SPUR VENTURES INC.
MANAGEMENT DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011

Dated: March 14, 2012

T A B L E of C O N T E N T S

This Management Discussion & Analysis (“MD&A”) is comprised of the following sections:

INTRODUCTION

This MD&A has been prepared as of March 14, 2012, and should be read in conjunction with the Company's audited consolidated financial statements with accompanying notes for the year ended December 31, 2011, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

The objective of this MD&A is to help the reader understand the factors affecting the Company's past and future financial performance. All amounts are reported in U.S. dollars and rounded to the nearest thousand where appropriate, unless otherwise stated. Additional information on the Company can be found in the filings with Canadian security commissions on SEDAR at www.sedar.com.

Cautionary Statement Regarding Forward-Looking Statements

This MD&A contains "forward-looking statements". Forward-looking statements include, but are not limited to, statements with respect to the estimation of mineral resources, the timing and content of upcoming programs, the realization of mineral resource estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to international operations; actual results of planned expansion activities; changes in project parameters as plans continue to be refined; future prices of resources; exchange rates for Canadian, U.S. and Chinese currencies; possible variations in grade or recovery rates, accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; Chinese government policies on fertilizer and agriculture; general economic, market or business conditions as well as those factors discussed under "Description of the Business – Risk Factors" in the latest Annual Information Form. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. In making the forward-looking statements in this MD&A, the Company has made certain key assumptions, including, but not limited to, the assumptions that price for phosphate rocks and phosphate fertilizers at certain levels, the estimated phosphate rock resources can be realized and financings are available. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statements or information made in this MD&A, except as required under applicable securities legislation.

C O M P A N Y P R O F I L E

Spur Ventures Inc. ("Spur" or the "Company") is a company listed on the Toronto Stock Exchange with a registered office at Suite 3083, Three Bentall Centre, 595 Burrard Street, Vancouver, B.C. Canada.

Until the completion of the sale of its 100% owned subsidiary, Spur Chemicals (BVI) Inc. ("Spur BVI") on February 13, 2012, the Company held interests in the fertilizer industry in China. Spur BVI held its fertilizer interests through two sino-foreign joint ventures ("JV") in China, Yichang Maple Leaf Chemicals Ltd. ("YMC") and Yichang Spur Chemicals Ltd. ("YSC"). Spur's Chinese partner in both JVs was Hubei Yichang Phosphorus Chemical Co. Ltd ("YPCC"), a state owned enterprise of Yichang City, Hubei Province, China.

Following the sale of Spur BVI, the Company is now focused on making potential acquisitions in gold, base metals or other mineral-related assets or businesses that are in more advanced stages of development where the balance of technical and geopolitical risk will result in increased value to Spur's shareholders within a short time frame.

C O M P A N Y U P D A T E

Sale of Spur BVI

On January 10, 2012 the Company announced that it had entered into a share purchase agreement ("Share Purchase Agreement") to sell Spur BVI to Hong Tang Vision Ltd ("HTVL"), a limited liability company registered in the Cayman Islands, for cash consideration of CDN $9.25 million. The sale to HTVL closed on February 13, 2012.

The Share Purchase Agreement also provided that, if at any time in the future the relevant Chinese authorities remove YMC's current obligation to produce phosphate fertilizers thus licensing YMC to simply be a phosphate mining company, the Company will receive an additional payment of $4.75 million from Hong Tang (for total cash proceeds to the Company of $14 million).

The sale of Spur BVI reflected the Company's strategic decision to exit its operations in China and represented a key milestone in implementing the Company's strategy announced in October 2008 to focus on acquiring interests in mineral projects in lower risk jurisdictions and in businesses where the Company's skills and knowledge could enhance the success of the venture. See "Company Strategy" below.

The Board and management's decision to divest of Spur BVI was largely influenced by several factors:

- The increasingly challenging regulatory and investment environment for foreign companies in the natural resource sector in China;
- Changes to the fundamentals in the fertilizer market in China, in particular the significant over-capacity of phosphate fertilizers in China in the near term;
- The negative sentiment in western capital markets to investing in China; and
- Additional flexibility in implementing strategy focused on investments in lower risk jurisdictions.

Company Strategy

With the completion of the sale of Spur BVI on February 13. 2012, the Company has approximately $31 million with which to pursue its previously announced strategy to pursue advanced development or operating mineral assets in lower risk jurisdictions.

