

SILVER PHOENIX RESOURCES INC.

(An Exploration Stage Company)

Condensed Interim Financial Statements
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

As at and for the nine months ended September 30, 2018 and 2017

SILVER PHOENIX RESOURCES INC.

(An Exploration Stage Company)

(the “Company” or “Silver Phoenix”)

CONDENSED INTERIM FINANCIAL STATEMENTS

As at and for the nine months ended September 30, 2018

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Management of Silver Phoenix Resources Inc. is responsible for the preparation of the accompanying unaudited condensed interim financial statements. The unaudited condensed interim financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of condensed interim financial statements and are in accordance with IAS 34 – Interim Financial Reporting.

The Company’s auditor has not performed a review of these condensed interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

SILVER PHOENIX RESOURCES INC.

Condensed Interim Statements of Financial Position

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	September 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash	\$ 13,164	\$ 23,897
Amounts receivable	-	872
Marketable securities	1	1
	13,165	24,770
Non-current Assets		
Exploration and evaluation assets	743,612	754,103
Reclamation bond	-	10,110
Equipment	524	524
	744,136	764,737
Total Assets	\$ 757,301	\$ 789,507
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,036,355	\$ 994,965
Deferred flow-through premium	23,125	23,125
	1,059,480	1,018,090
Shareholders' Equity		
Share capital (Note 8)	1,748,029	1,728,029
Share-based payment reserve (Note 8)	106,124	106,124
Deficit	(2,156,332)	(2,062,736)
	(302,179)	(228,583)
Total Liabilities and Shareholders' Equity	\$ 757,301	\$ 789,507

Nature and continuance of operations (Note 1)

Related party transactions (Note 9)

Approved on Behalf of the Board on November 29, 2018:

"Scott Ackerman"

Scott Ackerman – Director

"Doug McFaul"

Doug McFaul – Director

The accompanying notes are an integral part of these financial statements

SILVER PHOENIX RESOURCES INC.

Condensed Interim Statements of Loss and Comprehensive Loss

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Expenses				
Depreciation	\$ -	\$ 44	\$ -	\$ 132
General and administrative	5,656	1,214	7,933	2,542
Management fees	1,000	28,500	59,000	85,500
Professional fees	-	3,338	13,500	8,938
Transfer agent and filing fees	4,220	2,097	10,242	6,290
Travel	503	4,332	3,031	4,686
Loss before other item	(11,379)	(39,525)	(93,706)	(108,088)
Other item				
Interest income	3	111	110	146
Net loss and comprehensive loss	\$ (11,376)	\$ (39,414)	\$ (93,596)	(107,942)
Weighted average number of common shares outstanding	19,658,853	19,147,353	19,633,118	19,138,624
Basic and diluted loss per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)

The accompanying notes are an integral part of these financial statements

SILVER PHOENIX RESOURCES INC.

Condensed Interim Statements of Changes in Shareholders' Equity

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	Number of Common Shares	Share Capital	Share Subscriptions Received	Share-Based Payment Reserve	Deficit	Total Shareholders' Equity
Balance, December 31, 2016	19,133,853	\$ 1,649,779	-	\$ 106,124	\$ (1,859,103)	\$ (103,200)
Shares issued	135,000	20,250	-	-	-	20,250
Share subscriptions received	-	-	27,000	-	-	27,000
Loss for the period	-	-	-	-	(107,942)	(107,942)
Balance, September 30, 2017	19,268,853	\$ 1,670,029	\$ 27,000	\$ 106,124	\$ (1,967,045)	\$ (163,892)
Balance, December 31, 2017	19,558,853	\$ 1,728,029	\$ -	\$ 106,124	\$ (2,062,736)	\$ (228,583)
Shares issued	100,000	20,000	-	-	-	20,000
Loss for the period	-	-	-	-	(93,596)	(93,596)
Balance, September 30, 2018	19,658,853	\$ 1,748,029	\$ -	\$ 106,124	\$ (2,156,332)	\$ (302,179)

The accompanying notes are an integral part of these financial statements

SILVER PHOENIX RESOURCES INC.

