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**Form 51-102F1**

***Management's Discussion & Analysis of Financial Condition and Results of Operations for the Financial Period Ended December 31, 2012***

**DATE: March 1, 2013**

**GENERAL**

This Management's Discussion and Analysis ("MD&A") of Confederation Minerals Ltd. ("Confederation" or the "Company") has been prepared by management and should be read in conjunction with the unaudited condensed consolidated financial statements for the period ended December 31, 2012 and 2011 and audited consolidated financial statements for the fiscal year ended June 30, 2012. Additional information relating to the Company, including other regulatory filings, can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

All figures are in Canadian dollars unless otherwise noted.

**FORWARD-LOOKING INFORMATION**

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Aside from factors identified in the Company's consolidated financial statements, additional important factors, if any, are identified here.

**DESCRIPTION OF BUSINESS**

Confederation Minerals Ltd. was incorporated on November 3, 2005 under the *Business Corporations Act* (British Columbia) as "Medina Ventures Inc.", changed its name to "Sienna Minerals Ltd." on April 26, 2006 and changed its name to Confederation Minerals Ltd. on April 11, 2007. The Company is a junior resource company whose business is to seek out and develop mineral deposits.

On November 21, 2011, the Company and Magna Resources Ltd. ("Magna") signed a purchase and sale agreement whereby the Company sold to Magna the 50% interest in American Potash LLC then held by the Company ("Purchase and Sale Transaction"). Under the terms of the agreement Magna completed a 2 for 1 subdivision of its outstanding common shares, resulting in the Magna having 22,420,000 common shares being issued and outstanding immediately prior to closing of the Purchase and Sale Transaction.

As consideration for the purchase, Magna issued 22,420,000 common shares (the "Magna Shares") and 2,400,000 common share purchase warrants of Magna ("Purchase Consideration"). Each warrant entitles the Company to purchase a further common share at a price of \$0.10 until February 25, 2016. Under IFRS 3, the Magna Shares were measured using the acquisition-date fair value. As a result, a discount from the deemed value of \$0.20 per share has been applied due to a lack of marketability of Magna's shares which resulted in the fair value of the Magna Shares being determined at \$0.06 per share.

On January 19, 2012 the Purchase and Sale Transaction was completed. As a result of the Purchase and Sale Transaction, the Company effectively controlled Magna and Magna holds a 100% interest in American Potash, which holds potash leases and an option in respect of potash lease applications in the State of Utah.

On December 19, 2012, the Company received an order from the Supreme Court of British Columbia approving distribution (the "Distribution") of 21, 186,656 common shares (the "Magna's shares") in the share capital of Magna Resources Ltd., being an approximate 40.94% interest in Magna, on a pro rata basis to the Company's shareholders. Upon completion of the Distribution, the Company's ownership interest in Magna decreased from approximately 56.47% to approximately 16%. At that point the Company determined that it no longer controlled Magna, and as a result, the Company would no longer consolidate the operations of Magna.

### **Newman Todd Project**

On November 19, 2010, the Company entered into an option agreement with Redstar Gold Corp ("Redstar") entitling it to earn up to 70% of Redstar's Newman Todd gold project (the "Property") in the Red Lake Mining District of Northern Ontario. To exercise the option to earn an initial 50% interest, the Company will be required to incur a cumulative of \$5,000,000 of work expenditures on the Property, issue to Redstar a total of 500,000 shares of the Company and make payments to Redstar totaling \$250,000 in the following manner:

- a) 100,000 shares (issued) and a \$50,000 payment (paid) within 10 business days of approval of the Agreement by the TSX Venture Exchange (December 22, 2010);
- b) work expenditures of \$2,000,000 (incurred), 100,000 shares (issued) and a further \$50,000 payment (paid) on or before the first anniversary of the Agreement;
- c) further work expenditures of \$1,500,000 (incurred), a further 150,000 shares (issued) and a further \$75,000 payment (paid) on or before the second anniversary of the Agreement; and
- d) further expenditures of \$1,500,000 (incurred), a further 150,000 shares and a further \$75,000 payment on or before the third anniversary of this Agreement.

