Introduction

The following management discussion and analysis has been prepared as of **November 25, 2011**. It should be read in conjunction with the Company's audited consolidated financial statements for the year ended July 31, 2011. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles and all numbers are reported in Canadian dollars, unless otherwise stated.

This discussion contains forward-looking statements that involve inherent risks and uncertainties. The reader is cautioned that actual results may differ materially from those anticipated in the forward-looking statements. Additional information relating to the Company can be found on SEDAR at www.sedar.com and the Company's website: www.solomonresources.ca

Background

Solomon Resources Limited ("Solomon" or "the Company") is a junior mineral exploration company listed on Tier I of the TSX Venture Exchange, symbol SRB. Its assets consist principally of mineral property interests and cash. The Company funds its operations either through the sale of shares of the Company or through the sale of mineral property interests or marketable securities. The mineral exploration business is very high-risk. The most significant risks for the Company are:

1. The chances of finding an economic ore body are remote.
2. The junior resource market, where the Company raises funds, is volatile and there is no guarantee that the Company will be able to raise funds as it requires them.
3. The political risk associated with working in jurisdictions outside of Canada.

Other risk factors include the establishment of undisputed title to mineral properties, environmental concerns and the obtaining of governmental permits and licences when required.

Executive summary

This has been a year of exploration and expansion of the Company's mineral tenures in the Yukon Territory.

Solomon field crews expanded the boundaries of the soil geochemical survey at the Ten Mile Creek Gold Project and we are now analyzing the airborne geophysical survey completed on that property in support of a planned combined diamond drilling and reverse circulation drilling program on that property in 2012.

The Company will continue to direct its efforts in the 2012 field season on our new gold exploration projects in the South West Yukon. Plans for the 2012 field season include geological, geochemical and geophysical surveys of the Pacer, Outpost, Rosie, Sek, Nis, Jenn, Seamus and Tyke mineral claims staked by the Company in the Kluane and Ruby Ranges of the Southwest Yukon. Further staking of 100% owned claims in the Southwest Yukon will continue as suitable ground is identified.

The Company will continue to develop and assess exploration projects in other stable jurisdictions or for commodities other than gold as a hedge against longer term economic uncertainty.

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Exploration activities for the year ended July 31st, 2011 and for the period from August 1st, 2011 to date:

Ten Mile Creek, Yukon Territory

In September 2009, the Company entered into an agreement with Radius Gold Inc. ("Radius") of Vancouver, British Columbia, to acquire a 51% interest in the Ten Mile Creek property in the Dawson Mining District, Yukon Territory.

The Company conducted exploration on the Ten Mile Creek Property during the 2010 and 2011 field seasons which has to date comprised 800 meters of diamond drilling, collection and analysis of 5240 soil geochemical samples and the completion of 297 line-kilometers of airborne geophysics.

The Company acquired a further 43 mineral claims adjacent to the property from Radius in October of 2010 which have been incorporated into the existing option agreement between Solomon and Radius.

Four significant soil geochemical anomalies were discovered in the 2010 field program and the preliminary results of the 2011 field program indicate that the zones of anomalous gold in soil are far more extensive than previously determined.

The Company will collate the results of the geochemical sampling program with the airborne geophysics to prioritize drill targets for the 2012 field season.

The Company spent $986,664 on the property in the year under review, of which $172,500 was for option renewal costs.

South West Yukon

In the current year Solomon began actively acquiring exploration targets in the relatively underexplored Kluane Front Ranges and Ruby Range of Southwest Yukon. As of July 31st, 2011 Solomon has acquired by staking 100% ownership of mineral claims covering approximately 24,000 hectares in the Southwest Yukon. The Pacer, Outpost, Rosie, Jenn, Seamus, Tyke, Nis and Sek

Claims are located in an area recently remapped by the Yukon Geological Survey and which has attracted significant claim staking in 2011 by other reporting issuers.

