SILVER PHOENIX RESOURCES INC.

(An Exploration Stage Company)

Interim Financial Statements

For the Six Months Ended June 30, 2012
(Expressed in Canadian Dollars)

Readerôs Note:

These unaudited interim financial statements for the six months ended June 30, 2012 of Silver Phoenix Resources Inc. (ñSilver Phoenixò or the ñCompanyò) have been prepared by management and have not been subject to review by the Companyôs auditors.

Silver Phoenix Resources Inc.
(An Exploration Stage Company)
Statements of Financial Position
(Expressed in Canadian Dollars)

		June 30, 2012	December 31, 2011
		$	$
ASSETS			
Current assets			
Cash		108,097	116,233
Amounts receivable		3,813	5,783
Marketable securities	5	14,250	19,000
		126,160	141,016
Non-current assets			
Equipment	6	2,828	3,278
Exploration and evaluation assets	7	183,504	183,017
		186,332	186,295
		312,492	327,311
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		214,263	142,288
SHAREHOLDERS' EQUITY			
Share capital	8(b)	1,129,029	1,024,029
Subscriptions received in advance		-	105,000
Contributed surplus	8(c)	106,124	106,124
Deficit		(1,136,924)	(1,050,130)
		98,229	185,023
		312,,492	327,311

GOING CONCERN	2
COMMITMENTS	10
SUBSEQUENT EVENT	13

Approved on behalf of the Board on April 30, 2012:

William Murray, Director

Leland Voll, Director

The accompanying notes form an integral party of these financial statements

Silver Phoenix Resources Inc.

(An Exploration Stage Company)

Statements of Operations and Comprehensive Loss

For The Six Months Ended June 31, 2012

(Expressed in Canadian Dollars)

	Notes	Three Months Period Ended June 30, 2012	Three Months Period Ended June 30, 2011	Six Months Period Ended June 30, 2012	Six Months Period Ended June 30, 2011
		$	$	$	$
Expenses					
Auto and travel		1,973	1,958	4,144	6,231
Bank charges		5	27	16	71
Depreciation		225	309	450	618
Filing fees		4,555	4,424	5,355	5,024
Management fees	9	28,500	28,500	57,000	57,000
Office and miscellaneous		13	545	310	1,721
Professional fees		5,500	12,000	11,000	24,000
Promotion		327	1,137	1,196	2,033
Telephone and utilities		548	766	930	1,421
Transfer agent		1,085	1,435	1,925	2,127
Loss before other items		(42,731)	(51,101)	(82,326)	(100,246)
Other items					
Gain on option of mineral property		-	16,500	-	116,500
Interest income		228	508	282	803
Unrealized impairment gain (loss) on marketable securities	5	2,375	-	(4,750)	-
Net loss		(40,128)	(34,093)	(86,794)	17,057
Other comprehensive income (loss)		-	(20,750)	-	(6,250)
Comprehensive loss		(40,128)	(54,843)	(86,794)	10,807
Loss per share ï basic and diluted		(0.01)	(0.01)	(0.01)	0.01
Weighted average number of common shares		6,830,520	6,830,520	6,830,520	6,830,520

The accompanying notes form an integral party of these financial statements

Silver Phoenix Resources Inc.

(An Exploration Stage Company)

Statements of Changes in Equity

For The Six Months Ended June 31, 2012

(Expressed in Canadian Dollars)

	Note	Common shares Number	Common shares Amount	Contributed Surplus	Subscription Received	Unrealized Gain (Loss) on Available-for-sale Investments	Deficit	Total Shareholdersô Equity
			$	$	$	$	$	$
Balance, December 31, 2010		6,830,520	989,029	106,124	35,000	77,000	(876,325)	330,828
Private Placement		-	35,000	-	(35,000)	-	-	-
Available-for-sale-investment						(70,750)		(70,750)
Reclassification relating to loss on available-for sale investment							(12,250)	(12,250)
Comprehensive income		-	-	-	-	-	17,057	17,057
Balance, June 30, 2011		6,900,520	1,024,029	106,124	-	6,250	(871,518)	264,885
December 31, 2011		6,900,520	1,024,029	106,124	105,000	-	(1,050,130)	185,023
Private placement	8	210,000	105,000		(105,000)			
Comprehensive loss		-	-	-	-	-	(86,794)	(86,794)
Balance, June 30, 2012		7,110,520	1,129,029	106,124	-	-	(1,136,924)	98,229

The accompanying notes form an integral party of these financial statements

Silver Phoenix Resources Inc.