To exercise the option to earn a further 20% interest, thereby increasing its overall interest to 70%, the Company will be required to produce, at its own cost, a preliminary assessment of the Property and issue a further 500,000 shares to Redstar on or before the sixth anniversary of the Agreement, subject to minimum annual expenditures of \$250,000 during the last three years of the option period. The parties also have agreed to form a joint venture following the exercise of the option by Confederation. The Property is subject to a 2% net smelter return and a 15% net carried interest. The latter interest does not receive payment until capital expenditures have been recovered with interest. On November 19, 2010, total finder's fee of \$132,500 was paid in the form of \$66,250 cash and the issuance of 228,448 shares at a deemed value of \$0.29.

On April 14th, 2011, the Company and Redstar entered into a purchase agreement with Ronald Gangloff ("Gangloff") to purchase a 50% interest in 18 mineral claims immediately adjacent to the Newman Todd Project. Of the 50% interest acquired, the Company has acquired an undivided 35% interest in the claims for a sum of \$50,000 (paid May 25, 2011) and 125,000 shares (issued May 12, 2011) and Redstar acquired an undivided 15% interest in the claims for the sum of \$70,000. On May 16, 2011, the Company agreed to lend \$70,000 to Redstar, secured by a promissory note payable on the earlier of May 16, 2012 and the date Redstar completes its next equity financing. On September 15, 2011, Redstar repaid in full the total amount of \$70,000 plus interest to date.

As at December 31, 2012 the Company had incurred \$9,237,430 in acquisition and exploration expenditures on the property.

### **Other Properties**

The Company also owns certain mineral claims in northern Ontario known as the Confederation Lake claims (sometimes referred to as the Mitchell-Belanger claims). No work was undertaken on the properties during the last two fiscal years and therefore at June 30, 2011 management decided to write off all costs incurred to date. The Company abandoned its interest in the Matless Lake claim on February 3, 2012.

All of the Company's presently held exploration and evaluation assets are situated in the Red Lake mining district of the province of Ontario, Canada. However, the Company may seek to acquire interests in other provinces or countries.

The Company finances its properties by way of equity or debt financing. Additional information is provided in the Company's consolidated financial statements. These documents are available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## **EXPLORATION UPDATE**

### **Newman Todd Project**

By December 31, 2012, the Company carried out an exploration program on its Newman Todd Project which consisted of some mapping and sampling and approximately 33,976 metres of diamond drilling. As of December 31, 2012, the Company has spent a total of \$8,655,430 in exploration at its Newman Todd Project. The specific results of the program are discussed in the Company's news releases all of which are available on [www.sedar.com](http://www.sedar.com).

The 2011/2012 drill program has confirmed the existence of a large scale open ended gold-bearing hydrothermal system. Several zones of high grade gold mineralization have been drill traced to date for an approximate strike length of 2.2 kilometers and from surface to a depth of 700m. Gold mineralization is associated with veining and silica/sulphide replacement zones within the widespread iron-carbonate alteration system of the Newman Todd Structure. Current interpretation suggests the mineralization may be rheologically controlled, occurring several meters peripherally from the hanging wall contact with zones of concentrated gold which may be associated with folding and/or faulting of the contact.

The 2011/2012 exploration program has now been extended into a 2013 winter program of up to 5,000 metres of diamond drilling. This program will focus on the further definition of the near-surface gold mineralization and will test dip and strike extensions, as well as gold grade distribution within the mineralized zones.

## **OTHER CORPORATE INFORMATION**

These consolidated financial statements include the accounts of the Company and its controlled interest in Magna and American Potash to the Company's deconsolidation date of December 19, 2012 when it was deemed that the Company no longer controlled Magna.

The board of directors consists of Brian Bapty, Lawrence Dick, Kenneth R. Holmes, Kent Ausburn and Scott Parsons. Lawrence Dick is the Chief Executive Officer, Brian Bapty is the President, and Savio Chiu is the Chief Financial Officer.