<u>The Pacer Claim Group</u> comprises 228 mineral claims located approximately five kilometers west of the town of Haines Junction in the Front Ranges of the Kluane Mountains. The claims cover an historical gold occurrence and highly prospective epithermal gold and nickel-copper-platinum targets indicated by regional stream geochemical surveys and airborne geophysics as well as preliminary surface exploration conducted by Solomon in September of 2010. The Pacer Claims are located in a poorly explored belt extending northwest from Haines Junction to the ghost town of Silver City. Gold is reported to occur with pyrrhotite and chalcopyrite in a quartz-carbonate stockwork cutting rusty siliceous argillite in the hanging wall of a serpentinized gabbro-peridotite sill 150 meters thick and at least 4000 meters long. Historical work on the property reports a sample from the main showing assayed 19.7 grams per tonne (g/t) Gold (Au) and a nearby quartz-sericite vein returned 2.5% Copper (Cu) and 1.5 g/t Au. High grade copper float was found in foliated greenstone boulders in what is locally known as Thunderegg Creek downstream of the Golden Gate showing. Solomon field crews conducted preliminary exploration on this property in the 2011 field season, including soil and silt geochemical sampling and geological mapping. Road access to the Alaska Highway was improved in the course of this work.

<u>The Outpost Claim Group</u> comprises 71 mineral claims located approximately fifty kilometers west of the town of Haines Junction. The Outpost Claims are located in a poorly explored belt extending northwest from Haines Junction to the ghost town of Silver City and protect the northwesterly strike extension of the Pacer Claim Group. The property lies along the northeastern flank of Outpost Mountain and encompasses the drainages of Silver and Boutelier Creeks. The Outpost Claim Group covers a highly prospective airborne geophysical anomaly in an area with anomalous stream sediment geochemical data. The airborne total magnetic and first vertical derivative anomalies trend sinuously northwesterly through the property and suggest that large scale favourable mineralizing structures or large mafic/ultramafic intrusives may underlie this underexplored geological package and the proximity of the Kluane Ranges Intrusive Suite makes this a compelling target for epithermal gold and nickel-copper-platinum group mineralization. Solomon field crews conducted preliminary exploration on this property in the 2011 field season, including soil and silt geochemical sampling and geological mapping. A tote trail to the Alaska Highway was rehabilitated during this work.

<u>The Rosie Claim Group</u> comprises 217 mineral claims located approximately 58 kilometers north of Destruction Bay and 107 kilometers northwest of the village of Haines Junction. The Rosie Claim Group was staked to protect a highly prospective epithermal gold target indicated by regional stream geochemical surveys and the discovery in 2010 by the Yukon Geological Survey of an outcrop of highly silicified altered quartz feldspar porphyry near the top of the Ruby Range batholith, likely the result of a high sulphidation epithermal system. Silicic and potassic alteration in the outcrop has the appearance of the high-sulphidization, epithermal

style mineralization found above and adjacent to deeper porphyry systems. The Rosie Claim Group is highly prospective for epithermal gold in quartz stockworks and porphyry style mineralization in the upper reaches of the Ruby Range batholith and Rhyolite Creek Volcanic-Plutonic Complex. Regional stream sediment geochemistry data shows anomalous gold values coupled with one or more of copper, molybdenum, arsenic, mercury and antimony. Solomon field crews conducted preliminary exploration on this property in the 2011 field season, including soil and silt geochemical sampling and geological mapping.

<u>The Jenn Claim Group</u> comprises 64 mineral claims located approximately 60 kilometers northwest of Haines Junction and 35 kilometers north of Silver City. The claims were staked in the course of a regional exploration project conducted by Solomon encompassing the drainages of Gladstone, Swanson, Venus, Ruby, Fourth of July, Twelfth of July, Granite, McKinley and Dixie Creeks. The primary focus of the regional project was a sinuous band of orthogneiss identified by the Yukon Geological Survey in the 2010 field season which can be traced for at least 60 kilometers along strike within the project area. There is a strong placer gold mining history in the creeks immediately east and west of the Jenn property and regional stream geochemistry in the target area contain anomalous gold values coupled with one or more of copper, molybdenum, arsenic, mercury, antimony and bismuth.

