SILVER PHOENIX RESOURCES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2011

The following discussion and analysis of the financial condition and results of operations of Silver Phoenix Resources Ltd. (the "Company" or "Silver Phoenix") should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2011, and the notes thereto.

This MD&A should be read in conjunction with the financial statements for the year ended December 31, 2011 and supporting notes. The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These are the Company's first IFRS annual financial statements for the year ended December 31, 2011. A reconciliation of the previously disclosed comparative periods' financial statements prepared in accordance with Canadian generally accepted accounting principles to IFRS is set out in Note 16 to the financial statements

All monetary amounts are in Canadian dollars unless otherwise specified. The effective date of this MD&A is April 30, 2012. Additional information relating to the Company is available on SEDAR at www.sedar.com

Forward-Looking Information

Forward-looking statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and 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, permitting 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. 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 financial statements which are filed and available for review 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.

There can be 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.

Nature of Business

Silver Phoenix is an exploration stage company engaged in acquiring, exploring and developing mineral properties, principally located in British Columbia, Canada. The Company has no mineral producing properties, and thus, has no revenues from any mineral properties.

Current Status

The level of the Company's future operations will be determined by the availability of capital resources, which will be derived from the issuance of special warrants and future financings.

The Company has incurred recurring losses since its inception, and had an accumulated deficit of $1,050,130 as at December 31, 2011 which has been funded primarily by the issuance of shares. The Company has no source of operating cash flows and expects to incur further losses in the exploration and development of its mineral properties. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing or maintaining continued support from its shareholders and creditors, and generating profitable operations in the future.

The operations to date have consisted of initial organizational costs and commencement of exploration. Included in these costs were management fees paid to the President and a director of $84,000 and Chief Financial Officer of $30,000 for the year ended December 31, 2011.

Exploration Project

The Company has acquired 100% interest in three properties, the Big Showing Property, the Waverly Tangier Property and the River Jordan Property.

Big Showing Property

On February 14, 2003, the Company entered into an agreement to acquire a 100% interest in the Big Showing Property for mineral claims for a total area of 1,000 hectares in the Revelstoke Mining Division of British Columbia. The Company acquired 90% of the property from the President and director of the Company and 10% from an individual who became a director of the Company November 1, 2006.

For payment of the property, the Company agreed to issue 750,000 common shares of the Company on the date of the agreement (issued), to pay $35,000 in cash by April 30, 2007 (paid), to issue 1,000,000 common shares of the Company within 30 business days of the date on which the Company receives a technical report disclosing an indicated mineral resource of 5,000,000 ounces of contained silver equivalent on the claims, and to issue a further 1,583,333 common shares within 30 business days of the date on which the Company receives a positive pre-feasibility study on the claims.

The Big Showing Property covers three separate deposits of sulphide mineralization called 1) Big Showing (formerly the Ruby Silver Showing); 2) Scout Showing and 3) Mammoth Showing. Mineralization consists of disseminations, blebs and aggregate of Pb-Zn-Ag sulphides hosted by silicified, iron-rich carbonate rocks within carbonaceous pelite and meta-volcanic rocks belonging to the Lower Paleozoic Hardeau Group. The deposits are thought to be structurally modified, stratiform in character, possibly SEDEX in origin. During the 2009 fiscal year, the Company completed an airborne survey for the Big Showing project. The cost for the airborne survey was $18,950. The work program planned for 2012 is subject to financing.

As at December 31, 2011, the Company had $48,668 of cumulative acquisition and exploration costs related to the Big Showing project.

Waverley Tangier Property

On March 15, 2004, the Company entered into an agreement to acquire a 100% interest in the Waverly Tangier Property for mineral claims for a total area of 4,449 hectares in the Revelstoke Mining Division of British Columbia. The Company acquired 90% of the property from the President and director of the Company and 10% from an individual who became a director of the Company on November 1, 2006.

The Company agreed to pay $35,000 in cash (paid in August 2007), to issue 750,000 common shares (issued) of the Company, to issue 1,000,000 common shares of the Company within 30 business days of the date on which the Company receives a technical report disclosing an indicated mineral resource of 5,000,000 ounces of contained silver equivalent on the claims, and to issue a further 1,583,333 common shares within 30 business days of the date on which the Company receives a positive pre-feasibility study on the claims.