Since 2008, the Company has reviewed several opportunities, but none have offered satisfactory risk weighted returns to shareholders on negotiated terms. Furthermore, until the successful sale of its Chinese interests the Company has needed to maintain significant cash reserves to protect the value of its joint venture rights in China. The successful sale of the Company's Chinese interests clears the slate of any contingent liabilities, the need to allocate capital in China to protect the Company's rights there and clears the path to fully embrace the Company's current business plan. The Company believes that the current volatile capital markets combined with the strong underlying fundamentals of certain mineral commodities will provide the Company with the long awaited capacity to get back on track to generate real return to its shareholders.

The Company has recently explored opportunities in gold and base metal projects in North American and Latin American countries where the focus has been on the acquisition of privately – held projects for cash as well as the acquisition of / participation in existing and new royalty opportunities. The Company has also been using its extensive contact base in the resource community to identify non-core gold, base metal and silver projects of mid and large cap listed mining companies which could be targets for acquisition.

Listing on TSX-V and voluntary delisting from TSX

In February, 2012 the Board of Directors of the Company concluded that a listing with the TSX Venture Exchange ("TSX-V") would best suit the needs of the Company while providing continued and seamless trading liquidity for the Company's shareholders. As such, the Company submitted a listing application to the TSX-V, and submitted to the TSX a formal request to voluntarily de-list in order to progress a TSX-V listing.

History of Operations in China

Since the Company's founders first identified the opportunity to acquire the two phosphate deposits in the mid 90's based on geological data from the China Geological Survey Brigade, the project has evolved through a number of stages commencing with the exploration stage in 1996 when Spur signed its first partnership agreement.

During the second stage Spur focused on formalizing legal agreements and joint venture structures. On November 9, 2003 YMC was formally established by a JV agreement which allowed Spur to earn a 90% equity interest and YPCC a 10% equity interest. The calculation of YPCC's 10% interest was based on the estimated value of the two phosphate deposits plus an allowance for previous expenditures and technical know-how. Spur's interest was based on previous expenditures and cash contributions. YMC's business license was formally issued on November 24, 2003 with a 30 year term.

The YMC JV agreement required 27 separate approvals from the Yiling District, Xingshan County, Yichang City, Hubei Province and finally in Beijing from the Ministry of Commerce ("MofCom", which is responsible for foreign JV's) and the National Development Reform Commission ("NDRC", which is responsible for projects).

The third stage of implementation began in 2004 with the issuance to YPCC of the Dianziping mining license in February and the Shukongping mining license in October from the Central Ministry of Land and Resources ("MOLAR") in Beijing. As required in accordance with the terms of the YMC JV agreement, Spur then completed the first 15% of its Registered Capital contribution in March and August of 2005 which initiated the formal transfer of the mining licenses to YMC.

Since the deposits are state owned assets and the YMC JV agreement provided for their transfer to a majority foreign controlled JV, the transfer process was both complex and time consuming, and involved approximately seven departments at each of the city and provincial levels with a final review by MOLAR in Beijing.

The Shukongping and Dianziping mining license are valid until October 9, 2031 and February 2014 respectively.

The YMC Business License was scheduled to be reviewed by Hubei Administration for Industry and Commerce (“Hubei AIC”) before November 24, 2009. The original YMC Joint Venture agreement required that both YPCC and Spur BVI contribute an additional $11.91 million (RMB76.96 million) and $134.08 million (RMB866.55 million) respectively to complete their entire registered capital contributions by November 24, 2009.

Because these contributions were not made, both YPCC and Spur BVI negotiated with the Chinese authorities to reach a modified JV Agreement on May 6, 2010 which was approved by the Chinese government granting YPCC the right to earn a 51% equity ownership in YMC (taking into account previous contributions to YMC) and Spur BVI a 49% equity ownership in YMC. On May 7, 2010 YMC’s new business license was issued with the new YMC Board consisting of 7 members, 4 from YPCC and 3 from Spur BVI with the Chair nominated by YPCC and the Vice Chair by Spur BVI.

The new Registered Capital amount was established at $123 million (RMB 798 million) instead of the previous $176 million (RMB 1.14 billion). Spur BVI could earn a 49% equity interest in YMC, taking into account previous contributions to YMC of $24.7 million (RMB 159.6 million), by contributing $35.8 million (RMB 231.4 million). Under the terms of the original YMC joint venture agreement signed in November 2003, Spur BVI would have been required to contribute a total of $159.37 million (RMB 1.03 billion) to maintain a 90% equity ownership.