<u>The Seamus Claim Group</u> comprises 110 mineral claims located approximately 50 kilometers northwest of Haines Junction and 35 kilometers north of Silver City. The claims were staked in the course of a regional exploration project conducted by Solomon encompassing the drainages of Gladstone, Swanson, Venus, Ruby, Fourth of July, Twelfth of July, Granite, McKinley and Dixie Creeks. There is a strong placer gold mining history in the creeks immediately west of the Seamus property and regional stream geochemistry in the target area contain anomalous gold values coupled with one or more of copper, molybdenum, arsenic, mercury, antimony and bismuth.

<u>The Tyke Claim Group</u> comprises 96 mineral claims located approximately 75 kilometers north of Haines Junction and 45 kilometers north of Silver City. The claims were staked in the course of a regional exploration project conducted by Solomon encompassing the drainages of Gladstone, Swanson, Venus, Ruby, Fourth of July, Twelfth of July, Granite, McKinley and Dixie Creeks. There is a strong placer gold mining history in the creeks immediately south and east of the Tyke property and regional stream geochemistry in the target area contain anomalous gold values coupled with one or more of copper, molybdenum, arsenic, mercury, antimony and bismuth.

<u>The Nis Claim Group</u> comprises 66 mineral claims located 115 kilometers north of the town of Haines Junction and approximately 30 kilometers west and northwest of the Aishihik Road. The claims were staked in the course of a regional exploration project which focussed on epithermal gold targets in a poorly explored belt extending from the eastern headwaters of Dwarf Birch Creek to the eastern shore of Aishihik Lake. Historical regional aeromagnetic data and regional airborne magnetometer data released by the Geological Survey of Canada in

July of 2011 corroborates the prospective nature of this claim group as do pronounced Bouguer Gravity Anomalies on the North Aishihik Regional Gravimetric Survey released by the Yukon Geological Survey in May of 2011. Historical regional stream sediment geochemistry data shows anomalous gold values coupled with one or more of copper, molybdenum, arsenic, mercury and antimony.

The Sek Claim Group comprises 84 mineral claims located 100 kilometers north of the town of Haines Junction and approximately 10 kilometers of the Aishihik Road in the headland formed by the junction of Aishihik Lake and Sekulman Lake. The claims were staked in the course of a regional exploration project which focussed on epithermal gold targets in a poorly explored belt extending from the eastern headwaters of Dwarf Birch Creek to the eastern shore of Aishihik Lake. Historical regional aeromagnetic data and regional airborne magnetometer data released by the Geological Survey of Canada in July of 2011 corroborates the prospective nature of this claim group as do pronounced Bouguer Gravity Anomalies on the North Aishihik Regional Gravimetric Survey released by the Yukon Geological Survey in May of 2011. Historical regional stream sediment geochemistry data shows anomalous gold values coupled with one or more of copper, molybdenum, arsenic, mercury and antimony. Solomon field crews conducted preliminary exploration on this property in the 2011 field season.

Further claim staking targets have been identified in the South West Yukon and will be acquired as resources and funding allow.

The Company spent $301,357 on the SW Yukon properties in the year under review, of which $147,760 was for staking and associated costs. $2,462 was written off at the yearend.

Sleitat Mountain, Alaska

The Company owns a 20% interest in the Sleitat Mountain Tin-Tungsten-Silver deposit near Dillingham, southwest Alaska. An 80% interest in the property is held by Osisko Mining Corp. The Company is responsible for 20% of any exploration or development expenditures incurred. Should the Company not participate in the expenditures, its interest in the property will be diluted in accordance with industry practice. If the Company's interest is diluted to less than a 10% participating interest, it will retain only a 1% NSR on subsequent production of any metals from the property.

No exploration work is planned for the immediate future.

COL-Magnet Copper-Gold Property, British Columbia

Between December 2006 and May 2007, the Company acquired by on-line staking the 32 Magnet mineral claims in the Omineca Mining Division in north-central British Columbia.

No exploration work is planned for the immediate future.