The Waverley Tangier Property consists of two principle old mine workings: The Waverley which occur on the Tangier Claim (388305), and the Tangier, which occur on Waverley Claim (388306) and is situated at the head of the Sorcerer Creek, about 1 km below summit flats separating that creek from the head of Tangier Creek. Stratabound mineral occurrences in the project area are two main types: massive sulfide vein and carbonate replacement deposits. The Waverley and Tangier mineralization is similar to Polymetalic Manto-Type Replacement Deposits such as in the Midway of northern BC and Bluebell in southeast BC.

Armadillo Option

Pursuant to the amended and restated option and royalty agreement dated February 25, 2009 with Armadillo Resources Ltd. (“Armadillo”), the Company granted Armadillo a 60% interest (the “First Option”) in the Waverley-Tangier property (the “Property”) located in the Revelstoke Mining Division of British Columbia. Armadillo agreed to pay to the Company $350,000 in cash, to incur $3,000,000 in exploration expenditures and to issue 625,000 common shares of Armadillo to the Company as follows:

	Cash	Exploration Expenditures	Shares
Before March 31, 2009 (received)	$ 75,000	$ –	175,000
Before March 30, 2010 (received)	75,000	200,000	150,000
Before March 30, 2011 (received except $50,000 cash)	100,000	300,000	150,000
Before March 30, 2012	100,000	1,000,000	150,000
Before March 30, 2013	–	1,500,000	–
	$ 350,000	$ 3,000,000	625,000

As of December 31, 2011 a $50,000 portion of the option payment in cash has not been received.

During fiscal 2011, $50,000 cash and shares valued at $16,500 were received and a gain on option of mineral property of $66,500 was recorded. As part of the requirement for exercising the First Option, Armadillo agreed to pay for and deliver to the Company a Feasibility Study, as defined in National Instrument 43-101, no later than December 31, 2015. Armadillo is to deliver to the Company the exercise notice within 30 days from the delivery of the Feasibility Study.

Armadillo is also entitled to earn an additional 10% interest (the “Second Option”) in the Property by:

a) lending the Company, at the most attractive interest rate available and in no case greater than the London Interbank Offered Rate (“LIBOR”) plus ½%, all of the amounts that will be payable by the Company under the joint operations of the Property (the “Joint Venture”); and

b) causing the Joint Venture to put the Property into commercial production.

The Property is subject to a 3% net smelter return ("NSR") royalty and the Joint Venture will pay annual advance royalty payments of $150,000 commencing on January 1, 2015 to the Company until the Property is put into commercial production. The advance royalty payments will be deducted from the NSR payments otherwise needed to be made.

Armadillo Resources has completed the multi-sensor airborne geophysical survey over the Waverly-Tangiers. After preliminary review of the data, the Company has increased its mineral claims holdings by 6,895 hectares from 4,449 hectares to 11,344 hectares.

River Jordan Property

On March 16, 2006, the Company entered into an agreement to acquire a 100% interest in the River Jordan Property for mineral claims for a total area of 649 hectares in the Revelstoke Mining Division of British Columbia. The Company acquired 90% of the property from the President and director of the Company and 10% from an individual who became a director of the Company on November 1, 2006.

The Company agreed to pay $35,000 in cash by April 30, 2007 (paid), to issue 750,000 common shares (issued in June 2007) of the Company, to issue 1,000,000 common shares of the Company within 30 business days of the date on which the Company receives a technical report disclosing an indicated mineral resource of 5,000,000 ounces of contained silver equivalent on the claims, and to issue a further 1,583,333 common shares within 30 business days of the date on which the Company receives a positive pre-feasibility study on the claims.

