VVC EXPLORATION CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the Six Months Ended

July 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 SIX MONTHS ENDED JULY 31, 2011

This Management's Discussion and Analysis ("MD&A") of the Company for the six months ended July 31, 2011 (the "Period") was prepared on the 22nd of September, 2011 and should be read in conjunction with the Company's July 31, 2011 unaudited condensed consolidated financial statements and related notes, prepared in accordance with international financial reporting standards ("IFRS"). All financial information disclosed in this report was prepared in accordance with IFRS unless otherwise disclosed. In this report, "GAAP" means Canadian generally accepted accounting principles.

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".

The Company is 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 deposits in the area, include the San Francisco (780,000 ounces of gold reserves) and La Colorada (605,000 ounces of measured and indicated gold resources).

Sonora State 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.

Exploration, which has included geological mapping, prospecting and rock chip sampling, has defined five mineralized areas, with two zones tested by an air trac drilling program. Eighty-nine (89) rock samples outlined the five mineralized areas (A to E) giving results up to 12.65 g/T Au and 493 g/T Ag (news releases dated July 22, 2010 and September 27, 2010).

The air trac drilling program in July, 2010 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 (#'s 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, 13 holes (#'s 16-28), gave 4 significant intersections in holes 14,18, 23 and 24 with a high value of 0.44 g/t Au, and 0.48 g/t Ag over 10 m in hole CUM18-10. The 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.

The Company is planning for next year a systematic exploration, including drilling, in all areas, which it is believed have the potential to host significant deposits in the 500,000 to 1 million ounce range. Prospecting is also planned for the on strike extensions of the mineralized zones as past exploration has been concentrated in the area previously explored by Corex, not in the unexplored part of the property, including the adjoining concessions along trend to the northwest.

b) La Tuna Property

In March 2010, the Company acquired a 3,533 ha gold project known as La Tuna (the "Property") located in the Municipality of Alamos, Sinaloa State, Mexico, at the junction of the Rio Fuerte and Rio Baboyahui rivers.

Pursuant to the agreement, VVC's Mexican subsidiary acquired a 100% interest in the Property in consideration of a payment of US$40,000 plus applicable taxes and 300,000 common shares of the Company. The Property is subject to a 2% NSR Royalty (the "NSR") derived from mineral production, 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 La 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 2010, the Company acquired 100% interest in the Beauce-Bellechasse Gold Property ("BB Gold Property") consisting of 250 mining claims covering over 13,500 hectares, located 70 km southeast of Quebec City . The Company can earn a 100% interest 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 are known for chromite, copper and asbestos 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.

The Company has not carried out exploration on the Property, and as a result, it was written off during the year although it still has title to them. The Company is currently exploring the possibility of selling the claims to a third party in order to focus its efforts on Mexican properties.

d) Timmins area properties (Ontario)

In fiscal 2007, the Company entered into property option agreements to acquire a 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. In fiscal 2008, the Company staked an additional 16 claim units in Blackstock Township and 9 claim units in Timmins Township of Ontario, located about 50 km southeast of Timmins, also located in the Abitibi Greenstone Belt of Northern Ontario. The Blackstock claims were allowed to expire in 2009.

The Timmins Township Property, located in the centre of Timmins Township approximately 48 kilometres (30 miles) east-southeast of the City of Timmins is deemed to be a prime base metals exploration target. It 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 was completed with 2 drill targets identified. The encouraging results on the Timmins Township property justifies further exploration, however no further work was carried out since the Company is focused on opportunities considered more economically viable in Mexico.

Due to the lack of exploration on the Timmins Township Property, it was written down to a minimal value although the Company still retains title to the property. The Company is currently exploring the possibility 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 (GAAP)	2010 (GAAP)	2011 (IFRS)
Revenue	$ -	$ -	$ -
Net loss for the year	(818,878)	(2,716,253)	(3,186,961)
Total assets	5,105,485	3,804,122	902,029
Mineral exploration properties written off	99,367	12,418	1,733,326
Stock-based compensation	169,839	196,915	143,869

RESULTS OF OPERATIONS – THREE MONTHS

Operating loss for the three months ended July 31, 2011 was $179,164 as compared to a loss of $215,865 over the same period in 2010. The major expense categories such as investor relations, management and consulting, stock-based compensation and professional fees saw volatility from the same period in 2010. Increases in one expenses category were off-set by decreases in another. Overall, the Company was able to reduce its burn rate for the three months ended July 31, 2011 compared to July 31, 2010.