Other Exploration Programs and Activities

Solomon Resources Limited is a mineral exploration company whose corporate philosophy is to become an exploration project generator: as we move forward, the Company will focus its resources on politically stable jurisdictions where corporate management and geological consultants have specific experience and expertise.

To build shareholder value, the Company will continue to acquire by staking or purchase 100% undiluted interest in highly prospective mineral tenures with the objective of adding value through grassroots exploration and target refinement in support of seeking option or joint venture partners through to production.

The project generator model is particularly suited to the Company's ongoing interest in the Yukon Territory where we have a wealth of intellectual capital and experience.

The Company has a number of highly prospective property submissions under consideration, and may consider acquiring a 100% undiluted interest in one or more of these subject to due diligence.

The Company spent $81,960 on property investigation costs and $20,286 on property maintenance costs in the year under review.

Subsequent to August 1st, 2011

The Company staked a further 8 mineral claims under the Yukon Quartz Mining Act to protect road access to the Pacer Claim Group and completed preliminary prospecting, silt geochemistry and geological mapping traverses on the Rosie, Pacer and Outpost Claim Groups. Approximately $100,000 has been spent on all properties since the year end to the date of this discussion.

Selected Annual Information

		2011	2010	2009
Total Revenue	$	19,731	21,060	17,524
General and administrative expenses	$	(793,529)	(616,390)	(776,599)
Other items (net)	$	(572,208)	(1,995,101)	(2,270,114)
Net (loss) for the year	$	(1,154,891)	(2,483,616)	(3,070,408)
Gain (loss) on sale of marketable securities	$	-	(12,222)	(139,854)
Stock based compensation	$	(110,274)	(140,999)	(20,400)
Property investigation costs	$	(81,960)	-	-
Weighted average shares in issue		22,297,893	10,539,320	5,880,004
Options and warrants at year end		16,883,851	10,445,318	834,625
Net (loss) per share (basic and fully diluted)	$	(0.05)	(0.24)	(0.52)
Total Assets	$	2,330,411	1,927,970	2,384,301
Working Capital	$	180,838	527,719	264,022
Proceeds on issue of shares	$	1,609,459	1,664,392	271,312
Proceeds on sale of investments	$	-	192,409	869,945
Cash expenditure on resource properties	$	1,153,974	913,639	1,167,564
Resource property write offs	$	(591,938)	(2,007,772)	(2,598,162)

Summary of quarterly results for the last 8 quarters

Fiscal 2011		First quarter	Second quarter	Third quarter	Fourth quarter
Total revenues	$	6,180	3,538	5,489	4,523
Net income (loss)	$	(119,620)	(928,805)	(138,925)	32,459
Net income (loss) per share	$	(0.01)	(0.04)	(0.01)	0.01

Fiscal 2010		First quarter	Second quarter	Third quarter	Fourth quarter
Total revenues	$	4,667	3,496	3,938	8,959
Net income (loss)	$	(124,651)	(298,401)	(151,498)	(1,909,066)
Net income (loss) per share	$	(0.02)	(0.03)	(0.01)	(0.18)

Notes:

1. Revenue consists of gas royalties and interest income.
2. There were no discontinued operations or extraordinary items in the years under review.

3. Other items include resource property write-downs (2011), gains or losses on sale of marketable securities and assets held-for-sale, foreign exchange gains or losses, resource property write-downs and recoveries (2010 and 2009), and the deemed cost of bonus shares issued to directors in lieu of loan interest (2009).
4. Flow through share financing costs included in General and administrative expenses consists Part XII.6 tax provided on unspent flow through funds.
5. The Company had no long-term financial liabilities during the years under review.
6. The Company has no history of declaring dividends.
7. Annual and quarterly results can vary significantly depending on whether the Company has realized any gain on sale of its marketable securities, abandoned any properties or granted any stock options.

The significance of these numbers and related developments since the year end are discussed below.

In fiscal 2011, the Company had a net loss of $1,154,891 as compared to a net loss of $2,483,616 for fiscal 2010. The following discussion explains the variations in the key components of such losses and the other numbers set out above. As with most junior exploration companies, however, the results of operations are not the main factor in establishing the financial health of the Company. Of far greater significance are the properties the Company has, its working capital and how many shares it has outstanding.