(An Exploration Stage Company)

Statements of Cash Flows

For The Six Months Ended June 31, 2012

(Expressed in Canadian Dollars)

	Notes	Three Months Period Ended	June 30,	Six Months Period Ended	June 30,
		2012	2012	2012	2011
		$	$		$
OPERATING ACTIVITIES					
Net income (loss)		(40,128)	(34,093)	(86,794)	17,057
Items not involving cash:					
Depreciation		225	309	450	618
Gain on option of mineral property		-	(16,500)	-	(116,500)
Unrealized impairment loss (gain) on marketable securities		(2,375)	-	4,750	-
		(42,278)	(50,284)	(81,594)	(98,825)
Changes in non-cash working capital items					
Amounts receivable		(3,315)	11,608	1,970	9,765
Accounts payable		38,784	1,961	71,975	(14,047)
Prepaid expenses		-	250	-	500
Cash used in operating activities		(6,809)	(36,465)	(7,649)	(102,607)
INVESTING ACTIVITIES					
Amount received on option of mineral property		-	50,000	-	50,000
Exploration and evaluation expenditures		(471)	(3,500)	(487)	(3,500)
Cash provided from investing activities		(471)	46,500	(487)	46,500
FINANCING ACTIVITIES					
Proceeds from share issuance		-	-	105,000	35,000
Subscriptions received in advance		-	-	(105,000)	(35,000)
Cash provided from financing activities		-	-	-	-
Decrease in cash		(7,280)	10,035	(8,136)	(56,107)
Cash, beginning of period		115,377	76,945	116,233	143,087
Cash, end of period		108,097	86,980	108,097	86,980

The accompanying notes form an integral party of these financial statements

1. NATURE AND CONTINUANCE OF OPERATIONS

Silver Phoenix Resources Inc. (the ñCompanyò) was incorporated on February 14, 2003 under the Company Act (British Columbia). The Company is an exploration stage company engaged in acquiring, exploring and developing mineral properties, principally located in British Columbia, Canada. The Company is listed on the Canadian National Stock Exchange, having the symbol SP-C. The address of the Companyôs corporate office and principal place of business is 4631-75th Ave. N.E., Box 134, Canoe, British Columbia, Canada V0E 1K0.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. As of June 30, 2012, the Company has not generated revenues from its principal activities and is considered to be in the exploration stage.

2. BASIS OF PREPARATION

Statement of Compliance

The interim financial statements have been prepared in accordance to IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards (ñIFRSsò) issued by the International Accounting Standards Board (ñIASBò) and Interpretations of the International Financial Reporting Interpretations Committee (ñIFRICò).

Going concern

These unaudited financial statements are prepared on a going concern basis, which assumes that the Company will continue its operations for a reasonable period of time. The Company has incurred losses since its inception and had an accumulated deficit of $1,136,924 at June 30, 2012. 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 Companyôs continuing operations, and the recoverability of the amounts shown for mineral properties are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests. The Company has been successful in the past in raising funds for operations by issuing shares but there is no assurance that it will be able to continue to do so in the future.

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

3. CRITICAL ACCOUNTING JUDGMENT AND ESTIMATES

The preparation of these financial statements in conformity of IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the financial statements is described below:

a) Depreciation

The Company's management exercises its judgment in estimating the useful lives of the depreciable assets. The estimated useful lives reflect the management's estimate of the periods the Company intends to derive future economic benefits from the use of these assets. The Company depreciates its equipment in accordance with the accounting policies stated in Note 4(f). The carrying amount of the equipment is disclosed in Note 6.

b) Exploration and Evaluation Expenditure

The application of the Company's accounting policy for deferred development expenditure requires judgement in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures is capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

c) Recovery of Deferred Tax Assets

Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws in the jurisdictions in which the Company operations could limit the ability of the Company to obtain tax deductions in future periods.

d) Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

3. CRITICAL ACCOUNTING JUDGMENT AND ESTIMATES (continued)

e) Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate input to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 8.