In February, 2011 Hubei AIC served notice on YMC that the Registered Capital contributions from both JV partners were long overdue and that if the situation was not rectified YMC could be subject to substantial penalties.

To rectify this situation, two separate but sequential modifications to the YMC Joint Venture agreement were signed by Spur and YPCC.

The first modification, approved on March 23, 2011 by Hubei DC, confirmed an extension to the deadline for the Registered Capital contributions of both JV partners from August 31, 2010 to December 31, 2011. This JV agreement modification was purely an administrative procedure with the objective to ensure that YMC’s Business License could be renewed by Hubei AIC, thus restoring YMC to the status of a legally operating entity. YMC’s Business License has been renewed.

Under the second, more significant modification to the YMC JV agreement (“March 2011 JV Amendment”), Spur would receive full credit for its Registered Capital contributions to date of RMB 159 million or $24.7 million (representing 20.02% of YMC’s total Registered Capital), with no requirement for further investment. The balance of registered capital contribution would come from YPCC through the contribution of the Dianziping and Shukongping mining license and cash, earning YPCC approximately 80% of YMC. Spur could thus retain the flexibility to invest in either the future feed and industrial phosphate developments proposed by Xingfa or in other natural resource opportunities.

The second modification also included strengthened minority protections for Spur (some already embodied in Chinese law) including the requirement for unanimous board approval for financings, corporate transactions, material asset disposals and deviations from annual profit distributions of less than 80% of profits. The new YMC Board was to have 7 directors, five appointed by YPCC, including the Chairman, and 2 appointed by Spur, including the Vice Chairman. In addition, each of Spur and YPCC were to appoint a supervisor (the “Supervisor”) to YMC. The Supervisor role is common for foreign JV companies based in China. Each Supervisor would focus on overseeing the day to day operational and financial matters of the JV on behalf of each JV partner and would attend board meetings as a non-voting participant.

Pursuant to the terms of the May 2010 modified JV agreement amendments, YPCC was required to contribute the mining licenses and make a cash contribution of approximately $2.4 million in order to earn its 51% equity interest in YMC.

The Company announced on August 3, 2011 that the Central Ministry of Land and Resources ("MOLAR") in Beijing had formally approved the transfer of the mining licenses for the Shukongping and Dianziping phosphate deposits from YPCC to YMC although the second JV modification was not yet resolved.

On October 13, 2011, Xingfa received final approval from Hubei Province State Owned Assets Supervision and Administration Commission ("SASAC") for its acquisition of 100% of YPCC.

However, it became clear to the Company and Xingfa that the Chinese government authorities would not approve the second JV modification.

In November 2011, the Board of Directors of the Company approved the sale of all the Company's interest in Spur BVI to Hong Tang, subject to shareholder approval.

On February 7, 2012 shareholders of the Company approved the sale of Spur BVI to Hong Tang and on February 13, 2012 the Company closed the transaction and received $9.25 million Canadian dollars.

An accounting gain of approximately $3.5 million from the sale of Spur BVI is expected in Q1 2012.

F I N A N C I A L   R E S U L T S

Selected Annual Information

Selected annual information from the Company's three most recently completed financial years is summarized as follows:

		2011	2010	2009
Total loss	$	(1,756,947)	(1,744,219)	(1,500,391)
-loss from continuing operations	$	(852,909)	(864,809)	(895,030)
-loss from discontinued operations	$	(904,038)	(879,410)	(605,361)
Loss per share	$	(0.029)	(0.029)	(0.025)
-loss per share from continuing operations	$	(0.014)	(0.014)	(0.015)
-loss per share from discontinued operations	$	(0.015)	(0.015)	(0.010)
Total assets	$	33,912,505	35,887,940	30,989,898
Cash, short-term investments and marketable securities	$	21,695,744	23,349,522	23,311,254
Net Assets of China operations held for resale	$	5,188,163	-	-
Total long-term liabilities	$	Nil	Nil	Nil
Cash dividends declared	$	Nil	Nil	Nil

Spur Consolidated Results

The 2011 loss was $1,757,000 (2010 loss: $1,744,000) of which $853,000 (2010: $865,000) related to continuing operations and $904,000 ($2010: $879,000) to the discontinued operations in China.