The River Jordan Property covers a sulphide deposit variously known as the River Jordan/Jordan River and the King Fissue Deposit which is a metamorphic rock – hosted massive sulphide deposit comprising Pb-Zn-Ag +/- Cu that has been variably described as a Broken Hill type and a sedimentary exhalative-type deposit. The deposit consists of a sulphide layer ranging up to 6 meters in thickness within calc-silicate gneiss. The property is located 19 km northwest of Revelstoke and covers Copeland Ridge between Copeland and Hiren Creek. Preliminary exploration was completed between August 8, 2008 and August 24, 2008 including geologic mapping, rock sampling and an orientation magnetometer survey, for an estimated cost of $71,153. The Company evaluated initial results and recommends that further exploration be carried out on the property. The Phase 1 program was estimated to cost $56,650. Management of the Company decided that it was prudent, more cost effective and more informative to do an airborne survey of the River Jordon project.

As at December 31, 2011, the Company had $131,346 of cumulative acquisition and exploration costs related to the River Jordan project.

Results of Operations

Silver Phoenix is a publicly traded Canadian exploration company with no mineral producing properties, and thus, does not have revenues from any mineral properties.

For the year ended December 31,	2011 $	2010 $
Financial results:		
Net loss for the period	173,805	104,180
Basic and diluted loss per share	0.03	0.02
Statement of Financial Position		
Cash and cash equivalents	116,233	143,087
Exploration and evaluation assets	183,017	180,501
Total assets	327,311	466,330
Shareholders' equity	185,023	330,828

For the Year Ended December 31, 2011

Net Income/Loss and Operating Expenses

For the year ended December 31, 2011, the Company experienced a net loss of $173,805 compared to a net loss of $104,180 for the comparative period in 2010, an increase of $69,625. This was due primarily to the unrealized impairment loss on marketable securities.

Total operating expenses for the year were $197,393 compared to operating expenses of $196,133 in 2010. The Company had a loss per share of $0.03 as compared to a loss per share of $0.02 in the same period in 2010.

The loss consisted primarily of management fees of $114,000 (2010-$114,000) paid to the directors and officers of the Company, including day to day administration for the Company, and overseeing regulatory filings and requirements. Professional fees of $45,000 (2010-$43,976) paid for accounting, audit and legal fees. During the year, the Company also incurred transfer agent fees of $10,562 (2010 - $6,017), office and miscellaneous of $2,134 (2010-$3,137), auto and travel of $10,854 (2010-$8,671), promotion of $3,730 (2010-$6,978), telephone and utilities of $2,938 (2010-$2,780) and filing fees of $6,824 (2010-$7,195).

Other Comprehensive Gain/Loss

The Company investment in Armadillo has been classified as an available-for-sale investment, with changes in fair value being recorded in other comprehensive income/loss. As a result, the Company recorded an unrealized loss on Armadillo investment of $44,000.

Fourth Quarter

No significant items or events occurred in Q4, 2011 that would affect the Company's financial position, cash flows or results of operations. During the fourth quarter, the Company reported a loss of $153,846 compared to net loss of $37,837 in the fourth quarter of 2010. The increase is due to the impairment loss on marketable securities and legal fees.

Summary of Quarterly Results

The following table sets forth selected results of operation for the Company's eight most recently completed quarters.

Quarter Ended	**Revenues**	**Net (loss) gain**	**Net (loss) income per share**
December 31, 2011	$Nil	(153,846)	($0.01)
September 30, 2011	$Nil	(37,016)	($0.01)
June 30, 2011	$Nil	(34,093)	($0.01)
March 31, 2011	$Nil	51,150	$0.01
December 31, 2010	$Nil	($37,837)	($0.01)
September 30, 2010	$Nil	($30,856)	($0.00)
June 30, 2010	$Nil	($71,121)	($0.01)
March 31, 2010	$Nil	$35,634	$0.01

The above table includes adjustments to Net income (loss) totals and per share values after implementation of IFRS adjustments. The following schedule reconciles net income (loss) and per share income (loss) for the four quarters ended December 31, 2010. No adjustments were made to fiscal 2009 figures.

	As original Reported $	IFRS adjustment $	Balance under IFRS $	Per share Under IFRS
December 31, 2010	($37,837)	-	($37,837)	($0.01)
September 30, 2010	($30,856)	-	($30,856)	($0.00)
June 30, 2010	($71,121)	-	($71,121)	($0.01)
March 31, 2010	$35,634	-	$35,634	$0.01

Quarterly results will vary in accordance with the Company's exploration and financing activities.