Management and consulting fees increased from $60,500 in 2010 to $99,122 in 2011, an increase of $38,622 or 64%. This increase was a result of consulting fees incurred in restructuring the Company over the last six months in addition to termination packages that are being paid out to former executives of the Company. Over the next twelve months, VVC will experience a marginal increase in management and consulting fees which will be compensated by the significant savings it will obtain from the decrease in investor relations expense.

As an off-set to the increase in management and consulting fees, investor relations went from $62,657 in 2010 to $16,193 in 2011, a reduction of $46,464 or 74%. In restructuring the Company, management felt that the Company's investor relations expense was not providing value for the amount that was being paid. In addition, the Company needed more energy directed to its core business of mineral exploration. Success in mineral exploration activities will naturally drive the success in shareholder value. A significant amount of investor relations activity is now being handled internally.

Professional fees also saw a reduction of approximately $10,000 from $26,683 in 2010 to $16,730 in 2011. The Company did not need as much legal counsel in the three months ended July 31, 2011 as was required the same period in 2010. In 2010, the Company was experiencing challenges with its investment in BMT which required professional counsel and assistance in recovering its investment and attempting to bring legal action against the BMT.

During the period, the Company issued 800,000 stock options, as a result stock-based compensation in 2011 is similar to that of 2010. Stock options are an important incentive in hiring and retaining qualified people. The Company may issue stock options in the future, which will result in an increase in this expense on a go forward basis.

To assist with cash inflows, the Company is managing its short-term investments to maximize positive investment returns. Over the three months ended July 31, 2011, the Company had a realized gain on $33,209 on the sale of some short term investments versus $26,712 over the same period in 2010. The increased gain was a function of more investments being sold this period versus the same period in 2010.

RESULTS OF OPERATIONS – SIX MONTHS

Operating loss for the six months ended July 31, 2011 was $310,232 as compared to a loss of $429,334 over the same period in 2010. The activity in the three months discussed above was consistent with the activity over the six months ended July 31, 2011 compared to July 31, 2010. The six month period also saw major expense categories such as investor relations, management and consulting, stock-based compensation and professional fees change quite significantly from the same period in 2010. Increases in one expense category were off-set by decreases in another. Overall, the Company was able to reduce its burn rate for the six months ended July 31, 2011 from $481,236 to $391,688, a reduction of $89,548.

The big changes over 2010 were in management and consulting fees and investor relations. Management and consulting fees increased from $115,000 in 2010 to $163,422 in 2011. An increase of $48,422 or 42%. As mentioned in the discussion of the three months, the increase was a result of consulting fees incurred in restructuring the Company over the last six months in addition to termination packages that are being paid out to former executives of the Company. Over the next twelve months, VVC will experience a marginal increase in management and consulting fees which will be compensated by the significant savings it will obtain from the decrease in investor relations expense

The reduction in investor relations from $119,662 to $50,920 or $68,742 was a conscious effort on the part of the company to refocus its efforts on its core business of mineral exploration. Investor relations activities are being spearheaded internally. This 57% reduction off-sets the 42% increase in management and consulting fees.

Other cash expenses such as professional fees and office expenses saw reductions approximating $13,000 to $16,000 respectively. With no longer committing so much of its efforts to investor relations activities, the Company is able to obtain cost reductions in other areas. Many of these expenses were directly linked to investor relations as ancillary costs to the delivery of those services.

The Company issued 800,000 stock options in 2010 with a vesting period of only one year. Although, these new options were issued during the period, stock based compensation in 2011 is lower than 2010 by $35,745. Stock options are an important incentive in hiring and retaining qualified people. The Company may issue stock options in the future, which will result in an increase in this expense on a go forward basis.

The Company sold more of its investments to cover its operating expenses in 2011 than it did in 2010. Due to its prudent investing policies, the Company experienced a gain of $81,456 in 2011 as compared to a gain of $51,992 in 2010.