Continuing operations

Interest income increased $92,000 from $209,000 to $301,000 in the current year mainly due to an increase in general interest rate levels.

Total operating expenses increased approximately $77,000, or 7%. Significant operating expense reductions included consulting fees ($97,000), which were offset by increases in professional fees ($52,000), wages and benefits ($41,000), stock-based compensation expenses ($31,000), rent expenses ($25,000) and mineral property costs ($18,000).

Discontinued operations in China

The $25,000 increase in loss was primarily attributable to $114,000 increase in share of loss on investment in YMC, partially offset by $62,000 reduction in mineral property costs and $60,000 in depreciation and amortization expenses.

Balance sheet

Net current assets of $21.6 million have reduced approximately $1.1 million over 2010 reflecting the Company's operating costs for the period ending December 31, 2011.

The Company continues to maintain a solid cash position with cash and cash equivalents, short-term investments in GICs at the end of 2011 amounting to $21.69 million compared to $23.35 million at the end of 2010.

In addition, the Company's investment in YMC together with the net assets related to the Company's interest in YSC have been reclassified to Assets held for resale and Liabilities directly associated with assets classified as held for resale. The net assets held for resale amount to $5,188,000 at December 31, 2011.

Capital Management

Capital includes all components of shareholders' equity. The Company's objective in managing capital is to safeguard the Company's ability to continue as a going concern, to maintain a flexible capital structure which optimizes cost of capital at acceptable risk, and to provide reasonable returns to shareholders. The Company invests its funds in deposits and GICs with major financial institutions and monitors capital by gauging cash and short-term investments available for use. The Company manages the capital structure and makes adjustments in light of changes in economic conditions, foreign exchange rates and the risk characteristics of the Company's assets. In order to maintain or adjust the capital structure, the Company may issue new shares, or sell assets to improve working capital. The Company has no asset backed commercial paper exposure.

Foreign Exchange Gain or Loss

With the change over to IFRS on January 1, 2010 the Company determined that the RMB was the functional currency for the former entities in China, the U.S. dollar for Spur BVI, and the Canadian dollar for its head office in Canada. Under Canadian GAAP, the Canadian dollar was determined to be the functional currency of the Company.

There was no material realized foreign exchange gain or loss in 2011 and 2010 because there were no significant transactions denominated in currencies other than the functional currencies. All unrealized foreign exchange gain or loss from translation of functional currencies to U.S. dollar presentational currency are recorded as accumulated other comprehensive income ("AOCI") in the equity section of the balance sheet. As the U.S. dollar depreciated against the RMB and Canadian dollar, the AOCI at December 31, 2010 decreased from $1.51 million to $0.86 million at December 31, 2011.

The Company does not use derivatives to hedge against exposures to foreign currency arising from the Company's balance sheet liabilities; therefore the AOCI is expected to increase or decrease against decrease or increase in the strength of U.S. currency.

Summary of Quarterly Results (unaudited)

	Qtr ended Dec. 31, 2011	Qtr ended Sep. 30, 2011	Qtr ended Jun. 30, 2011	Qtr ended Mar. 31, 2011	Qtr ended Dec. 31, 2010	Qtr ended Sep. 30, 2010	Qtr ended Jun. 30, 2010	Qtr ended Mar. 31, 2010
Loss ($)	(490,523)	(476,495)	(499,905)	(290,024)	(365,164)	(379,494)	(540,329)	(459,232)
-from continuing operation ($)	(223,532)	(217,409)	(218,176)	(193,792)	(184,229)	(137,223)	(293,463)	(249,894)
-from discontinued operations ($)	(266,991)	(259,086)	(281,729)	(96,232)	(180,935)	(242,271)	(246,866)	(209,338)
Loss per share ($)	(0.008)	(0.008)	(0.008)	(0.005)	(0.006)	(0.006)	(0.009)	(0.008)
-from continuing operation ($)	(0.004)	(0.004)	(0.004)	(0.003)	(0.003)	(0.002)	(0.005)	(0.004)
-from discontinued operations ($)	(0.004)	(0.004)	(0.005)	(0.002)	(0.003)	(0.004)	(0.004)	(0.003)
Dividends per share ($)	-	-	-	-	-	-	-	-
Weighted average number of shares outstanding	60,407,187	60,407,187	60,407,187	60,407,187	60,407,187	60,407,187	60,407,187	60,407,187

Fourth quarter results description

Q4 2011 had a loss of $491,000, an increase of $126,000 over the Q4 2010 loss of $365,000, mainly attributable to increase in the share of loss in investment in YMC.