Condensed Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	For the nine months ended September 30,	
	2018	2017
Cash (used in) / provided by:		
Operating Activities:		
Loss for the period	\$ (93,596)	\$ (107,942)
Item not affecting cash:		
Depreciation	-	132
Changes in non-cash working capital items:		
Account receivable	872	591
Accounts payables and accrued liabilities	41,390	97,765
	(51,334)	(9,454)
Investing Activities:		
Reclamation bond	10,110	(110)
Exploration and evaluation expenditures	10,491	(22,084)
	20,601	(22,194)
Financing Activities:		
Share issuance	20,000	20,250
Share subscriptions received	-	27,000
	20,000	47,250
Change in cash for the period	(10,733)	15,602
Cash, beginning of the period	23,897	7,696
Cash, end of the period	\$ 13,164	\$ 23,298
Supplemental cash flow information:		
Interest paid	\$ -	\$ -
Income taxes	\$ -	\$ -

The accompanying notes are an integral part of these financial statements

SILVER PHOENIX RESOURCES INC.

Notes to the Condensed Interim Financial Statements

As at and for the nine months ended September 30, 2018

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Silver Phoenix Resources Inc. (the “Company”) 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 Securities Exchange, under the trading symbol SP. The address of the Company’s corporate office and principal place of business is 1600 – 609 Granville Street, Vancouver, BC V7Y 1C3, and the registered and records office is located at 2200 – 885 West Georgia Street, Vancouver, BC V6C 3E8.

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 September 30, 2018, the Company has not generated revenues from its principal activities and is considered to be in the exploration stage.

Going Concern

These 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 a working capital deficit of \$1,046,315 and has incurred losses since its inception and had an accumulated deficit of \$2,156,332 at September 30, 2018. The Company has no source of operating cash flows and expects to incur further losses in the exploration and development of its mineral properties. These factors indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. The Company’s continuing operations, and the recoverability of the amounts shown for exploration and evaluation assets 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.

SILVER PHOENIX RESOURCES INC.

Notes to the Condensed Interim Financial Statements

As at and for the nine months ended September 30, 2018

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION

The condensed interim financial statements of the Company have been prepared in accordance with IFRS as issued by the International Accounting Standard Board ("IASB") and in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The condensed interim financial statements do not include all the information required for the full annual financial statements and should be read in conjunction with the most recent audited December 31, 2017 annual financial statements of the Company which are available on www.sedar.com.

The financial statements of the Company are presented in Canadian dollars, which is the functional currency of the Company. The Company's financial statements were authorized for issue by the Board of Directors on November 29, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim financial statements of the Company have been prepared on the historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, the financial statements have been prepared using the accrual basis of accounting, except for the statements of cash flows.

The accounting policies applied in these condensed interim financial statements are the same as those applied in the Company's most recent audited annual December 31, 2017 financial statements of the Company which are available on www.sedar.com and reflect all the adjustments necessary for fair presentation in accordance with IAS 34. There has been no material impact on these financial statements from changes in accounting standards during the period.

4. ADOPTION OF NEW ACCOUNTING STANDARDS

The accounting policies applied in the preparation of these condensed interim financial statements are consistent with those applied and disclosed in the Company's audited financial statements for the year ended December 31, 2017, except for the adoption, on January 1, 2018, of **IFRS 9, *Financial Instruments: Classification and Measurement*** ("IFRS 9"), which has an initial application as at this date.

IFRS 9, *Financial Instruments* (new; to replace IAS 39)

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 and, therefore, the accounting policy with respect to financial liabilities is unchanged.

SILVER PHOENIX RESOURCES INC.

Notes to the Condensed Interim Financial Statements

As at and for the nine months ended September 30, 2018

(Unaudited – Prepared by Management)

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4. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

The following is the new accounting policy for financial assets under IFRS 9:

Financial assets

The Company will now classify its financial assets in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The determination of the classification of financial assets is made at initial recognition. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL; for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI.

The Company's accounting policy for each of the categories is as follows:

Financial assets at FVTPL: Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets held at FVTPL are included in the statement of (loss) income in the period.

Financial assets at FVTOCI: Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive (loss) income in which they arise.

Financial assets at amortized cost: A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Impairment of financial assets at amortized cost: The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

The following table shows the classification of the Company's financial assets under IFRS 9:

Financial asset	IFRS 9 Classification
Cash	Amortized cost
Receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

As the accounting reflected by the adoption of IFRS 9 under the above classifications and election is similar to that of IAS 39, there will be no impact on the Company's financial statements and no restating of prior periods will be required.

SILVER PHOENIX RESOURCES INC.