Mineral exploration is typically a seasonal business, and accordingly, the Company's operating expenses and cash requirements will fluctuate depending upon the season and the level of activity. The Company's primary source of funding is through the issuance of share capital. When the capital markets are depressed, the Company's activity level normally declines accordingly. As capital markets strengthen and the Company is able to secure equity financing with favorable terms, the Company's activity levels and the size and scope of planned exploration projects will typically increase

Liquidity

As at December 31, 2011, the Company's net working deficiency was $1,272 compared to a net working capital of $145,812 as at December 31, 2010. The cash balance at December 31, 2011 was $116,233 compared to $143,087 as at December 31, 2010. As at December 31, 2011, current liabilities were $142,288 compared to $135,502 as at December 31, 2010.

On December 31, 2011, the Company had 6,900,520 common shares and 680,000 options outstanding. The average exercise price of the share purchase options are $0.25.

On February 7, 2011, the company completed a non-brokered private placement with gross proceeds of $35,000.

On January 11, 2012, the company completed a non-brokered private placement with gross proceeds of $105,000. This amount has been received prior to 2011 year end and has been recorded under subscriptions received in the financial statements.

Selected Annual Information

The following financial data, which has been prepared in accordance with Canadian generally accepted accounting principles, is derived from the Company's audited financial statements for the years ended December 31, 2011, 2010 and 2009.

	2011 $	2010 $	2009 $
Total Income	Nil	Nil	Nil
Net loss for the year	173,805	104,180	167,793
Basic and diluted loss per share	0.03	0.02	0.02
Total Assets	327,311	466,330	457,082
Total long-term debt	Nil	Nil	Nil
Cash dividend per shares	Nil	Nil	Nil

The Company's net loss was significantly lower in 2010 compared to 2009 due to the gain on option of mineral property. In 2011, the net loss was higher than 2010 was due to the lower gain on option of mineral property, plus the realized loss on marketable securities.

Capital Resources

Since incorporation, the Company's capital resources have been limited. The Company has had to rely upon the sale of equity securities for the cash required for capital acquisitions, exploration and development, and administration.

The Company does not have any commitments for material capital expenditures and none are presently contemplated other than as disclosed above normal operating requirements. The Company may require funds in order to fund exploration programs on the Big Showing Property, the Waverly Tangier Property and the River Jordan Property and as a result, the Company will have to continue to rely on equity and debt financing in the future. There can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to the Company.

Risks and Uncertainties

The Company has no history of profitable operations and its present business is at an early stage. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

The Company has no source of operating cash flow and no assurance that additional funding will be available to it for further exploration and development of its projects when required. Although the Company has been successful in the past in obtaining financing through the sale of equity securities or joint ventures, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of its properties.

Recent degradation of the market conditions for the financing of equity and/or debt for mineral exploration and development companies has created additional uncertainty for future financing of the acquisition or development of the Company's projects.

Mineral exploration is a speculative venture. There is no certainty that the money spent on exploration and development will result in the discovery of an economic ore body. There is no assurance that the Company's exploration activities will result in any discoveries of commercial bodies of ore. The long-term profitability of the Company's operations will in part be related to the success of its exploration programs, which may be affected by a number of factors that are beyond the control of the Company.

The mineral industry is intensely competitive in all its phases. The Company competes with many other mineral exploration companies who have greater financial resources and technical capacity.

The market price of precious metals and other minerals is volatile and cannot be controlled.

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

The Company's directors and officers serve as directors or officers, or may be associated with other reporting companies or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the transaction.

Off-Balance Sheet Arrangements

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative instrument obligations, or with respect to any obligations under a variable interest entity arrangement.

Related Party Transactions

During the year ended December 31, 2011, the Company paid management fees of $84,000 (2010 - $84,000) to the President and $30,000 (2010 - $30,000) to the Chief Financial Officer, respectively. The related party transactions were measured at the exchange amount which is the amount agreed upon by the transacting parties and are on terms and conditions similar to non-related entities.