L I Q U I D I T Y and C A P I T A L R E S O U R C E S

At the end of 2011, the Company maintained a balance of $21.69 million in cash deposits and short-term GICs with major Canadian financial institutions.

In October 2009, the Company entered into a five-year office lease agreement commencing October 1, 2010 to share office space and related costs with three other companies. A summary of the Company's commitments over the next five years is set out below:

		Office lease
2012	$	66,907
2013	$	74,346
2014	$	75,298
2015	$	56,474

The Company does not have any off-balance sheet arrangements.

The Company believes that it has sufficient funding to meet its obligations and to maintain administrative and operational expenditures for the next 12 months**.**

O U T L O O K

With the completion of the sale of Spur BVI on February 13. 2012, the Company has approximately $31 million with which to pursue its previously announced strategy to acquire advanced development or operating mineral assets in lower risk jurisdictions.

The Company is focused on potential acquisitions in gold, base metals or other mineral-related assets or businesses that are in more advanced stages of development where the balance of technical and geopolitical risk will result in increased value to shareholders within a short time frame.

O T H E R M D & A R E Q U I R E M E N T S

Related party transactions and key management compensation

During the year ended December 31, 2011, the Company incurred $533,536 salaries and benefits and $146,832 consulting fees to key management and the directors of the Company for services (2010: $548,980 salaries and benefits and $208,889 consulting fees). Key management includes the Chairman, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Corporate Controller and Corporate Secretary.

There are no unpaid amounts to the parties.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

Note 3 to the audited annual consolidated financial statements for the year ended December 31, 2011 includes a summary of the Company's significant accounting policies.

Requirement to adopt International Financial Reporting Standards (IFRS) starting 2011

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS, and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011, and the Company changed over to reporting in IFRS from January 1, 2011. Please refer to Note 2 of the audited annual consolidated financial statements for the year ended December 31, 2011 for details on first time adoption of IFRS and application of new and revised IFRS standards.

Outstanding Share Data

As of the date of this report, the Company had the following shares and options outstanding:

	Number	Exercise Price CAD	Expiry Date
Shares	60,407,187	N/A	N/A
Stock options	20,000	0.50	December 3, 2012
Stock options	830,000	0.90	June 26, 2013
Stock options	300,000	0.28	July 28, 2014
Stock options	1,750,000	0.37	August 12, 2016
Total	63,307,187		

Options granted prior to 2011 vest over a three-year period, with one-third of the options vesting one year after the date of grant, one-third two years after the date of grant, and the remaining one-third three years after the date of grant. The vesting period for options granted after 2011 is 12.5% immediately with 12.5% each quarter over the next two years.

During the year ended December 31, 2011, compensation expense of $135,718 was recognized (2010: $104,806) for options granted in current and prior years.

The weighted average grant date fair value per option for option granted in 2011 was CDN$ 0.21 (2010: nil as there were no options granted in 2010). The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with assumptions for the grants as follows:

	2011	**2010**
Risk free interest rate	**2.07% - 2.85%**	**1.98% - 3.21%**
Expected life of options in years	**5 years**	**5 years**
Expected volatility	**64% - 91%**	**72% - 91%**
Dividend per share	**$0.00**	**$0.00**

Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is communicated to senior management, to allow timely decisions regarding required disclosure.

An evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined under the rules of the Canadian Securities Administration, was conducted as of December 31, 2011 under the supervision of the Company's Audit Committee and with the participation of management. Based on the results of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at December 31, 2011.

Internal Controls over Financial Reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in compliance with GAAP. The Company's internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and the Company's receipts and expenditures are made only in accordance with authorization of management and the Company's directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual or interim financial statements.

An evaluation of the design effectiveness of the Company's internal controls over financial reporting was conducted as of December 31, 2011 by the Company's management, including the Chief Executive Officer and Chief Financial Officer. Based on this evaluation, management has concluded that the design of the Company's internal controls over financial reporting was effective.

Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. In an emerging economy such as China, the potential for fraud is very real and the Company understands that no system of internal controls, no matter how good, can prevent inappropriate actions by an individual employee.

