VVC EXPLORATION CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the year ended

January 31st, 2011

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Form 51-102F1

VVC EXPLORATION CORPORATION (the “Company” or “VVC”)

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MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JANUARY 31, 2011

This Management’s Discussion and Analysis ("MD&A") of the Company for the year ended January 31, 2011 (the “Period”) was prepared on the 30th of May 2011 and should be read in conjunction with the Company’s January 31, 2011 audited consolidated financial statements and related notes.

All amounts herein are expressed in Canadian dollars unless otherwise indicated. The technical information in the MD&A has been approved by Peter Dimmell, P.Geo. a mineral exploration consultant and a director of VVC, who is a qualified person (QP) in both Newfoundland and Labrador and Ontario.

Forward Looking Information

This MD&A includes forward-looking statements that are subject to risks and uncertainties and other factors that may cause the actual results, performance or achievements expressed or implied by such forward-looking statements. Such factors include general economic and business conditions, which among other things, affect the price of metals, the foreign exchange rate, the ability of the Company to implement its business strategy, and changes in, or the failure to comply with government laws, regulations and guidelines. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Additional information relating to the Company can be obtained from its News Releases and other public documents at the SEDAR website <www.sedar.com>.

Business Overview

The Company is a venture issuer reporting in Ontario, British Columbia, Alberta and Quebec. The Company’s common shares trade on the TSX Venture Exchange under the symbol "VVC" and on the Frankfurt Stock Exchange and the Berlin Stock Exchange under the symbol "V7S".

Historically, the Company has been in the business of acquisition and exploration of resource properties in the mineral sector. The Company's principal business activity is the exploration and development of gold and base metal mineral properties both nationally and internationally.

Mexico

a) Cumeral Property

In April 2010, VVC Exploración de México, S. de R.L. de C.V.(“VVC Mexico”) finalized a formal option agreement with 2 Mexican individuals (the “Optionee”) relating to a 665-hectare (ha) gold mining project known as Cumeral (the “Cumeral Property”) consisting of 3 mining concessions, in the State of Sonora, Mexico. VVC Mexico, through an intermediary, acquired from the Ministry of Mines, 3 additional concessions covering 5,984 ha, for a total property size of 6,649 ha. The recently staked concessions are 100% owned by VVC and are not subject to the Option Agreement. The Cumeral Property is located approximately 140 kilometres south of the city of Tucson, Arizona and 200 kilometres north of the City of Hermosillo. A network of gravel roads and paved highways provide excellent year round access.

The Agreement provides an option to acquire a 100% interest in the Cumeral Property in consideration for US$800,000 plus applicable taxes (“VAT”) payable over a period of three years and the issuance of 200,000 common shares of the Company. The Cumeral Property is subject to the reservation of a 2% Net Smelter Return. A finder’s fee of US$5,000 and 130,000 shares of the Company were paid to 3rd parties who were instrumental in arranging the transaction.

Located in the under-explored Sierra Madre Occidental along the well mineralized “Sierra La Jojoba” trend, the Cumeral Property is located approximately 15 km northeast of the Mina Lluvia de Oro and Mina La Jojoba deposits which host over 26 million tonnes of measured, indicated and inferred resources grading 0.525 to 0.741 g/T gold (over 500,000 ounces of gold). This area of Sonora is host to numerous other gold deposits and mines, including Fresnillo PLC’s & Newmont Mining Company’s La Herradura Gold Mine which in 2009 produced over 255,000 ounces of gold and has proven and probable reserves of 193 million tonnes grading 0.65 g/T gold (4.1 million ounces). Other examples in the area, include the San Francisco deposit (780,000 ounces of gold reserves) and the La Colorada deposit (605,000 ounces of measured and indicated gold resources).

Sonora has benefited from a recent increase in exploration for Carlin-style mineralization. This mineralization typically occurs as shallow systems where lower grade gold in oxidized zones occurs in sedimentary rocks to depths of 150 to 200 metres. Higher grade, sulphide-gold mineralization commonly occurs at depths typically below 300 metres. Gold exploration in Sonora is still defining the shallower systems and has yet to fully explore the mineralized potential at depth.

The Company believes that the potential of the Cumeral Property has yet to be fully explored, both near surface and at depth. Mineralization in the Cumeral Property can be traced along strike for 3 km over widths of up to 1 km. Five mineralized targets (A to E) have been defined by past and current exploration and artisanal mining. Grab sample grades of up to 39.5 g/T gold have been noted.