The major costs in general and administrative costs are management fees, $241,511 (2010 - $200,951), stock based compensation, $110,274 (2010 - $140,999), travel, promotion and shareholders' costs, $105,332 (2010 - $72,777), professional fees, $89,019 (2010 - $64,293), and property investigation costs $81,960 (2010 – Nil).

Included in management fees were fees paid to officers of the Company, being:

- $169,875, not including stock based compensation, (of which total $123,247 was capitalized to the cost of exploration projects) paid to Longford Exploration Services Ltd. for the management services of Randy Rogers, Chief Executive Officer, and

- $89,038, not including stock based compensation, (of which total $3,400 was capitalized to exploration projects) paid to Paul Maarschalk, Chief Financial Officer and Corporate Secretary, for accounting and administrative services.

Also included in management fees was $32,895 paid for administration of which $4,650 was capitalized to the cost of exploration projects and $81,000 paid for advisory services to a former Chief Executive Officer. The advisory contract with the former Chief Executive Officer ended in June 2011.

Stock based compensation is a non-cash item that attempts to put a dollar value on the benefit being given on the granting of stock options. It is based on statistical models, taking into account the volatility of the stock, the risk free interest rate and the weighted average life of the options. Where the market is highly volatile and not very liquid the results may not be very meaningful. In fiscal 2011 the Company granted stock options to directors, advisers and contractors to purchase 1,010,000 shares at exercise prices of $0.165 or $0.17. The Company issued stock options to purchase 770,000 shares in 2010. The calculated value of those options vesting in the 2011 fiscal year was $131,591 (2010 - $140,999).

Travel, promotion and shareholders' information includes $48,750 paid as fees to an investor relations firm that was appointed for a one-year contract by the Company in February 2010. A further $13,200 was incurred in travel and meeting costs directly associated with the IR contract. The contract was terminated at the end of the one year term but the Company has incurred further travel and promotion costs as it continues to court potential investors. Travel, promotion and shareholders' information also includes the costs of the Company's website and the cost of providing shareholders, stock brokers and potential investors with information on the Company. Travel costs incurred to visit mineral properties are normally capitalised to the expense of such properties.

Professional fees include $25,754 in accounting, audit, legal and tax advisory fees in Australia, $48,655 in audit and tax advisory fees in Canada and $13,845 in legal fees in Canada, the balance being sundry consulting fees. Legal fees in Canada were in respect to a number of corporate initiatives; legal fees paid in respect to capital raising and share issuance form part of share issuance costs netted off the amounts raised.

Property investigation costs of $81,960 (2010 – nil) refers to costs that the Company incurred during the fiscal year on the investigation of potential staking targets.

The Company writes off/down its mineral property costs and deferred exploration at such time as it either abandons the property or determines that there has been a permanent impairment in its value. In 2011 the major expense was the writing off of the Cry Lake property ($589,476) following the Company's decision not to continue with exploration on the property optioned the previous year. In 2010 the major expenses were the writing off of the Bonanza property ($232,491) and writing down to nominal value the remaining interests in Mongolia ($1,775,281). Further details may be found in the section on exploration properties.

Property maintenance costs of $20,286 (2010 – Nil) refers to the legal and administrative cost of maintaining the Company's dormant interest in Mongolia. This interest was written down to $1,000 in 2010.

Liquidity and Capital Resources

As with most companies in the junior resource sector, the Company continues to experience extreme volatility in its share price and consequently its ability to raise capital on a timely basis remains a major challenge.

The capital markets were comparatively buoyant in the first few months of the fiscal year ended July 31, 2011 and in September 2010 the Company issued 5,565,490 units for gross proceeds of $1,224,408. Each unit consisted of one common share and one share purchase warrant exercisable at $0.30 on or before July 23, 2012. The Company paid $86,937 in cash and issued 395,167 agents' options consisting of one common share and one warrant to purchase one common share exercisable at $0.22 per share until September 15, 2011 and $0.30 per share until July 23, 2012; upon exercise of each such warrant, an additional warrant will be issued to purchase one common share at $0.30 until July 23, 2012. The fair value of these agents' options was $109,335.