On March 15, 2012, Larry Dick resigned as President and Brian Bapty was appointed as President and director.

The Company is a reporting issuer in the provinces of British Columbia and Alberta.

The Company's head office is located at Suite 1980, 1075 West Georgia Street, Vancouver, BC, V6E 3C9.

The Company's common shares were approved for listing on the TSX Venture Exchange and trading commenced on July 15, 2008 under the symbol CFM.

## **OVERALL PERFORMANCE**

The following discussion of the Company's financial performance is based on the unaudited interim condensed consolidated financial statements for the six months ending December 31, 2012 and the audited financial statements for the year ended June 30, 2012.

The statement of financial position as at December 31, 2012 indicates a cash balance of \$214,659 (June 30, 2012: \$96,899), short term investment of \$4,026,285 (June 30, 2012: \$8,962,775), HST receivable of \$158,455 (June 30, 2012: \$123,133), and prepaid expense of \$18,695 (June 30, 2012: \$35,417). Total current assets amount to \$5,218,094 (June 30, 2012: \$9,218,224). The decrease in total current assets is mainly due to payments of various operating expenses during the period, including consulting fees, legal fees, wages, and exploration expenditures associated with the Newman Todd and Green River Potash projects.

The total current liabilities at December 31, 2012 are \$195,806 (June 30, 2012: \$1,032,614). Shareholders' equity is comprised of share capital of \$18,993,270 (June 30, 2012: \$19,581,335), share option and warrant reserves of \$2,418,614 (June 30, 2012: \$3,078,871), deferred share based payment of \$27,258 (June 30, 2012: \$39,838), accumulated other comprehensive loss of \$373,687 (June 30, 2012: \$3,442), and deficit of \$7,498,595 (June 30, 2012: \$6,221,380). The decrease in shareholders' equity is due to the increased deficit as a result of operating and exploration expenditures incurred during the period.

Working capital, which is current assets less current liabilities, is \$5,022,288 at December 31, 2012 compared to \$8,185,610 at June 30, 2012. The Company's working capital decreased over the period due to the increases in operating expenses and exploration expenditures.

As at December 31, 2012, the Company has no earnings and therefore finances exploration activities by the issuance of its common shares. The key determinants of the Company's operating results are the following:

- (a) the state of capital markets, which affects the ability of the Company to finance its exploration activities; and
- (b) the write-down and abandonment of exploration and evaluation assets should exploration results provide further information that does not support the underlying value of such properties.

### **SELECTED ANNUAL INFORMATION**

The following table provides a brief summary of the Company's financial operations for the three most recently completed financial years:

	<b>IFRS</b>	<b>Restated as per IFRS As per Canadian GAAP</b>	
	<b>Year-Ended June 30, 2012</b>	<b>Year-Ended June 30, 2011*</b>	<b>Year-Ended June 30, 2010</b>
Net Sales or Total Revenues	NIL	NIL	NIL
Net Income or (Loss)	(\$3,572,699)	(\$1,727,206)	(\$224,112)
Net Comprehensive Income or (Loss)	(\$3,544,868)	(\$1,746,365)	(\$224,112)
Net Income or (Loss) per fully diluted share basis	(\$0.07)	(\$0.07)	(\$0.02)
Total Assets	\$18,379,780	\$14,346,293	\$913,062
Weighted Average Number of Shares Outstanding	49,282,028	26,084,782	13,966,352
Total long-term liabilities	NIL	\$8,222	\$36,800
Shareholders' Equity	\$17,347,166	\$12,908,987	\$776,569

\* The annual information for 2011 reflects the presentation required for the sale of American Potash having classified its balance sheet items as Assets and Liabilities Held for Sale.