In 2010, exploration consisted of geological mapping, prospecting and rock chip sampling which defined five mineralized areas, followed by an air trac drilling program which tested two of the mineralized zones. Eighty-nine (89) rock samples outlined the five mineralized areas (A to E) and gave results up to 12.65 g/T Au and up to 493 g/T Ag (news releases dated July 22, 2010 and September 27, 2010). The air trac drilling program in July tested zones B and C in the central portion of the property. In Area B, the main zone, where most of the artisanal workings – pits, short adits and shallow shafts are located, 15 holes (1 to 15) gave a number of anomalous intersections including a high value of 1.45 g/T Au and 6.74 g/T Ag over 14 m, including 4.19 g/T over 4 m, in CUM01-10 with other values varying from insignificant to 0.42 g/T Au and 14.56 g/T Ag over 10 m in CUM13-10. Eight of the 15 holes gave significant intersections between 0.1 g/T and 0.4 g/T Au with 1 to 4 g/T Ag over widths varying from 4 to 22 m.

In Area C, in the central part of the Property, the air trac drilling, 13 holes (16-28), gave 4 significant intersections in holes 14,18, 23 and 24 with a high value of 0.44 g/t Au, 0.48 g/t Ag over 10 m in hole CUM18-10. Other significant intersections had values of 0.21 g/t Au and 0.53 g/T Ag over widths varying from 6 to 26 m.

VVC is planning to systematically explore and drill test Areas A, B, C, D and E, which it believes could host significant deposits in the 500,000 to 1 million ounce range. Continued prospecting is also planned in the on strike extensions of the mineralized zones. Exploration to date has been concentrated in the area previously explored by Corex and prospecting is planned for the unexplored part of the property, including the adjoining concession along trend to the northwest of the Property.

b) La Tuna Property

In March 2010, the Company completed the acquisition of a 3,533-hectare gold project known as La Tuna (the “Property”) located in the Municipality of Alamos, State of Sinaloa, Mexico, at the junction of the Rio Fuerte and Rio Baboyahui rivers.

Pursuant to the agreement, VVC’s Mexican subsidiary acquired from the Vendor a 100% interest in the Property in consideration of US$40,000 plus applicable taxes and 300,000 common shares of the Company. The Property is subject to the reservation of a 2% NSR Royalty (the “NSR”) derived from the production of minerals on the Property, with a buy-back option.

The Property has gold potential in paleo placers, present day placers derived from the paleo placers and vein type deposits such as the La Perdida deposit. The river placer deposit and the paleo-placer zones are located mainly along the Rio Baboyahui near the river junction extending to the Rio Fuerte, an area of approximately 500 by 500 meters. The paleo-placer zone carries gold associated with magnetite (from black sand) which may allow definition of the paleo-channels by magnetic surveys. Limited historical sampling in the period from 1987-91 in a “drift” in the paleo-placer mineralization gave a grade of 1 to 3 g/m^3 Au in one of these paleo channels. Historical data (non 43-101 compliant) from 1994 indicates that the area contains 3.7 million m^3 at 2 g/m^3, equivalent to approximately 200,000 ounces of gold. It should be noted that the "paleo placer" was sampled as a placer deposit and since it is a hard rock deposit it should be sampled by weight using channel, chip or core samples not bulk samples of cubic metres, which has little relevance in a hard rock deposit. Accordingly, the results noted above should be treated with caution.

The Perdida deposit is located in the north-west part of the Property. The structure which hosts the deposit, trends north-west and dips 25 degrees to the south-east. Historical results from 4 grab samples taken in 1991 gave values from 3.29 g/t to 16.23 g/t Au, with three of the samples grading more than 10 g/t Au. The samples were taken from the portal (12.49 g/t), from the ore zone within the deposit (3.29 and 16.23 g/t) and from development muck (11.24 g/t).

Canada

c) BB Gold Property (Quebec).

On March 9, 2010, the Company signed a Letter of Intent ("LOI") to acquire a 100% interest in the Beauce-Bellechasse Gold Property ("BB Gold Property") consisting of 250 mining claims covering over 13,500 hectares. The property is located 70 km southeast of Quebec City. Under the terms of the LOI, the Company can earn a 100% interest in the claims by paying $45,000 (paid) and issuing 800,000 (issued) common shares to the vendor on the signing of the definitive option agreement and incurring at least $500,000 of exploration and development expenses within three years.