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.

	Jul 31/11	Apr 30/11	Jan 31/11	Oct 31/10	Jul 31/10	Apr 30/10	GAAP Jan 31/10	GAAP Oct 31/09
Operating Costs	212,373	179,315	328,156	187,266	242,577	238,749	446,859	262,340
Interest and investment Income	-	-	-	-	-	-	36,036	65,431
Mineral exploration properties written off	-	-	1,733,326	-	-	-	12,418	-
Loss from joint venture	-	-	-	-	-	-	-	-
Write-down of investment	-	-	675,000	-	-	-	-	-
Unrealized gain on investments	-	-	-	-	-	-	-	-
Gain (loss) on sale of investments	33,209	48,247	144,418	21,704	26,712	25,280	27,190	(1,803,014)
Net (loss)	(179,164)	(131,068)	(2,592,566)	(165,531)	(215,395)	(213,469)	(365,974)	(1,999,923)

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 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 potential exploration projects, the Company wrote off many of its exploration properties in Q4 2011 and is now in a position to dedicate its financial and operational resources to the Cumeral and La Tuna properties in Mexico.

LIQUIDITY AND SOLVENCY

As at July 31, 2011, the Company had a working capital balance of $370,915, compared to January 31, 2011, where the working capital balance was $136,809. 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 comprised 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.

At July 31, 2011, the Company had current assets of $395,484 (January 31, 2011 - $353,525). This amount is not sufficient to cover the Company's operating expenses and exploration commitments. The Company needs to obtain additional financing to continue its exploration projects and cover 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.

The Company has 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 in April, the 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

Compensation to key management personnel were as follows:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2011	2010	**2011**	2010
Compensation	**$ 107,272**	$ 67,000	**$ 188,272**	$ 150,000
Share-based payments (1)	**3,640**	27,937	**4,206**	34,475
Total	**$ 110,912**	$ 94,937	**$ 192,478**	$ 184,475

(1) Share-based payments are the fair value of options granted to key management personnel and expensed during the period.

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.

OUTSTANDING SHARE DATA

a) Outstanding Common Shares

	Number of shares	Amount
Balance, February 1, 2010	47,942,390	$ 21,237,758
Shares issued for mineral property	2,330,000	421,400
Balance, January 31, 2011	50,272,390	21,659,158
Shares issued on private placement	11,000,000	770,000
Shares issued as share issue costs	550,000	38,500
Share issue costs	-	(47,950)
Valuation of share purchase warrants	-	(148,170)
Balance, July 31, 2011 and September 12, 2011	61,822,390	$ 22,271,538

b) Warrants and Stock Options

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

Expiry Date	Exercise Price	Balance January 31, 2011	Warrants Issued	Warrants Exercised	Expired/ Cancelled	Balance April 30, 2011
February 27, 2012	$0.50	1,440,000	-	-	-	1,440,000
October 9, 2011	$0.42	2,857,500	-	-	-	2,857,500
April 11, 2012	$0.12	-	11,000,000	-	-	11,000,000
	$0.21	4,297,500	11,000,000	-	-	15,297,500

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at July 31, and September 12, 2011 are as follows:

Exercise Range	**Number Outstanding**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (years)**	**Number Exercisable**	**Weighted Average Exercise Price**
$0.15 - $0.20	800,000	$ 0.19	1.25	350,000	$0.17
$0.28 - $0.29	1,625,000	$ 0.28	2.01	1,525,000	$0.28
$0.30 - $0.30	861,000	$ 0.30	2.30	861,000	$0.30
$0.36 - $0.36	260,000	$ 0.36	2.94	260,000	$0.36
	3,546,000	$ 0.27	1.98	2,996,000	$0.28

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 investments, accounts receivable and 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.