The second half of fiscal 2011 proved to be a much more challenging environment. The Company issued 1,666,667 units for gross proceeds of $250,000. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share of the Company on or before June 23, 2013 at an exercise price of $0.30. The Company paid a finder's fee of $23,589 in cash and issued 85,400 finder's warrants exercisable at $0.30 per until June 23, 2013. The fair value of these warrants was $4,414.

During the year ended July 31, 2011 $272,182 was raised through the exercise of 768,858 share purchase warrants at exercise prices between $0.15 and $0.30 and 208,262 agent options at $0.30.

The Company did not issue any flow through shares during fiscal 2011 (2010 - $1,357,020). In terms of Canadian tax laws funds raised through the issue of flow through shares are required to be spent on qualifying Canadian exploration expenditures by the end of the calendar year following the year in which they are raised. By December 31, 2010 the Company had fulfilled all its obligations in respect to flow through shares issued during calendar 2009 ($511,500) and by July 31, 2011 the Company had fulfilled all its obligations in respect to flow through shares issued during calendar 2010 ($845,520). The funds were spent on exploration expenditures on projects in British Columbia and the Yukon.

In fiscal 2010 the Company raised $1,664,392, net of cash based share issuance costs, in private placements that closed in September and October 2009 and April and July 2010.

The Company spent a total of $1,153,974 in cash in exploring its mineral properties in the year ended July 31, 2011 (2010 - $913,639), of which $2,872 was spent in British Columbia and the balance was spent in the Yukon Territory. The Company also spent $81,960 in pre-staking property investigation costs in British Columbia (2010 – nil). During fiscal 2011 the Company paid $150,000 (2010 -

$100,000) and issued 150,000 common shares with a fair value of $22,500 to maintain the Ten Mile Creek option agreement (2010 - 100,000 common shares with a fair value of $24,000).

With the exception of its small gas royalty, the Company has no revenue generating operations from which it can internally generate funds. It relies on the sale of its own shares or the sale of its marketable securities to provide cash as needed. This situation is unlikely to change until such time as the Company secures a project on which it can develop a profitable mining operation.

During the year ended July 31, 2011, the Company carried no long-term debt. Lease commitments for the Company's office in Vernon BC are $3,000 per month until February 29, 2016. The Company had working capital at July 31, 2011 of $180,838 (2010 - $527,719) of which $263,179 was held in cash (2010 - $573,353).

At the date of this discussion the Company has 24,669,972 shares in issue; outstanding options to purchase 1,924,000 common shares; outstanding warrants to purchase 12,950,329 common shares; and 729,688 agent options to purchase 729,688 common shares and 729,688 share purchase warrants. All of the warrants and agent options have an exercise price of $0.30. The remaining life of the warrants and options ranges from five months to eighteen months and have a weighted average remaining life of 8.8 months.

The Company has earn-in and maintenance obligations to retain its existing properties, in the form of both cash payments and share issues, and in addition has cash based overhead costs of about $460,000 (2011 actual - $555,000, including approximately $90,000 in discontinued expenses). It will be necessary for the Company to raise further funds through the sale of its own stock to fund ongoing operations.

Off balance-sheet arrangements

The Company has no off-balance sheet arrangements.

Transactions with related parties

Randy Rogers, President, Chief Executive Officer of the Company, provides management and geological services to the Company through his private company, Longford Exploration Services Inc. at the rate of $750 per day. Total charges in 2011 were $169,875 paid in cash and stock based compensation with a fair value of $26,800 (2010 - $131,502 including stock based compensation).

Paul Maarschalk, Chief Financial Officer and Corporate Secretary of the Company, provides accounting and administrative services to the Company at the rate of $680 per day. Total charges in 2011 were $89,038 paid in cash and stock based compensation with a fair value of $26,800 (2010 - $105,647 including stock based compensation).