## **RESULTS OF OPERATIONS**

During the six months ended December 31, 2012, the Company incurred a net loss of \$1,405,897 (2011: \$680,526) and a net comprehensive loss of \$1,405,897 (2011: \$680,509). The variance is mainly attributable to an increase in operations and the consolidation of losses from the Company's subsidiaries acquired on January 19, 2012 followed by the loss the Company took on the distribution of shares - \$654,329 (2011: \$nil). The other significant costs during the period relate to consulting fees of \$439,826 (2011: \$426,165), professional fees (accounting and audit fees and legal fees) of \$279,170 (2011: \$48,380) and wage expense of \$167,125 (2011: \$Nil).

The increase in general operating costs were mainly attributable to the following:

- Consulting fees of \$439,826 (2011: \$426,165) were paid or accrued to companies controlled by directors and to other directors and consultants of the Company for the management services they provided to the Company. The consolidated interim financial statements of December 31, 2012 included the consulting fees paid to the CFO and CEO of Magna.
- Legal expenses of \$102,946 (2011 : \$23,240) increased over the year since the consolidated interim financial statements of December 31, 2012 included the legal fees relating to the subsidiaries Magna and American Potash for general corporate matters and Green River Potash project permits. It also includes the legal fees relating to the distribution of Magna share.
- Wage expenses of \$167,125 (2011: \$Nil) increased over the year due to movement salaries incurred by the Company and Magna.

All other operating costs with the exception of share-based payments have increased over the period due to an overall increase in activity.

### **Summary of Quarterly Results**

The following table sets forth selected quarterly financial information for each of the last eight most recently completed quarters:

For the Quarter Periods Ending on:	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
	\$	\$	\$	\$
Total Revenues	Nil	Nil	Nil	Nil
Net Loss	(957,370)	(448,527)	(1,143,022)	(1,727,427)
Net Comprehensive Loss	(957,370)	(484,614)	(1,120,816)	(1,721,819)
Basic Loss per Share	(0.02)	(0.01)	(0.02)	(0.03)
For the Quarter Periods Ending on:	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
	\$	\$	\$	\$
Total Revenues	Nil	Nil	Nil	Nil
Net Loss	(267,088)	(435,162)	(961,015)	(585,205)
Net Comprehensive Loss	(267,071)	(435,162)	(964,216)	(592,890)
Basic Loss per Share	(0.01)	(0.01)	(0.02)	(0.01)

Overall consulting fees and share based payments are the major components that caused variances in net loss from quarter to quarter.

## Current Quarter

The Company recorded a net loss of \$957,370 (2011: \$267,088) during the quarter ended December 31, 2012. The net loss for the quarter ended December 31, 2012 relates to the general and administrative expense loss of \$655,111 (2011: \$286,809) and the loss on assets held for distribution of \$654,329 (2011: \$nil). This loss was offset by an income tax recovery of \$342,123 (2011: \$nil). During the period, operating expenses were mitigated by interest income of \$9,943 (2011: \$22,474).

## **LIQUIDITY**

At December 31, 2012, the Company had a cash balance of \$214,659 (June 30, 2012: \$96,899) and short-term investment of \$4,026,285 (June 30, 2012: \$8,962,775). The decrease in total cash and short-term investment is mainly due to the expenditures incurred for the exploration projects. The Company has working capital of \$5,022,288 as at December 31, 2012 compared to \$8,185,610 as at June 30, 2012.

Net cash used in operating activities for the six months ended December 31, 2012 was \$1,431,864 compared to \$795,567 for the period ended December 31, 2011.

Net cash used in investing activities for the six months ended December 31, 2012 was \$1,551,472 compared to \$25,133 for the period ended December 31, 2011. The increase is attributable to the increase in exploration activities.

Net cash derived from financing activities for the six months ended December 31, 2012 was \$nil compared to \$425,975 for the period ended December 31, 2011.

The Company has no history of profitable operations and its exploration and evaluation projects are at an early stage. Therefore, the Company is subject to many risks common to comparable junior venture resource companies, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources as well as a lack of revenues.

## **CAPITAL RESOURCES**

The Company's sources of funds are derived from financings. The Company has a capitalization of an unlimited number of common shares without par value of which 55,278,532 common shares are issued and outstanding as at December 31, 2012.