Notes to the Condensed Interim Financial Statements

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5. MARKETABLE SECURITIES

As at September 30, 2018, the Company owns 475,000 common shares (2017 - 475,000 shares) of Armadillo Resources Ltd. During the year ended December 31, 2013, the shares of Armadillo Resources Ltd. halted trading. As a result, the marketable securities were written down to \$1 accordingly.

6. EQUIPMENT

	Cost	Accumulated Depreciation	Net Book value September 30, 2018	Net Book value December 31, 2017
	\$	\$	\$	\$
Computer equipment	6,748	6,473	275	275
Equipment	2,877	2,628	249	249
Total	9,625	9,101	524	524

During the period ended September 30, 2018 and December 31, 2017 there were no equipment additions.

7. EXPLORATION AND EVALUATION ASSETS

September 30, 2018	Big Showing	Waverly Tangier	River Jordan	Tolstoi/ Lickens	Total
	\$	\$	\$	\$	\$
Acquisition costs:					
Opening balance	1	1	3,001	85,750	88,753
Closing balance	1	1	3,001	85,750	88,753
Exploration and evaluation costs:					
Opening balance	82,488	86,622	383,463	114,523	667,096
Additions			(71)	(10,420)	(10,491)
Closing balance	82,488	86,622	383,392	104,103	656,605
Tangible equipment:					
Opening balance	-	-	-	(1,746)	(1,746)
Closing balance	-	-	-	(1,746)	(1,746)
Total	82,489	86,623	386,393	188,107	743,612

SILVER PHOENIX RESOURCES INC.

Notes to the Condensed Interim Financial Statements

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7. EXPLORATION AND EVALUATION ASSETS (continued)

December 31, 2017	Big Showing	Waverly Tangier	River Jordan	Tolstoi/Lickens	Total
	\$	\$	\$	\$	\$
Acquisition costs:					
Opening balance	1	1	3,001	85,750	88,753
Additions	-	-	-	-	-
Closing balance	1	1	3,001	85,750	88,753
Exploration and evaluation costs:					
Opening balance	82,488	86,622	382,758	58,900	611,473
Geologist fees and assays	-	-	705	36,770	36,770
Other costs	-	-	-	18,853	18,853
Closing balance	82,488	86,622	383,463	114,523	667,096
Tangible equipment:					
Opening balance	-	-	-	(1,746)	(1,746)
Additions	-	-	-	-	-
Closing balance	-	-	-	(1,746)	(1,746)
Total	82,489	86,623	386,464	198,527	754,103

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. To date, the Company has not received an NI43-101 compliant report disclosing any indicated mineral resources or a positive pre-feasibility study on the claims, and therefore, the Company has not issued any common shares pursuant to these clauses.

SILVER PHOENIX RESOURCES INC.

Notes to the Condensed Interim Financial Statements

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(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS (continued)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. To date, the Company has not received an NI43-101 compliant report disclosing any indicated mineral resources or a positive pre-feasibility study on the claims, and therefore, the Company has not issued any common shares pursuant to these clauses.

Pursuant to the amended and restated option and royalty agreement (the "Option Agreement") dated February 25, 2009 with Armadillo Resources Ltd. ("Armadillo"), the Company granted Armadillo a 60% interest 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 (not received)	100,000	1,000,000	150,000
Before March 30, 2013	–	1,500,000	–
	350,000	3,000,000	625,000

SILVER PHOENIX RESOURCES INC.

Notes to the Condensed Interim Financial Statements

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(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS (continued)

On February 28, 2013, the Company terminated the Option Agreement and entered into a Settlement Agreement with Armadillo given that Armadillo was in breach of the terms of the Option Agreement. Under the terms of the Settlement Agreement, Armadillo acknowledged that it has no interest in the Waverley-Tangier Property and that it has no right to re-instate the option to acquire an interest in the Waverley-Tangier Property. As part of the Settlement Agreement, the Company was to receive title to certain equipment relating to the Waverley-Tangier Property, including rock saws, blades, a storage container, a bridge and a rail car flatbed, as well as a cash payment. As at December 31, 2016, the Company has not received title to the equipment or the cash payment of \$7,000.

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. To date, the Company has not received an NI43-101 compliant report disclosing any indicated mineral resources or a positive pre-feasibility study on the claims, and therefore, the Company has not issued any common shares pursuant to these clauses.