The Beauce Area, and the Eastern Townships in general, situated in the southern Quebec Appalachian Belt, have a century long history of mining and is known for its chromite and copper deposits and gold placers. The region was the site of Canada's first placer gold rush in the 1850's, decades before the Klondike rush. Despite the fact that gold occurrences have been discovered in volcanic, intrusive and sedimentary rocks in the area, no major bedrock source has been discovered to account for the significant placer gold of the area.

The BB Gold Property and surrounding area was explored for base and precious metals by a number of individuals and companies since the beginning of the 20th century up until the 1960's. The exploration included prospecting, grab sampling, trenching and limited diamond drilling plus some small scale artisanal mining.

Due to the lack of developments in the area and the Company's emphasis in Mexico, the Company intends to sell or option its interest in the BB Property. The Company did not carry out exploration on the BB Property, as a result, the BB property was written off during the year. The Company is currently exploring the possibly of selling these claims to a third party in order to focus its efforts on the Mexican properties. Although the Company wrote off these claims, it still has title to them.

d) Timmins Area Properties (Ontario)

In fiscal 2007, the Company entered into property option agreements to acquire 100% interest in a number of exploration properties in the Timmins area (covering an aggregate of 82 claim units), located about 80km east southeast of Timmins, in the Abitibi Greenstone Belt of Northern Ontario. The agreements provided for the issuance of an aggregate of 600,000 common shares of the Company which were issued on October 19, 2007 at a value of $144,000.

During fiscal 2008, the Company staked an additional area covering an aggregate 25 claim units in Blackstock and Timmins townships of Ontario area, located about 50 km southeast of Timmins, in the Abitibi Greenstone Belt of Northern Ontario. The Timmins Township Property, a nine-unit claim, located in the centre of Timmins Township about 48 kilometres (30 miles) east-southeast of the City of Timmins is deemed to be a prime base metals exploration target. The Property covers a northwest trending zone of strong airborne electromagnetic responses within a complex magnetic system. An initial program comprising line cutting and detailed geophysical surveys including magnetic, VLF and HLEM electromagnetic surveys were completed with 2 potential drill targets identified. The Blackstock claims were allowed to expire.

The encouraging results of these surveys previously carried out on the Timmins Township property justify further exploration, however no further work was carried out. Currently, the Company is focussed on more economically viable opportunities in Mexico.

Due to the lack of continuous work on the Timmins Township Property, it was written off during the year, although the Company still has title to the nine-unit claim. The Company is currently exploring the possibly of selling these claims to a third party in order to focus its efforts on the Mexican properties,

Selected Annual Information

Set forth below is a summary of the financial data derived from the Company's consolidated financial statements for past 3 years (CAD$).

	2009	2010	2011
Revenue	$ -	$ -	$ -
Net loss for the year	(818,878)	(2,716,253)	(3,604,667)
Total assets	5,105,485	3,804,122	902,029
Mineral exploration properties written off	99,367	12,418	2,169,348
Stock-based compensation	169,839	196,915	120,121

Results of Operations

Operating loss for the year was $3,604,667 (2010 - $2,716,253). The current year's loss included a sizable write off of mineral properties of $2,169,348 (2010 - $12,418). The Company wrote off the following exploration properties; Santa Valeria Silver Mining Property, Mexico, Santa Cristina Gold Property, Mexico, Timmins area properties (Ontario) and Beauce-Bellechase Gold Property, Quebec. These properties were written off either because the option agreements expired, or because no exploration work was done on them over an extended period of time. Although written off, the Company continues to hold the mining rights to the Timmins area properties and the Beauce-Bellechase Gold Property. The Company is attempting to sell or option these properties to third parties.

The option agreements on the Mexican properties mentioned above expired during the year because the Company was directing its use of cash on the Cumeral Property and La Tuna Property. These properties are deemed to have more opportunities for successful exploration.

