanying Management Discussion and Analysis.

In contrast to the certificates under NI 52-109 (Certification of disclosure in an Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting as defined in NI 52-109.

1.14 Outstanding share data

As of the report date, the Company has 71,279,252 common shares outstanding, as well as options to purchase 6,030,000 common shares at the price of $0.14 exercisable before and on February 24, 2015. The Company also has 12,098,000 outstanding share purchase warrants with exercise prices between $0.05 and $0.16 per share expiring at various dates between March 25, 2013 and November 5, 2014. On a fully diluted basis, therefore, the Company has 89,407,252 common shares outstanding. (Please refer to the Consolidated Financial Statements for details)

1.15 Subsequent events

On November 5, 2012, the Company obtained TSX Venture Exchange approval to extend 7,918,000 outstanding share purchase warrants by two year. Each warrant is exercisable for one common share at a price of $0.10 and the new expiry date for the share purchase warrants is November 5, 2014. In the meantime, 128,000 warrants with an exercise price of $0.10 per share expired on November 5, 2012.

On October 5, 2012, the Company closed the first portion of its Non-Brokered Private Placement for gross proceeds of $95,400 comprising of 3,180,000 units (the Unit") at a price of $0.03 per Unit. Each Unit is comprised of one common share in the capital of the Company plus a two year share purchase warrant. Each Warrant entitles the holder to purchase one common share at a price of $0.05 in the first year and $0.10 in the second year at any time up to 5:00 pm (Vancouver time) on October 5, 2014. All of the securities issued pursuant to this private placement will have a hold period expiring four months and one day after the closing date.