Stock options to purchase 810,000 shares at $0.165 per share and stock options to purchase 200,000 shares at $0.17 per share were granted to directors, officers, advisers and contractors in 2011 (2010 – 570,000 shares at $0.265). No stock options were exercised by officers and directors in 2011 (2010 – nil). Share options to purchase 100,000 shares at $0.35 and 100,000 shares at $0.50 prior to February 3, 2015 were awarded to the Company's investor relations advisers appointed in February 2010. 50,000 vested prior to July 31, 2010 and the balance vested prior to February 15, 2011.

Apart from the above, there were no transactions with related parties in fiscal 2011.

Financial instruments and other instruments

The Company's financial instruments include cash, tenement bonds, reclamation deposits, receivables and accounts payables.

The Company's cash $263,179 at July 31, 2011 consisted of cash in the Company's bank accounts. Receivables and payables of $47,658 and $181,615 respectively are normal course business items that are usually settled within thirty days. The tenement bond of $2,101 is a cashable bond held in Australia.

The fair values of the Company's cash, tenement bond, receivables, and accounts payable approximate their carrying values due to the short-term maturity of these financial instruments. The fair value of reclamation deposit (long-term) approximates its carrying value as the amount has been deposited with local government authorities and will be held until the exploration work is completed on a mineral property interest and there is no environmental disturbance to the property.

The Company is exposed in varying degrees to a variety of financial instrument related risks, including credit risk, liquidity risk and market risk, which includes foreign currency risk, interest rate risk and other price risk. The types of risk exposure and the way in which such exposure is managed are provided below.

(a) Credit risk

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to financial assets including cash, receivables, a reclamation deposit and a tenement bond. The Company's total exposure to credit risk is $277,585 (2010 - $617,513). The Company limits exposure to credit risk on cash through maintaining it with high-credit quality Canadian and Australian financial institutions. Receivables are primarily made up of funds to be received from investment in joint ventures in oil and gas. Reclamation deposit consists of cash deposited with a local government agency in Canada. Tenement bond is deposited with a local government agency in Australia.

The Company's concentration of credit risk and maximum exposure thereto are as follows:

	2011	2010
Bank accounts – Canada	$ 261,160	$ 570,747
Bank accounts – Australia	2,019	2,606
Reclamation deposit	10,000	28,000
Tenement bond	2,101	11,164
Receivables	2,305	4,996
	$ 277,585	$ 617,513

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by forecasting the Company's cash flows required by operations and anticipated investing and financing activities. The Company has cash at July 31, 2011 in the amount of $263,179 (2010 - $573,353) in order to meet short-term business requirements. At July 31, 2011, the Company has current liabilities of $181,615 (2010 - $190,484), and are made up of accounts payable and accrued liabilities which are due within 30 days of the year-end. The Company does not have any derivative financial liabilities.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The significant market risk exposures to which the Company is exposed are:

(i) Foreign currency risk

The Company is exposed to foreign currency risk to the extent expenditures incurred or funds received and balances maintained by the Company are denominated in currencies other than the Canadian dollar (primarily Australian dollars (AU)). The Company has net liabilities of $7,041 (2010 – net assets of $5,065) denominated in AU. For the year ended July 31, 2011, the Company's sensitivity analysis suggests that a change in the absolute rate of exchange in AU by 11% (2010 – 14%) will not have a material effect on the Company's business, financial condition and results of operations. The Company does not manage currency risk through hedging or other currency management tools.

(ii) Interest rate risk

Interest rate risk consists of the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is not exposed to significant interest rate risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company has no exposure to other price risk at July 31, 2011 and 2010.

Subsequent to the year end

Subsequent to the year end 1,547,617 warrants exercisable at $0.21 to $0.40 and 275,000 warrants exercisable at $0.30 have expired unexercised and the Company has acquired by staking, an additional 8 claims at the Pacer property. These claims are 100% owned by the Company.