Commitments

a) The Company is committed to a management services agreement with the President and director of the Company. The agreement requires payments of $84,000 per year. This contract is payable monthly and may be terminated by both parties by giving one month's notice.

b) The Company is committed to a management services agreement with the Chief Financial Officer of the Company. The agreement requires payments of $30,000 per year. This contract is payable monthly and may be terminated by both parties by giving one month's notice.

c) The Company is obligated to make certain payments and issue shares as described in Note 7 in connection with acquisition of its mineral properties.

Critical Accounting Policies and Estimates

The details of Silver Phoenix's accounting policies are presented in Note 4 of the financial statements for the year ended December 31, 2011. These policies are considered by management to be essential to understanding the processes and reasoning that go into the preparation of the Company's financial statements and the uncertainties that could have a bearing on its financial results.

New Accounting Standards Issued But Not Yet Effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2011, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

New accounting standards effective January 1, 2012

Amendments to IFRS 7 *Financial Instruments: Disclosures* - In October 2010, the IASB issued amendments to IFRS 7 that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with early adoption permitted. The Company does not anticipate this amendment to have a significant impact on its financial statements.

IAS 12 *Income taxes* - In December 2010, the IASB issued an amendment to IAS 12 that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with early adoption permitted. The Company does not anticipate this amendment to have a significant impact on its financial statements.

New accounting standards effective January 1, 2013

IFRS 10 *Consolidated Financial Statements* - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements.*

IFRS 11 *Joint Arrangements* - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*.

IFRS 12 *Disclosure of Interests in Other Entities* - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 *Fair Value Measurement* - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to IAS 1 *Presentation of Financial Statements* - The IASB has amended IAS 1 to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be reclassified into profit or loss in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* - IFRIC 20 addresses the accounting for overburden waste removal (stripping) costs in the production phase of a surface mine. Stripping activity may result in two types of benefits: i) inventory produced and ii) improved access to ore that will be mined in the future. Stripping costs associated with inventory production should be accounted for as a current production cost in accordance with IAS 2 Inventories, and those associated with improved access to ore should be accounted for as an addition to, or enhancement of, an existing asset.

Amendments to other standards - In addition, there have been other amendments to existing standards, including IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

Each of the new standards, IFRS 10 to 13, IFRIC 20 and the amendments to other standards, is effective for the Company beginning on January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new standards will have on its financial statements or whether to early adopt any of the new requirements.

<u>New accounting standards effective January 1, 2015</u>

IFRS 9 *Financial Instruments* - IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at the fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 is effective for annual periods beginning on or after January 2015 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

Adoption of Accounting Standards and Pronouncements under IFRS

These are the Company's first IFRS annual financial statements to be presented in accordance with IFRS. Previously, the Company prepared its financial statements in accordance with GAAP.

Transition to IFRS

The accounting policies in Note 4 of the financial statements have been applied as follows:

- in preparing the financial statements for the year ended December 31, 2011;
- the comparative information for the year ended December 31, 2010;
- the statement of financial position as at December 31, 2010; and
- the preparation of an opening IFRS statement of financial position on the Transition Date, January 1, 2010.

First-Time Adoption of International Financial Reporting Standards ("IFRS")

The Company's financial statements for the year-ending December 31, 2011 are the first annual financial statements that are prepared in accordance with IFRS. IFRS 1, First Time Adoption of International Financial Reporting Standards, requires that comparative financial information be provided. As a result the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date). Certain optional exemptions and certain mandatory exceptions apply for first time IFRS adoption. Prior to transition to IFRS, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (" Canadian GAAP").

In preparing the Company's first IFRS financial statements, the Company has restated certain amounts reported previously in the financial statements prepared in accordance with Canadian GAAP.

<u>Initial elections upon adoption</u>

a) Transition to IFRS

The Company has adopted IFRS effective January 1, 2011 with a transition date of January 1, 2010. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian GAAP.