The fair value of financial assets and liabilities together with the carrying amounts in the consolidated balance sheets are as follows:

	April 30, 2011	January 31, 2011	February 1, 2010
Fair value through profit or loss, measured at fair value:			
Cash and cash equivalents	**$ 111,433**	$ 6,812	$ 1,845,308
Available-for-sale, measured at fair value:			
Short-term investments	**$ 46,250**	$ 158,900	$ 207,149
Loans and receivable, measured at amortized cost:			
Accounts receivable	**$ 237,801**	$ 187,813	$ 228,207
Other liabilities, measured at amortized cost:			
Accounts payable and accrued liabilities	**$ 24,569**	$ 216,716	$ 132,762

The fair value of the Company's financial assets and liabilities approximates their respective carrying values as at the balance sheet dates because of the short term maturity of these instruments. The fair value of the financial instruments 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.

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.
- Level 3 - valuation techniques based on inputs for the asset or liability that are not based on observable market data.

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 operating income and limited investment income and mainly relies on equity financing to support its exploration programs. Management prepares budgets and ensures funds are available prior to commencement of any such program. As at July 31, 2011, the Company does not have sufficient capital to fund its operations over the next twelve months. A Public financing is been arranged for completion in the third or fourth quarter. As at July 31, 2011, the Company had a cash and cash equivalents balance of $111,433, $6,812 on January 31, 2011 and $1,845,308 on February 1, 2010 to settle current liabilities of $24,569 at July 31, 2011, $216,716 at January 31, 2011 and $132,762 at February 1, 2010.

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.

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 $4,625.

(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 Mexican Pesos. Sensitivity of closing balances to a plus or minus 10% change in foreign exchange rates, with all other variables held constant, would affect accumulated other comprehensive income by approximately $16,468.

OTHER MD&A REQUIREMENTS

Risks

The Company's business of exploring for 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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In preparing its opening IFRS Statement of Financial Position and comparative information for 2010, the Company adjusted amounts reported previously in financial statements prepared in accordance with GAAP. A reconciliation and explanation of how the transition from GAAP to IFRS has affected the Company's financial position, performance and cash flows is presented below. Under IFRS 1, the standards are applied retrospectively at the transitional balance sheet date with all adjustments to assets and liabilities taken to shareholders' equity unless certain exemptions are applied.

Prior to the adoption of IFRS, the Company established a strategy for the successful adoption of IFRS which included the following:

1. Hiring outside consultants to provide guidance and assistance to the Company as it addressed its transition to IFRS.
2. Developing a transition plan which was executed.
3. Developing a detailed analysis and understanding of the differences between IFRS and Canadian GAAP.
4. Implementing the necessary changes to; systems, process and disclosure controls.

While the adoption of IFRS did not result in changes to actual cash flows of current or prior period consolidated financial statements, there were changes to the results and equity of the Company. Notes 2 and 14 of the condensed unaudited interim consolidated financial statements provides the currently adopted accounting policies of the Company and a detailed analysis of the impact of the Company's transition to IFRS. A summary of the impact of the adoption of IFRS is presented below:

In preparing the statements, comparative financial results for the three and six months ended July 31, 2010 and the balance sheet as at July 31, 2010 and January 31, 2011 were adjusted to comply with IFRS from amounts previously reported in accordance with GAAP.

The guidance for first-time adopters of IFRS is set out in IFRS 1, which provides for certain mandatory exceptions and optional exemptions. In preparing these interim financial statements, the Company applied the following:

Business combinations

IFRS 1 allows a first-time adopter to elect not to apply IFRS 3, Business Combinations, retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has elected to exercise this election.

Share-based payment transactions

IFRS 1 encourages but does not require first-time adopters to apply IFRS 2, Share-based Payment, to equity instruments that were granted on or before November 7, 2002 and vested before the transition date. The Company has elected not to apply IFRS 2 to awards that vested prior to February 1, 2010.

Mandatory Exceptions

Estimates

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under GAAP were not revised upon adoption of IFRS except where necessary to reflect any differences in accounting policies.

Impact on the Company's Financial Reporting

The adoption of IFRS had the following impact on the Company:

(a) Share-based Payments

IFRS 2 is effective for the Company as of January 1, 2010 and is applicable to stock options and grants that are unvested at that date. The transition rules in IFRS 1 and IFRS 2 as applied by the Company result in the following:

- Stock options and share grants prior to November 7, 2002 are not taken into account for IFRS 2;
- Stock options and share grants subsequent to November 7, 2002 are only taken into account if they have not vested as at February 1, 2010; and,
- From February 1, 2010, all stock options, share grants and other share-based payments will be expensed in accordance with the policy stated in note 1.