Tolstoi and Lickens Properties, Alaska, USA

On October 6, 2014, the Company entered into purchase agreement with Alaska Ventures Inc., a company controlled by the President of the Company, to acquire a 100% interest in two mineral property claim groups located in the Alaska Mining Division, USA known as the Tolstoi and Lichen properties by issuing 8,500,000 common shares. These shares were issued on October 16, 2014 and were valued at \$85,000 based upon the stock price on issuance.

SILVER PHOENIX RESOURCES INC.

Notes to the Condensed Interim Financial Statements

As at and for the nine months ended September 30, 2018

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

8. SHARE CAPITAL**(a) Authorized**

Unlimited common shares without par value

(b) Shares issued

	Number of Common shares
Balance as at December 31, 2017	19,558,853
Private Placement	100,000
Balance as at September 30, 2018	19,658,853

On March 12, 2018, the Company closed a non-brokered private placement of 100,000 units of the Company at the price of \$0.20 per unit for gross proceeds of \$20,000. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share at \$0.25 per share until March 12, 2023.

(c) 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 "investor relations' activities" 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 was no stock option granted during the period ended September 30, 2018 or during the year ended December 31, 2017.

There were no stock options outstanding as at September 30, 2018 or December 31, 2017.

SILVER PHOENIX RESOURCES INC.

Notes to the Condensed Interim Financial Statements

As at and for the nine months ended September 30, 2018

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

8. SHARE CAPITAL (CONTINUED)**(d) Warrants**

On March 12, 2018, as part of the Company's non-brokered private placement, the Company issued 100,000 share purchase warrants, with each warrant entitling the holder to purchase an additional common share at the price of \$0.25 until March 12, 2023.

A summary of the Company's share purchase warrant activity is as follows:

	Number of warrants	Weighted average exercise price
Balance, December 31, 2017	2,925,000	\$0.17
Issued	100,000	\$0.25
Balance as at September 30, 2018	3,025,000	\$ 0.17

As at September 30, 2018, the following share purchase warrants were issued and outstanding:

Number of Warrants	Exercise Price	Expiry date	Remaining contractual life (years)
2,500,000	\$0.15	May 28, 2019	0.66
135,000	\$0.25	May 24, 2019	0.65
290,000	\$0.30	November 17, 2019	1.13
100,000	\$0.25	March 12, 2023	4.45
3,025,000	\$0.17		0.83

9. FLOW-THROUGH PREMIUM

During the year ended December 31, 2015, the Company issued 2,500,000 flow through units (Note 8(b)(2)) and recognized a deferred flow-through premium of \$62,500, non-cash, as the difference between the amounts recognized in common shares and the amounts the investors paid for the units. During 2015, the Company recognized \$39,375 as amortization of the deferred flow-through premium liability to other income based on the amount of eligible expenditures spent as at December 31, 2015.

As at September 30, 2018 and December 31, 2017, the remaining unrealized flow-through premium was \$23,125.

SILVER PHOENIX RESOURCES INC.

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10. RELATED PARTY TRANSACTIONS

Key management personnel:

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Summary of expenses incurred:

Type of Service	Nature of Relationship	For the three months ended September 30,		For the nine months ended September 30,	
		2018	2017	2018	2017
Management fees	To William Murray (President) and Roxann Murray (CFO) of the Company	\$ 1,000	\$ 28,500	\$ 59,000	\$ 85,500
Total		\$ 1,000	\$ 28,500	\$ 59,000	\$ 85,500

As at September 30, 2018, the amounts due to or from related parties as follows:

	September 30, 2018	December 31, 2017
Amounts payable to President	\$ 584,218	\$ 540,218
Amounts payable to Chief Financial Officer	192,500	177,500
Total	\$ 776,718	\$ 717,718

SILVER PHOENIX RESOURCES INC.

Notes to the Condensed Interim Financial Statements

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(Unaudited – Prepared by Management)

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11. 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 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

The fair value of the Company's receivables, marketable securities, reclamation bond and accounts payable and accrued liabilities and deferred flow-through premium approximate their carrying values due to the short-term nature of the instruments. The Company's other financial instrument, being cash, is classified as amortized cost.

(a) Financial Risk Factors

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(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.

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12. FINANCIAL INSTRUMENTS (CONTINUED)**(a) Financial Risk Factors (continued)***(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. The Company has a working capital deficiency and requires additional financing to meet its short-term obligations and to fund costs for the Company's projects and operations. The Company's accounts payable are generally due in terms ranging from 30 to 90 days.

(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 unfavorable market conditions could result in dispositions of investments at less than favorable 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.