In addition to the write off of mineral properties, the Company wrote down a short-term investment to nil. The write off was $675,000 (2010 – nil). In 2007, the Company invested $1,800,000 with Bull Market Trading ("BMT"), a company carrying on business as an investment firm in the Province of Quebec. The Company received investment returns in excess of $585,000 over a four year period. The Company withdrew $1,125,000 of its principal along with the $585,000 of investment returns for working capital purposes. Total withdrawal from the investment account amounted to $1,710,000, During the year, the Company was advised that BMT no longer qualified to operate as an investment firm and as a result $675,000 of principal was at risk. The Company sought actions to mitigate the possible loss and was provided a debenture in the amount of $675,000 plus interest. Collectability of the debenture is uncertain. The Company therefore wrote down the $675,000 principal balance to nil.

Professional fees increased by $55,000 over 2010. The increase was due to an unsustainable reduction of professional fees in 2010. The amount was reduced from the prior year in an attempt to manage the Company's cash flow and burn rate. The attempt was unsuccessful and the expense was normalized in 2011.

All other expenses were comparable to those of 2010. During the year, the Company had $nil in expense recovery versus 2010 where the Company had $64,499 of expense recovery. The Company has controlled its expenses for the last 2 years which has allowed it to budget carefully and focus its resources on its exploration activities in Canada and Mexico.

Summary of Quarterly Results

Set forth below is a summary of the financial data derived from the Company's consolidated financial statements of the 8 most recently completed quarters.

	Jan 31,/11	Oct 31,/10	Jul 31,/10	Apr 30,/10	Jan 31,/10	Oct 31,/09	Jul 31,/09	Apr 30,/09
Operating Costs	323,518	180,218	236,982	232,283	446,859	262,340	236,978	263,670
Interest and investment Income	-	-	-	-	36,036	65,431	53,503	32,290
Mineral exploration properties written off	2,169,348	-	-	-	12,418	-	-	-
Loss from joint venture	-	-	-	-	-	-	(64,499)	-
Write-down of investment	675,000	-	-	-	-	-	-	-
Unrealized gain on investments	-	-	-	-	-	-	-	-
Gain (loss) on sale of investments	144,418	21,704	26,712	25,280	27,190	(1,803,014)	-	-
Net (loss)	(3,020,725)	(158,483)	(209,800)	(215,659)	(365,974)	(1,999,923)	(118,976)	(231,380)

Explanation of Quarterly Results

During the fourth quarter, the Company recorded a loss of $3,020,725 (2010 - $365,974). The loss recorded in the fourth quarter was directly related to two significant events in that quarter, namely, the write down of various mineral exploration properties and the write down of a short-term investment. The explanation of both events is provided in the Results of Operations above.

All other expenses were normalized in the fourth quarter. The Company lost access to an estimated $45,000 of investment income in the quarter due to the write down of the short-term investments.

Material Events Over the Eight Most Recent Quarters

Over the last eight quarters, the Company experienced a number of extraordinary losses that resulted in the Company's losses being magnified. These extraordinary items included the loss on the sale of the Company's investment in the Beaver Brook Antimony Mine in Q3 of 2010. In addition to this investment loss in Q3 2010, the Company experienced another investment loss in Q4 2011 relating to the write down of its investments.

In an effort to focus its energy on high yielding exploration projects, the Company wrote off a large number of its exploration properties in Q4 2011. The Company is now in a position to dedicate its financial and operation resources to the Cumeral and La Tuna properties in Mexico.

Liquidity and Solvency

As at January 31, 2011, the Company had a working capital balance of $136,809 compared to a working capital balance of $2,147,902 at January 31, 2010. A number of events took place during the year that contributed to the substantial drop in working capital. During the year, the Company spent $778,422 cash on mineral exploration, a portion of which was written off. In addition to the cash expense relating to the mineral properties, the Company incurred a loss on investment of $675,000 in short-term investments which also contributed to the substantial reduction in working capital.

At January 31, 2011, the Company had current assets of $353,525 (2010 - $2,280,664). This amount is not sufficient to cover the Company's operating expenses and exploration commitments. The Company will need to obtain additional financing to continue its exploration projects along with covering its operating expenses. To obtain financing, the Company may need to issue common shares. Although the Company has been successful in the past in raising funds, there can be no assurance that any funding required by the Company in the future will be made available to it and, if such funding is available, that it will be offered on reasonable terms.