Proposed transactions

On November 4, 2011 the Company announced its intention to raise up to $350,000 by way of a private placement through the issue of up to 1,333,333 units at $0.075 per unit and up to 2,500,000 "flow through" units at $0.10 per unit. Each unit comprises one common share and one warrant for the purchase of one non-flow through share at $0.10 within two years (non-flow through units) or at $0.15 within one year (flow through units).The private placement is expected to close shortly after the date of this discussion.

Future accounting changes

International Financial Reporting Standards

In March 2009, the Canadian Accounting Standards Board reconfirmed in its second omnibus Exposure Draft that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's conversion date is therefore August 1, 2011.

The Company's first unaudited interim financial statements under IFRS will be for the quarter ending October 31, 2011, with comparative financial information for the quarter ending October 31, 2010 prepared in terms of IFRS. The first audited annual financial statements will be for the year ending July 31, 2012, with comparative financial information for the year ended July 31, 2011.

Implementation Plan

The Company has developed an IFRS implementation plan to prepare for this transition, and has analyzed the key areas where changes to current accounting policies may be required, these being:

- Exploration and development expenditures;
- Property, plant and equipment;
- Provisions, including asset retirement obligations;

- Stock-based compensation;
- Accounting for joint ventures;
- Accounting for income taxes; and
- First-time adoption of International Financial Reporting Standards (IFRS 1).

Other elements of the Company's IFRS implementation plan are also being addressed, including: the implication of changes to accounting policies and processes; financial statement note disclosures; information technology; internal controls; contractual arrangements; and employee training.

The IFRS implementation plan provides for the completion of the transition in late January 2012, prior to publication of the Company's first unaudited interim financial statements under IFRS (for the quarter ending October 31, 2011).

Critical accounting estimates

Critical accounting estimates are used in the preparation of the financial statements. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the company's control. The factors affecting stock based compensation include estimates of when stock options might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend, among other things, upon a variety of factors including the market value of company shares and financial objectives of the holders of the options. The Company has used historical data to determine validity in accordance with Black-Scholes modeling, however, the future volatility is inherently uncertain and the model has its limitations. While these estimates can have a material impact on the stock based compensation and hence results of operations, there is no impact on the Company's financial condition. The Company's recorded value of the Company's mineral properties is in all cases based on historical costs that are expected to be recovered in the future. The Company's recover-ability evaluation is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company is in an industry that is exposed to a number of risks and uncertainties, including exploration risk, development risk, commodity price risk, operating risk, ownership and political risk, funding and currency risk as well as environmental risk. The Company's financial statements have been prepared with these risks in mind. All of the assumptions set out herein are potentially subject to significant change and out of the company's control. These changes cannot be determined at this time.

Disclosure controls

Management of the Company, consisting of the Chief Executive Office and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, they have concluded that, as of the end of the period covered by this Management's Discussion and Analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms as defined under Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Internal controls

The President or the Chief Executive Officer and Chief Financial Officer are responsible for designing internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external purposes in accordance with Canadian GAAP.

The design of the Company's internal control over financial reporting was assessed as of the date of this Management Discussion and Analysis. Based on this assessment, it was determined that a potential weakness existed in respect to internal controls over financial reporting. As with many small companies, the limited segregation of duties and effective risk assessment were identified as areas of potential weakness. The existence of these weaknesses is mitigated by close monitoring by the Chief Financial Officer and the Chief Executive Officer.

Risks and uncertainties

The Company is in the mineral exploration and development business and as such, is exposed to a number of risks and uncertainties that are not uncommon to other companies in the same business. The industry is capital intensive and is subject to fluctuations in market sentiment, metal prices, foreign exchange and interest rates. There is no certainty that properties which the Company has described as assets on its balance sheet will be realized at the amounts recorded. The only sources of future funds for further exploration programs or, if such exploration programs are successful for the development of economic ore bodies and commencement of commercial production thereon, which are presently available to the Company are the sale of equity capital or the offering by the Company of an interest in its properties to be earned by another party carrying out further exploration or development. Although the Company has been successful in accessing the equity market during the past years, there is no assurance that such sources of financing will be available on acceptable terms, if at all.