Financial instruments and risks

The Company classifies its financial instruments in the following categories: at fair value through profit and loss, loans and receivables, available-for-sale and other financial liabilities. The classification depends on the purpose for which the financial assets or liabilities were acquired. Management determines the classification of financial assets and liabilities at initial recognition. Where the Company expects to realize the asset or discharge the liability within twelve months, it is recorded as a current asset or liability; otherwise, it is recorded as a long-term asset or liability.

Financial assets and liabilities at fair value through profit and loss are considered to be held for trading. A financial asset or liability is classified in this category is acquired principally for the purpose of selling or redeeming in the short-term. Derivatives are included in this category unless they are designated as hedges.

Financial assets and liabilities carried at fair value through profit and loss are initially recognized at fair value and are subsequently re-measured to their fair value at each statement of financial position date. Realized and unrealized gains and losses arising from changes in the fair value of these financial assets or liabilities are included in the statement of income in the period in which they arise.

Available-for-sale financial assets are non-derivatives that are either designated as available for sale or not classified in any of the other categories. Available-for-sale assets are initially recorded at fair value plus transaction costs and are subsequently carried at fair value. Unrealized gains and losses arising from changes in the fair value of non-monetary assets classified as available-for-sale are recognized in other comprehensive income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. The Company classifies its other receivables and cash and cash equivalents in the interim consolidated balance sheets, as loans and receivables. Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Other financial liabilities are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received (net of transaction costs) and the redemption value is recognized in the statement of income over the period to maturity using the effective interest method.

Three levels of the fair value hierarchy are classified as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;

Level 3 – Inputs that are not based on observable market data.

Information of the Company's financial instruments is summarized as follows:

December 31, 2010	Loans and Receivables $	Other financial liabilities $	Total Carrying Amount $	Total Fair Value $	Fair value hierachy level
Financial Assets					
Cash and deposits	194,918	-	194,918	194,918	(*)
Guaranteed investment certificates (GICs)	23,154,604	-	23,154,604	23,154,604	(*)
Receivables	21,370	-	21,370	21,370	(*)
Financial Liabilities					
Accounts payable and accrued liabilities	-	688,561	688,561	688,561	(*)
Due to affiliate	-	6,046,200	6,046,200	1,898,255	n/a

December 31, 2011	Loans and Receivables $	Other financial liabilities $	Total Carrying Amount $	Total Fair Value $	Fair value hierachy level
Financial Assets					
Cash and deposits	96,220	-	96,220	96,220	(*)
Guaranteed investment certificates (GICs)	21,599,524	-	21,599,524	21,599,524	(*)
Receivables	75,688	-	75,688	75,688	(*)
Financial Liabilities					
Accounts payable and accrued liabilities	-	171,847	171,847	171,847	(*)
Due to affiliate	-	-	-	-	n/a

(*) The carrying amount of accounts receivable, accounts payable and accrued liabilities approximates fair value due to their short term nature.

Management has determined that there are no embedded derivatives.

Credit risk

The Company maintains a substantial portion of its cash and cash equivalents and short term fixed interest investments with major financial institutions in Canada.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

Foreign currency risk

A substantial portion of the Company's assets are Canadian dollar short-term money market instruments. Fluctuations in exchange rates among the Canadian dollar and U.S. dollar could have a material effect on the business and financial condition of the Company. Based on the balances as at December 31, 2011, other things being equal, a foreseeable1% increase (decrease) in the exchange rate of converting one U.S. dollar into Canadian dollars on that day would have resulted in an increase (decrease) of approximately $215,000 in accumulated other comprehensive income. The Company does not anticipate significant impact of foreign currency translation on earnings unless significant transactions denominated in currencies other than functional currencies take place.

Interest rate risk

The Company's interest rate risk mainly arises from the interest rate impact on its interest income derived from U.S. Dollar, Canadian Dollar and Chinese Renminbi cash and deposits. The Company's policy is to receive interest based on market rates, and, where necessary, to borrow at fixed rates although as at December 31, 2011, the Company had no outstanding debt. Based on the balances of cash and cash equivalent and short-term investments as at December 31, 2011, other things being equal, a 1% increase (decrease) in the interest rate on that day would have resulted in an increase (decrease) of approximately $216,000 in earnings before income taxes.

Liquidity Risk

The Company has been keeping its cash resources in highly liquid short term investment such as guarantee investment certificates offered by major Canadian financial institutions and monitors its cash spending not to exceed available cash resources.

Other Risk Factors

Please refer to the Company's 2011 Annual Information Form which is available on the SEDAR database at www.sedar.com.

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