During the period ended December 31, 2012, the Company did not complete any financing. A total of 7,278,599 warrants expired during the six months ended December 31, 2012.

## **OFF-BALANCE SHEET ARRANGEMENTS**

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

## **RELATED PARTY TRANSACTIONS**

The aggregate value of transactions and outstanding balances relating to key management personnel and entities which they have control over or significant influence of were as follows:

Services provided by:	Notes	Three months ended		Six months ended	
		December 31,		December 31,	
		2012	2011	2012	2011
		\$	\$	\$	\$
Lawrence Dick	(a)	30,000	30,000	60,000	60,000
Brian Bapty	(b)	37,750	-	75,000	-
Primarius Capital Corp.	(c)	30,000	30,000	60,000	60,000
Baron Global Financial Canada Ltd.	(d)	30,000	30,000	60,000	60,000
St. Cloud Mining Services Inc.	(e)	-	-	30,000	-
Compensation benefits to key management	(f)	-	-	-	99,049

- (a) Lawrence Dick, the CEO of the Company provided management services throughout the year.
- (b) Brian Bapty, the President of the Company received management salaries for the year.
- (c) Primarius Capital Corp. is a privately held corporation controlled by a director, which provides consulting services to the Company.
- (d) Pursuant to a management and advisory agreement with Baron Global Financial Canada Ltd. ("Baron"), Baron agreed to act as corporate advisor and Chief Financial Officer of the Company in return for a monthly fee.
- (e) St. Cloud Mining Services Inc. is a privately held corporation controlled by a director of Magna, who provided consulting services to the Company.

Related party payables:

	December 31, 2012	June 30, 2012
	\$	\$
Lawrence Dick	-	926
Brian Bapty	2,160	18,082
Baron Global Financial Canada Ltd.	2,160	2,563
Kenneth Holmes	291	-

## **CRITICAL ACCOUNTING ESTIMATES**

For the preparation of consolidated financial statements in accordance with IFRS, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. Financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both the current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the balance sheet date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- (a) The purchase price allocation. Business acquisitions are accounted for by the acquisition method of accounting whereby the purchase price is allocated to the assets acquired and the liabilities assumed based on fair value at the time of the acquisition. The excess purchase price over the fair value of identifiable assets and liabilities acquired, if any, is goodwill. The determination of fair value often requires management to make assumptions and estimates. The assumptions and estimates with respect to determining the fair value of property, plant and equipment acquired generally require a high degree of judgment. Changes in the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill, if any, in the purchase price allocation. If material, such adjustments would be reflected via a restatement of previously issued financial statements.
- (b) The provision for income taxes which is included in the consolidated statements of comprehensive loss and composition and quantification of deferred income tax assets and liabilities included in the consolidated statement of financial position.
- (c) The recoverability of exploration and evaluation assets in the consolidated statements of financial position.
- (d) The inputs used in accounting for share purchase option expense in the consolidated statements of comprehensive loss.

## **FINANCIAL INSTRUMENTS**

### Classification of financial instruments

#### (a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's consolidated statements of financial position as follows:

	Fair Value Measurements Using		
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs Level 3
As at December 31, 2012	\$	\$	\$
Cash and cash equivalents	214,659	-	-
Short term investment	4,026,285	-	-
Marketable securities	800,000	-	-
<b>Total</b>	<b>5,040,944</b>	<b>-</b>	<b>-</b>

	Fair Value Measurements Using		
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs Level 3
As at June 30, 2012	\$	\$	\$
Cash and cash equivalents	96,899	-	-
Short term investment	8,962,775	-	-
<b>Total</b>	<b>9,059,674</b>	<b>-</b>	<b>-</b>



The fair values of other financial instruments, which include loan receivable, current assets held for sale, accounts payable and accruals, current liabilities held for sale, and premium on flow-through shares, approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

(c) Foreign Exchange Rate Risk

At December 19, 2012, when the Company distributed the shares of Magna Resources, the Company was no longer subject to foreign exchange rate risk as all of the Company's operations are located in Canada.