Subsequent to the year end, the Company was able to source financing at reasonable terms to the Company. On April 11, 2011, the Company closed a brokered private placement of 11,000,000 units at a price of $0.07 per unit amounting for gross proceeds of $770,000. Each unit comprises one common share and one share-purchase warrant to purchase an additional share at $0.12 until April 11th, 2012. Palos Merchant Bank L.P. ("Palos"), through its sole general partner, Palos Management Inc., of Montreal, Quebec, acted as agent and received a fee of $47,950 plus applicable taxes, of which $9,450 was paid in cash and the balance settled by the issuance of an additional 550,000 common shares of the Company.

The Company has exploration property commitments of $225,000 for fiscal 2012, mainly for option payments. In addition to these commitments, the Company has annual operating expenses of approximately $840,000. Although the Company raised funds subsequent to the year end, these existing funds are not sufficient to finance operations for fiscal 2012 and the Company is investigating opportunities to obtain additional financing, which includes the exercise of warrants from the last financing and raising additional capital later in 2011. Positive exploration results, as documented earlier on the Cumeral and La Tuna properties, indicate that the Company should be in a good position to raise these funds.

Off-Balance Sheet Arrangements

There are no Off-Balance Sheet arrangements.

Related Party Transactions

During fiscal 2011, the Company paid or accrued management, consulting and other fees of $287,134 (2010 - $248,000) to its officers, directors, persons related to an officer and companies controlled by them. As at January 31, 2011, $73,570 (2010 - $6,000) owing to related parties was included in accounts payable and accrued liabilities.

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

Future Accounting Pronouncements

International Financial Reporting Standards:

The accounting framework under which financial statements are prepared in Canada for all publicly accountable enterprises is scheduled to change to International Financial Reporting Standards ("IFRS") by January 1, 2011. GAAP in Canada will cease to apply and will be replaced by IFRS. Commencing in fiscal 2011, the Company will need to prepare accounts in accordance with Canadian GAAP and IFRS in order to have comparative financial statements on full implementation of IFRS in 2011.

Outstanding Share Data

a) Outstanding Common Shares

	Number of shares	Amount
Balance, January 31, 2010	47,942,390	$ 21,237,758
Shares issued for mineral properties	2,330,000	421,400
Balance, January 31, 2011	50,272,390	$ 21,659,158
Private placement, April 11, 2011	11,000,000	770,000
Shares issued relating to private placement	550,000	38,500
Cash paid for share issue costs		9,450
Balance, May 30, 2011	61,822,390	$ 22,474,108

b) Warrants and Stock Options

The continuity of the outstanding share purchase warrants is as follows:

Expiry Date	Exercise Price	Balance January 31, 2010	Warrants Issued	Warrants Exercised	Expired/ Cancelled	Balance January 31and May 30, 2011
February 27, 2012	$ 0.50	1,440,000	-	-	-	1,440,000
October 9, 2011	$ 0.42	2,857,500	-	-	-	2,857,500
		4,297,500	-	-	-	4,297,500

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at January 31, 2011 are as follows:

Options Outstanding				Options Exercisable	
Exercise Prices	Weighted Average Number Outstanding	Exercise Price	Weighted Average Remaining Contractual Life (years)	Weighted Average Number Exercisable	Exercise Price
$ 0.28	575,000	$ 0.28	3.53	425,000	$ 0.28
$ 0.29	1,511,000	$ 0.29	2.02	1,511,000	$ 0.29
$ 0.30	1,861,000	$ 0.30	2.24	1,689,500	$ 0.30
$ 0.36	310,000	$ 0.36	3.45	310,000	$ 0.36
$ 0.50	250,000	$ 0.50	0.29	250,000	$ 0.50
	4,507,000	$ 0.31	2.30	4,185,500	$ 0.31

Commitments and Contingencies

The Company has an operating lease agreement for rental of office space for the period to September 30, 2011 that requires annual payments of $16,114.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term and long-term investments, accounts receivable, accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents. The Company invests its excess cash on a daily basis in highly liquid and highly rated financial instruments. A change in the credit worthiness of the companies invested in could have an impact on the value of the Company's daily investments. Management believes this risk of loss is remote.