4. SIGNIFICANT ACCOUNTING POLICIES

a) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amount of cash and subject to an insignificant risk of change value.

b) Marketable securities

Investments in shares of public companies traded on an active market over which the Company does not have control or exercises significant influence are classified as available-for-sale and accounted for at fair market value, based upon quoted market share prices at the balance sheet date. Unrealized gains or losses on these investments are recorded as other comprehensive income or loss, unless a decline in value is considered to be other than temporary. Purchases and sales of investments are measured on a settlement date basis.

c) Exploration and evaluation assets

All expenditures related to the cost of exploration and evaluation of mineral resources including acquisition costs for interests in mineral claims are capitalized as mineral properties exploration and are classified as intangible assets. General exploration costs not related to specific mineral properties are expensed as incurred. When shares are issued as part of mineral property exploration costs, they are valued at the closing share price on the date of issuance unless the fair value of goods or services received is determinable.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, capitalized costs of the related property are reclassified as mining assets and upon commencement of commercial production, are amortized using the units of production method over estimated recoverable reserves. Impairment is assessed at the level of cash-generating units. Management regularly assesses carrying values of non-producing properties and properties for which events and circumstances may indicate possible impairment. Impairment of a property is generally considered to have occurred if one of the following factors are present; the rights to explore have expired or are near to expiry with no expectation of renewal, no further substantive expenditures are planned or budgeted, exploration and evaluation work is discontinued in an area for which commercially viable quantities have not been discovered, indications that in an area with development likely to proceed the carrying amount is unlikely to be recovered in full be development or sale.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Exploration and evaluation assets (continued)

The recoverability of mineral properties and capitalized exploration and development costs is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete the development of the reserves, and the profitability of future operations. The Company has not yet determined whether or not any of its future mineral properties contain economically recoverable reserves. Amounts capitalized to mineral properties as exploration and development costs do not necessarily reflect present or future values.

Mineral properties are regularly reviewed for impairment or whenever events or changes in circumstances indicate that the carrying amount of reserve properties may exceed its recoverable amount. When an impairment review is undertaken, the recoverable amount is assessed by reference to the higher of a value in use (being the present value of expected future cash flows of the relevant cash-generating unit) and fair value less costs to sell. If the carrying amount of an asset exceeds the recoverable amount an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Exploration costs renounced due to flow-through share subscription agreements remain capitalized, however, for corporate income tax purposes, the Company has no right to claim these costs as tax deductible expenses.

Recorded costs of mineral properties and deferred exploration costs are not intended to reflect present or future values of resource properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount. Payments on mineral property Option Agreements are made at the discretion of the Company and, accordingly, are recorded on a cash basis.

d) Impairment of non-financial assets

At the end of each reporting period, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Government assistance

B.C. mining exploration tax credits for certain exploration expenditures incurred in B.C. are treated as a reduction of the exploration and development costs of the respective mineral property. Until such time that there is significant uncertainty with regard to collections and assessments, the Company will record any recovered tax credits at the time of receipt. No gain or loss is realized during the exploration stage until all carrying costs of the specific interest have been offset.

f) Equipment

Equipment is recorded at cost and amortized over its estimated useful life (one half of these rates is applied in the year of acquisition) at the following annual rates:

Computer equipment	30%
Equipment	20%

g) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. As at March 31, 2012, the Company has not incurred any decommissioning costs related to the exploration and evaluation of its mineral properties and accordingly no provision has been recorded for such site reclamation or abandonment.

h) Measurement basis

These financial statements are prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out in Note 4(n). All amounts are expressed in Canadian dollars unless otherwise stated.

i) Share issue costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred financing costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred financing costs related to financing transactions that are not completed are expensed.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Flow-through shares

Canadian tax legislation permits a company to issue flow-through instruments whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the company.