Liquidity Risk

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

Contractual maturity analysis is as follows:

	Less than 3 months	3-12 months	1-5 years	Longer than 5 years	Total
	\$	\$	\$	\$	\$
<b>December 31, 2012</b>					
Payables	156,045	-	-	-	156,045
<b>June 30, 2012</b>					
Payables	513,000	1,391	-	-	514,391

(d) Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.

(e) Interest Rate Risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has interest bearing assets in relation to cash at banks carried at floating interest rates with reference to the market. The Company's operating cash flows are substantially independent of changes in market interest rates. The Company has not used any financial instrument to hedge potential fluctuations in interest rates. The exposure to interest rates for the Company is considered minimal. As at December 31, 2012, the Company has in total \$4,026,285 (June 30, 2012: \$8,962,775) in guaranteed investment certificates.

The policies to manage interest rate risk have been followed by the Company during prior periods and are considered to be effective.

## **SUMMARY OF OUTSTANDING SHARE DATA**

The Company's issued and outstanding share capital as at the date of this report is as follows:

- (1) Authorized: Unlimited common shares without par value.
- (2) As at March 1, 2013, the Company has 55,278,532 common shares, and 5,050,000 stock options issued and outstanding.

## **ADDITIONAL DISCLOSURE FOR JUNIOR ISSUERS**

The Company has expensed the following material cost components during the period ended September 30, 2012:

		Six Months Ended December 31,	
		2012	2011
		\$	\$
Accounting and audit fees	(a)	176,224	25,140
Consulting fees	(b)	439,826	426,165
Filing fees	(c)	27,695	22,703
Insurance	(c)	32,981	4,199
Legal fees	(d)	102,946	23,240
Office expenses	(e)	58,492	6,098
Share-based payments	(f)	62,544	144,589
Wages	(g)	167,125	-
Loss on assets held for distribution	(h)	654,329	
Interest and miscellaneous income	(h)	33,987	51,957

- (a) For the period ended December 31, 2012, the accounting and audit fees were related to accounting fees incurred for the Company's audit and business evaluation and US tax concerns.
- (b) Consulting fees were paid to directors, officers and consultants of the Company and its subsidiaries to provide geological, corporate communication, administrative, investor relations and management services. The transactions were conducted in the normal course of operations, on commercial terms established and agreed to by the related parties, and were recorded at the exchange amount.
- (c) Insurance fees of \$32,981 were recognized for the Company's property liability insurance
- (d) Legal fees of \$102,946 were recorded for general corporate matters and the distribution of Magna shares to shareholders
- (e) Office expense of \$58,492 were incurred for general office and software expenses
- (f) Share-based payments of \$62,544 were expensed for the period. This is a non-cash expense which records the fair value of stock options that have been granted and vested during the period. During the period ended December 31, 2012, 200,000 incentive stock options of the Company were granted to a consultant. The Black-Scholes option pricing model was used for the fair value calculation.
- (g) Wages of \$167,125 was paid to the management of the Company.
- (h) The Company recorded a loss on assets held for distribution of \$654,329 relating to the Magna share distribution.
- (i) The Company reported interest income of \$33,987 for interest earned on funds held in an interest bearing GIC account. The funds received from the financing held in 2011 and 2012 were transferred to a GIC account on receipt.

The Company has capitalized the following exploration and development costs during the six months ended December 31, 2012:

	June 30, 2011	Change	June 30, 2012	Change	December 31, 2012
	\$	\$	\$	\$	\$
<b>Acquisition</b>					
Cash payments	166,250	50,000	216,250	75,000	291,250
Share issuance	197,250	47,000	244,250	46,500	290,750
	363,500	97,000	460,500	121,500	582,000
<b>Deferred exploration expenditure</b>					
Advance payment	200,000	-	200,000	-	200,000
Assays and reports	114,354	717,252	831,606	225,928	1,057,534
Camp construction	38,662	65,394	104,056	5,565	109,621
Drilling	659,160	2,100,468	2,759,628	963,880	3,723,508
Equipment installation	101,950	-	101,950	-	101,950
Field expenses	366,700	387,380	754,080	173,816	927,896
General administration	5,597	23,736	29,333	9,518	38,851
Surveys	7,068	-	7,068	-	7,068
Geological consulting	422,483	1,011,963	1,434,446	640,745	2,075,191
Permitting	686	1,237	1,923	-	1,923
Reclamation	-	10,000	10,000	-	10,000
Travel and Accommodation	78,677	213,225	291,902	109,986	401,888
	1,995,337	4,530,655	6,525,992	2,129,438	8,655,430
	2,358,837	4,627,655	6,986,492	2,250,938	9,237,430