The comparative information presented in these first annual financial statements for the year ended December 31, 2010 and the opening financial position as at January 1, 2010 (the "Transition Date") have been prepared in accordance with the accounting policies referenced in Note 4 and IFRS 1.

b) Initial elections upon adoption

The Company adopted IFRS in accordance with IFRS 1 which requires the retrospective application of IFRS at the Transition Date with all adjustments to assets and liabilities taken to deficit, subject to mandatory exceptions and the application of optional exemptions. The IFRS 1 exceptions applied in the conversion from Canadian GAAP to IFRS by the Company are explained as follows:

(i) Business Combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company elected not to retrospectively apply IFRS 3 Business Combinations to any business combinations that may have occurred prior to its Transition Date and such business combinations have not been restated.

(ii) Share-based Payment Transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 *Share based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and had vested before the Transition Date.

(iii) Compound Financial Instruments

The Company has elected under IFRS 1 not to retrospectively separate the liability and equity components of any compound instruments for which the liability component is no longer outstanding at the Transition Date.

c) Estimates

IFRS 1 prohibits use of hindsight to create or revise previous estimates. The estimates the Company previously made under Canadian GAAP have not been revised for application of IFRS.

d) Reconciliations of Canadian GAAP Equity and Comprehensive Income to IFRS

The adoption of IFRS has had no impact on the net cash flows of the Company. The changes made to the statements of financial position and statements of comprehensive income have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been presented**.**

Management of Financial Risks

Fair values

The Company's financial instruments include cash, marketable securities, accounts payable and accrued liabilities. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature. The fair value of these financial instruments approximates their carrying value because of the current nature.

The following table summarizes the classification and values of the Company's financial instruments:

	2011	2010
	$	$
FVTPL (i)	116,233	143,087
Available-for-sale (ii)	19,000	123,500
Other financial liabilities (iii)	142,288	135,502

(i) Cash
(ii) Available-for-sale investments
(iii) Accounts payable and accrued liabilities

The Company classifies its fair value measurements in accordance with the three level fair value hierarchy as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
Level 3 – Inputs that are not based on observable market data

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	December 31, 2011
	$	$	$	$
Cash	116,233	-	-	116,233
Available-for-sale investments	19,000	-	-	19,000

Financial risk management objectives and policies

The Company's financial instruments include cash, available-for-sale investments and accounts payable. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) *Currency risk*

The Company's expenses are denominated in Canadian dollars. The Company's corporate office is based in Canada and current exposure to exchange rate fluctuations is minimal.

(ii) *Interest rate risk*

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term. The Company has not entered into any derivative instruments to manage interest rate fluctuations.

(iii) *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. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk on cash the Company places the instrument with financial institution.

(iv) *Liquidity risk*

In the management of liquidity risk of the Company, the Company maintains a balance between continuity of funding and exploration activity. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations.

(v) *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, investment fluctuations, and commodity and equity prices. Market conditions will cause fluctuations in the fair values of financial assets classified as held-for-trading, available-for-sale and cause fluctuations in the fair value of future cash flows for assets or liabilities classified as held-to-maturity, loans or receivables and other financial liabilities. The Company is exposed to market risk in trading its investments, and unfavourable market conditions could result in dispositions of investments at less than favourable prices. The Company's investments are accounted for at estimated fair values and are sensitive to changes in market prices, such that changes in market prices result in a proportionate change in the carrying value of the Company's investments. The Company is not exposed to significant interest rate risk as the Company's has no interest bearing debt. The Company's ability to raise capital to fund mineral resource exploration is subject to risks associated with fluctuations in mineral resource prices. Management closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Capital Management

The Company's objectives when managing capital are to identify, pursue and complete the exploration and development of mineral properties, to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. Capital of the Company comprises the items included in shareholders' equity.

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

The Company's investment policy is to invest its cash in financial instruments of high credit quality financial institutions with terms to maturity selected with regards to the expected timing of expenditures from continuing operations.

Subsequent Event

On January 11, 2012, the Company completed a non-brokered private placement of 210,000 Flow-Through Units (the "Units") at $0.50 per Unit for an aggregate of $105,000. Each Unit consists of one flow-through share and one non-flow-through common share purchase warrant ("warrant"). Each warrant will entitle the holder to purchase one non-flow-through common shares at $0.70 per share for two years.

Management's Report on Internal Control Over Financing Reporting

In connection with National Instrument ("NI") 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings) adopted 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 unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. 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.