Flow-through shares are recognized in share capital based on the fair value attributed to common shares without a flow-through feature on the date the Company and the investors agree to the transaction. The difference ("premium") between the amount recognized in common shares and the amount the investors pay for the flow-through shares is recognized as a flow-through share related liabilities which is reversed into the statement of loss within other income when the eligible expenditures are incurred. The amount recognized as flow-through share related liabilities represents the difference between the fair value of the common shares and the amount the investor pays for the flow-through shares.

k) Share-based payment

The stock option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date and each tranche is recognized on a graded basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

l) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weight average number of common shares outstanding when the effect is anti-dilutive.

m) Income Taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Income Taxes (continued)

Deferred tax is accounted for using a temporary difference approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable income. Deferred tax is calculated based on the expected manner in which temporary differences related to the carrying amounts of assets and liabilities and are expected to reverse using tax rates and laws enacted or substantively enacted at the balance sheet date which are expected to apply in the period of reversal.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination and which do not affect accounting or taxable profit or loss at the time of the transaction.

n) Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss (ñFVTPLò).

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Companyøs cash is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in earnings. The Companyøs available-for-sale investment is classified as available for sale.

o) Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized costs using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Companyøs accounts payable and accrued liabilities is classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) 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.

<u>New accounting standards effective January 1, 2012</u>

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.

<u>New accounting standards effective January 1, 2013</u>

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) New accounting standards issued but not yet effective (continued)

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.

(Expressed in Canadian Dollars)

5. MARKETABLE SECURITIES

As at March 31, 2012, the Company owns 475,000 common shares (2011 - 475,000 shares) of Armadillo Resources Ltd. The fair value of the investment has been determined directly by reference to published price quotation in an active market.

	June 30, 2012 $	December 31, 2011 $
Fair value	14,250	19,000
Cost	(19,000)	(63,000)
Unrealized impairment loss recognized in net loss	4,750	44,000
Accumulated unrealized gain (loss) equity reserve	-	-

During the period ended June 30, 2012, the share price of Armadillo Resources Ltd. declined significantly. The amount of the cumulative unrealized loss that is reclassified from the equity reserve to profit or loss represents the difference between the acquisition cost and current fair value.

6. EQUIPMENT

	Computer Equipment	Equipment	Total
	$	$	$
Cost			
Balance, December 31, 2010	6,748	2,877	9,625
Additions	-	-	-
Balance, June 30, 2011	6,748	2,877	9,625
Accumulated depreciation			
Balance, December 31, 2011	4,414	1,933	6,347
Additions	356	94	450
Balance, June 30, 2012	4,770	2,027	6,797
Net book value			
December 31, 2011	2,334	944	3,278
June 30, 2012	1,978	850	2,828

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS

	Big Showing	Waverly Tangier	River Jordan	Total
	$	$	$	$
Acquisition costs:				
Balance, December 31, 2011	1	1	3,001	3,003
Exploration and evaluation costs:				
Balance, December 31, 2011	46,866	-	131,346	180,014
Exploration cost	-	-	487	487
	48,668	-	131,833	180,501
Shares received	-	(16,500)	-	(16,500)
Option payment received	-	(50,000)	-	(50,000)
Option payment in excess of exploration costs	-	66,500	-	66,500
Balance , June 30, 2012	48,669	1	134,834	183,504

The Company's mineral properties are described as follows:

Big Showing Property, British Columbia

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 on November 1, 2006.

For payment on 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.

Waverly Tangier Property, British Columbia

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 5,675 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 issue 750,000 common shares of the Company on the date of the agreement (issued), to pay $35,000 in cash (paid in August 2007), 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.