Liquidity Risk

The Company has no income and relies on equity fund raising to support its exploration programs. Management prepares budgets and ensures funds are available prior to commencement of any such program. The Company does not have sufficient capital to fund its operations over the next 12 months, however, financing was secured subsequent to the year end and arrangements are being made to obtain further financing in the upcoming fiscal year. All of the Company's significant financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and commodity and equity prices.

a) Interest rate risk

Excess cash and cash equivalents are invested on a daily basis in highly liquid and highly rated financial instruments. Due to the nature of these investments, fluctuations in interest rates may affect the carrying value of these investments. However, due to the nature of the Company's investments, such changes in interest rate would have limited impact on the Company over the short term.

b) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. Commodity price risk is remote since the Company is not a producing entity.

Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

c) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollar and Mexico Pesos. The Company funds exploration expenses in Mexico. The Company maintains Mexican bank accounts in Mexico with sufficient funds to support monthly forecasted cash outflows. Management believes the foreign exchange risk derived from currency conversions is minimal and therefore does not hedge its foreign exchange risk.

Sensitivity Analysis

The Company's short-term investments consist mainly of equity investments in various publicly listed entities. Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve month period:

(i) A +/- 10% movement in the closing market value of the Company's short-term investments, with all other variables held constant, would affect comprehensive income by $15,900.

(ii) The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts receivable and accounts payable and accrued liabilities that are denominated in Mexico Pesos. Sensitivity of closing balances to a plus or minus 10% change in foreign exchange rates, with other variables held constant, would affect net loss by approximately $13,500.

Due to their short term to maturity, the fair values of cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying values.

Commodity price risk

The ability of the Company to develop its mineral properties and the future profitability of the Company is directly related to the market price of gold, antimony and other metals.

Other MD&A Requirements

Risks

The Company's business of exploring mineral resources involves a variety of operational, financial and regulatory risks that are typical in the natural resource industry. These factors include the inherent risks involved in the exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal prices, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties relating to the availability and costs of financing needed in the future and other factors. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future, and the

Company’s common shares should be considered speculative.

The recoverability of amounts shown as mining interests and property, plant and equipment is dependent upon a number of factors including environmental risks, legal and political risks, the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying assets, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

There can be no assurance that any funding required by the Company will become available to it, and if so, that it will be offered on reasonable terms, or that the Company will be able to secure such funding through third party financing or cost sharing arrangements. Furthermore, there is no assurance that the Company will be able to secure new mineral properties or projects, or that they can be secured on competitive terms.

Future Changes in Accounting Policies

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards (“IFRS”) will replace Canadian Generally Accepted Accounting Principles in 2011 for Canadian publicly-listed companies. The Company will be required to report its results in accordance with IFRS beginning in fiscal year 2012. The adoption of IFRS on February 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended January 31, 2011.

The Company completed an initial assessment of the differences between Canadian GAAP and IFRS relevant to the operations of the Company. The initial assessment identified that changes were required to accounting policies, accounting systems and internal controls over financial reporting mainly related to the capitalization of deferred exploration expenses and to the test for impairment of exploration properties. Other issues identified are the first time adoption of IFRS and accounting policies related to property, plant and equipment, share-based payment, provisions (including asset retirement obligations), accounting for business combinations and accounting for income taxes.

During the fourth quarter of 2011, the Company established a comprehensive IFRS transition plan to implement its transition to IFRS. Management has completed a detailed evaluation of potential changes required to its accounting policies, information systems, business processes as well as an evaluation of the impact on IFRS1 First Time Adoption of International Financial Reporting Standards.

The Company is currently in the process of making final determinations regarding changes in accounting policies with respect to first time adoption alternatives as well as assessing the accounting policy change implications on information technology, internal controls and contractual arrangements. Management and employee education and training are also ongoing and will continue throughout the transition process. The Company has quantified most of the impacts of the accounting policy changes as discussed below:

a) Expected Effects of IFRS on the Company

Management believes that the impact of IFRS on the Company’s accounting systems and business process will be minimal, and that the current systems and processes in place can accommodate the necessary changes. Management and employees involved in the preparation of financial statements are being trained as necessary, as are other employees who may be affected by changes in business processes relating to IFRS. As of the date hereof, management is not aware of any contractual arrangements that may be affected by potential changes to significant accounting policies.

b) First-time Adoption of IFRS

IFRS 1 “First-time Adoption of International Financial Reporting Standards” requires the Company to prepare an opening IFRS statement of financial position, which complies with all IFRS’s effective at the end of its first IFRS reporting period. IFRS 1 requires retrospective application of those standards in most areas, with limited exceptions. The Company plans to apply the following exemptions to the preparation of its opening IFRS statement as at February 1, 2010:

Business combinations:

IFRS 3, Business Combinations may be applied retrospectively or prospectively with respect to business combinations completed prior to April 1, 2010. The Company will elect to adopt CICA Handbook section 1582 Business Combinations (converged with IFRS 3) prospectively with respect to business combinations consummated on or after February 1, 2010.