Recognition of Expense

GAAP - For grants of share-based awards with graded vesting, the total fair value of the award is recognized on a straight-line basis over the employment period necessary to vest the award.

IFRS - Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. As a result, the Company adjusted its expense for share-based awards to reflect this difference in recognition

This change had a recognition, measurement and disclosure impact on the Company, accordingly, Contributed Surplus increased by $4,195 with a corresponding increase to deficit

(b) Exploration and Evaluation Expenditures

Capitalizing vs. Expensing Exploration and Evaluation Costs:

Under IFRS 6, upon transition to IFRS, the Company may continue to follow its current accounting policies, whereby exploration and evaluation costs are capitalized or the Company may elect to expense all exploration and evaluation costs. Current industry practice varies from by company. Significant management judgment is required to determine appropriate accounting policies relating to the treatment of exploration and evaluation expenditures upon transition to IFRS. The Company has elected to continue to capitalize its exploration and evaluation expenditures that are directly related to the discovery, acquisition or development of exploration and evaluation activities upon transition to IFRS.

Once a company has legal right to explore a property, costs directly related to exploration and evaluation expenditures are recognized and capitalized in addition to the acquisition costs. A company is not allowed to capitalize exploration expenses incurred while assessing the quality of property prior to having legal rights to explore the property.

The Company performed a detailed review of its capitalized exploration and evaluation expenditures and has determined that these included "pre-legal title" expenditures as at February 1, 2010. Subsequently, the Company decreased its capitalized exploration and evaluation expenditures by $436,022 with a corresponding increase to deficit.

(c) Foreign Currency Translation

Under IFRS, foreign operations with a functional currency different from the presentation currency are retranslated to Canadian dollar using the exchange rate prevailing on the reporting date with resulting gains and losses recorded in a separate account in equity. Under Canadian GAAP, the Company had considered its subsidiaries to be integrated and non-monetary items were translated at historic rates with resulting gains and losses recorded in net income.

This change did not have an impact at February 1, 2010, however, net loss for the year ended January 31, 2011 decreased by $5,432 due to the foreign exchange translation losses previously included in net loss under Canadian GAAP, which has been reclassified and included in other comprehensive loss under IFRS.

The following is a reconciliation of the Company's equity, net loss and comprehensive income from Canadian GAAP to IFRS for the periods required under IFRS:

Reconciliation of Equity

	January 31, 2011	July 31, 2010	February 1, 2010
Total equity under GAAP	$ 685,313	$ 3,510,537	$ 3,671,360
Differences increasing (decreasing) reported shareholders equity			
Contributed surplus	27,943	16,256	4,195
Deficit	(22,511)	(444,092)	(440,217)
Accumulated other comprehensive income	(5,432)	(8,186)	-
	-	(436,022)	(436,022)
Total equity under IFRS	$ 685,313	$ 3,074,515	$ 3,235,338

Reconciliation of Net Loss

	Year Ended January 31, 2011	Six Months Ended July 31, 2010	Three Months Ended July 31, 2010
Net loss under GAAP	$ 3,604,667	$ 425,459	$ 209,800
Differences increasing (decreasing) reported net loss			
Stock-based compensation	23,748	12,061	5,595
Foreign currency translation loss	(5,432)	(8,186)	470
Write down of exploration costs	(436,022)	-	-
	(417,706)	-	6,065
Net loss under IFRS	$ 3,186,961	429,334	$ 215,865

Reconciliation of Comprehensive Loss

	Year Ended January 31, 2011	Six Months Ended July 31, 2010	Three Months Ended July 31, 2010
Comprehensive loss under GAAP	$ 3,527,568	$ 450,107	$ 228,600
Differences increasing (decreasing) reported comprehensive loss			
Differences affecting net loss reported under GAAP	(417,706)	12,061	5,595
Net change in unrealized gains on currency translation	5,432	-	-
	(412,274)	-	5,595
Comprehensive loss under IFRS	$ 3,115,294	462,168	$ 234,195

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

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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