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (continued)

Armadillo Option

Pursuant to the amended and restated option and royalty agreement dated February 25, 2009 with Armadillo Resources Ltd. (ñArmadilloò), the Company granted Armadillo a 60% interest (the ñFirst Optionò) in the Waverley-Tangier property (the ñPropertyò) located in the Revelstoke Mining Division of British Columbia (see Note 7). 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	ï	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	ï	1,500,000	ï
	350,000	3,000,000	625,000

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 ñSecond Optionò) 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 (ñLIBORò) plus ½%, all of the amounts that will be payable by the Company under the joint operations of the Property (the ñJoint Ventureò); and

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

The Property is subject to a 3% net smelter return (ñNSRò) 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.

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (continued)

River Jordan Property, British Columbia

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.

8. SHARE CAPITAL

a) Authorized
The Company is authorized to issue unlimited number of common shares without par value

b) Issued and outstanding common shares

	Number	Amount
		$
Balance, December 31, 2011	6,900,520	1,024,029
Flow through shares issued on private placement	210,000	105,000
Balance, June 30, 2012	7,110,520	1,129,029

During the period, 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.

c) There is no change in contributed surplus since December 31, 2008.

(Expressed in Canadian Dollars)

8. SHARE CAPITAL, continued

d) Stock Options

The Company has a stock option plan whereby the maximum number of shares subject to the plan, in the aggregate, shall not exceed 10% of the Company's issued and outstanding shares. The maximum term of any option will be five years and the vesting is at the direction of the board, however, options granted to consultants performing ñinvestor relationsô activitiesò must at a minimum vest in stages over a period of not less than twelve months, with no more than ¼ of the options vesting in any three month period or such longer period as the board determines. The exercise price shall be no less than the discount market price as determined in accordance with stock exchange on which the common shares are listed.

There were no options granted for the period ended June 30, 2012 and December 31, 2011.

At June 30, 2012, the outstanding options had a weighted average remaining contractual life of 1.0 years (2011 ï 2.0 years) and were all exercisable, with details as follows:

Number of Options	Exercise Price	Expiry Date
680,000	$0.25	July 7, 2013

e) Share purchase warrants

As at June 30, 2012, the following share purchase warrants were issued and outstanding:

	Number of warrants	Weighted Average Exercise Price
Warrants outstanding, December 31, 2011	35,000	$0.70
Issued	210,000	$0.70
Warrants outstanding, June 30, 2012	245,000	$0.70

9. RELATED PARTY TRANSACTIONS

During the period ended June 30, 2012, the Company paid management fees of $42,000 (2011 - $42,000) to the President and $15,000 (2011 - $15,000) to the Chief Financial Officer, respectively.

10. 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.

(Expressed in Canadian Dollars)

11. CAPITAL RISK 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 all the components of 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.

12. FINANCIAL INSTRUMENTS AND 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:

	June 30 2012	December 31, 2011
	$	$
FVTPL (i)	108,097	116,233
Available-for-sale (ii)	14,250	19,000
Other financial liabilities (iii)	214,288	142,288

(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:

12. FINANCIAL INSTRUMENTS AND RISKS (continued)

	Level 1	Level 2	Level 3	June 30, 2012
	$	$	$	$
Cash	108,097	-	-	108,097
Available-for-sale investments	14,250	-	-	14,250

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.

12. FINANCIAL INSTRUMENTS AND RISKS (continued)

(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.

13. SUBSEQUENT EVENT

Subsequent to the period ended June 30, 2012, the Company announced a non-brokered private placement (the "Offering") to raise gross proceeds of up to $1,000,000. One-half of the Offering will consist of 1,000,000 Flow-Through Units priced at $0.50 per unit and one-half of the Offering will consist of 1,250,000 Non Flow-Through Units priced at $0.40 per unit. Each Flow-Through Unit consists of one flow-through common share in the capital of the Corporation and one share purchase warrant, with such warrant entitling the holder to purchase a further non flow-through common share at the price of $0.70 for a period of two years. Each Non Flow-Through Unit will consist of one non flow-through common share and one share purchase warrant with such warrant entitling the holder to purchase a further non flow-through common share at the price of $0.60 for a period of two years.

A finders fee may be payable in cash or shares in connection with the Offering.