Property, plant & equipment:

IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical valuation under the prior GAAP. The Company will elect to use the historical cost carrying values as determined under Canadian GAAP for transitional purposes

Share-based payments:

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 and vested before the transition date. The Company has elected not to apply IFRS 2 to awards that vested prior to February 1, 2010.

The Company may decide to apply additional exemptions contained in IFRS 1 prior to reporting its interim financial statements for the quarter ended April 30, 2011.

c) ***Mandatory Exceptions***

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at the transition date will be consistent with those made under current Canadian GAAP. If necessary, estimates will be adjusted to reflect any difference in accounting policy.

d) ***Expected Impact on the Company's Consolidated Financial Statements***

The adoption of IFRS will result in changes to accounting policies that are applied in the recognition, measurement and disclosure of the balances and transactions in the Company's consolidated financial statements. The following summary includes management's evaluation of the significant changes to accounting policies in key areas based on the current standards and guidance within IFRS. The International Accounting Standards Board has a number of ongoing projects, the outcome of which may have an effect on the changes required to the Company's accounting policies on adoption of IFRS. At this time, the Company is not aware of any significant expected changes prior to its adoption of IFRS that would affect the summary provided below:

- IAS 36 "Impairment of Assets" – IFRS requires a write-down of assets if the higher of the fair market value and the value-in-use of a group of assets is less than its carrying value. Value-in-use is determined using discounted estimated future cash flows. Under current Canadian GAAP a write down to estimated fair value is only required when the undiscounted estimated future cash flows of a group of assets are less than its carrying value. The Company's accounting policies will be changed to reflect the differences between IFRS and Canadian GAAP, but the Company does not expect the change will have an immediate impact on the carrying value of its assets. The Company will perform the required impairment assessments at the transition date.
- IFRS 2 "Share-based Payments" – In certain circumstances, IFRS requires a different measurement of stock-based compensation related to stock options than Canadian GAAP. The Company expects to make changes to its policies and procedures as it relates to share-based payments. The impact of this change is still being quantified.
- IAS 16 "Property, Plant and Equipment" – IFRS contains different guidance related to recognition and measurement of property, plant and equipment than Canadian GAAP which includes the opportunity of a revaluation of assets to fair value. The Company will not make any changes to its accounting polices relating to IAS 16. There will be no impact to the Company.
- IAS 12 "Income Taxes" – In certain circumstances, IFRS contains different requirements related to recognition and measurement of future (deferred) income taxes. The Company does not anticipate that changes to its accounting policies relating to IAS 12 will have a significant impact on its consolidated financial statements.

- Asset Retirement Obligations (Decommissioning Liabilities) – IFRS requires the recognition of a decommissioning liability for legal or constructive obligations whereas Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions. The Company's accounting policies relating to decommissioning liabilities will be changed to reflect these differences. The Company does not expect the changes to have an immediate impact on the carrying value of its assets.
- IFRS 6 "Exploration for and Evaluation of Mineral Resources" – Subject to certain conditions, IFRS currently allows an entity to determine an accounting policy that specifies the treatment costs related to the exploration for and evaluation of mineral properties. After a review of the IFRS 6 and the Company's current accounting policy, the Company expects to reduce its mineral properties by $436,000 and have a corresponding increase to deficit. The adjustment relates to pre-exploration expenses that were capitalized.

Outlook

The Company's primary focus is the exploration of its mineral properties in Mexico, with emphasis on the Cumeral Property, in Sonora State, where an Air trac drilling program has given positive results which require further follow up by drilling. In addition, additional unexplored, recently acquired properties to the northwest along trend also appear to hold good potential for gold / silver mineralization. The Company believes that further exploration is warranted and is optimistic that further positive results are likely.

The Company will also carry-out exploration on the 100 % owned La Tuna Property in Sinaloa State which shows good potential for gold / silver mineralization in a number of geological settings and in addition will be actively looking for new precious and base metal projects in Mexico to complement the existing properties.

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