The Company carried out an exploration program on its Newman Todd Project which consisted of mapping and sampling of diamond drilling.

## **RISK AND UNCERTAINTIES**

The Company's principal activity is mineral exploration and development. These activities involve a high degree of risk which, even with a combination of experience, knowledge and careful evaluation, may not be overcome. Consequently no assurance can be given that commercial quantities of minerals will be successfully found or produced.

The Company has no history of profitable operations and its present business is at an early stage. As such, the Company is subject to many common risks applicable to new and developing enterprises, including undercapitalization, cash shortages and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a positive return on shareholders' investment.

The Company has no source of operating cash flow and no assurance that additional funding will be available to it for further exploration and development of its projects when required. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of its properties.

The mineral industry is intensely competitive in all its phases. The Company competes with many other mineral exploration companies who have greater financial resources and technical capacity.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous materials and other matters.

### **Future Accounting Standards and Interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for the September 30, 2012 reporting period. The following standards are assessed not to have any impact on the Company's financial statements:

(a) IFRS 9, Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015.

(b) IFRS 10, Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company has yet to assess the full impact of IFRS 10 and is required to adopt the standard no later than the accounting period beginning on or after January 1, 2013

(c) IFRS 11, Joint Arrangements

IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. . The Company has yet to assess the full impact of IFRS 11 and is required to adopt the standard no later than the accounting period beginning on or after January 1, 2013.

(d) IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. . The Company has yet to assess the full impact of IFRS 12 and is required to adopt the standard no later than the accounting period beginning on or after January 1, 2013

(e) IFRS 13 Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. . The Company has yet to assess the full impact of IFRS 13 and is required to adopt the standard no later than the accounting period beginning on or after January 1, 2013.

(f) IFRS 7, Financial Instruments: Disclosures

Amendments to IAS 7 provide disclosure requirements for the offsetting of a financial asset and financial liabilities when offsetting is permitted under IFRS. The disclosure amendments are required to be adopted retrospectively for periods beginning January 1, 2013.

(g) IAS 19 - Employee Benefits

Amendments to IAS 19 provide new requirements for the accounting for defined benefit pension plans. Most notably, the amendments mandate the immediate recognition of actuarial gains and losses, and require companies to use the same discount rate for both the defined benefit obligation and the expect asset return when calculating the interest component of pension expense. The Company does not believe the adoption of IAS 19 will materially affect its financial performance or its financial position.

(h) IAS 32 – Financial Instruments: Presentation

Amendments to IAS 32 provide specific guidance for when an entity can offset financial assets and liabilities by clarifying when a legally enforceable right to do so exists, and when an entity meets the criterion for the intent to settle on a net basis. These amendments are effective for annual periods beginning after January 1, 2014. The Company does not believe the amendments to IAS 32 will materially affect its financial performance or its financial position.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

## **CORPORATE GOVERNANCE**

Management of the Company is responsible for the preparation and presentation of the consolidated financial statements and notes thereto, MD&A and other information contained in this annual report. Additionally, it is Management's responsibility to ensure the Company complies with the laws and regulations applicable to its activities.

The Company's management is held accountable to the Board of Directors ("Directors'). The Directors are responsible for reviewing and approving the annual audited consolidated financial statements and MD&A. Responsibility for the review and approval of the Company's quarterly unaudited interim financial statements and MD&A is delegated by the Directors to the Audit Committee, which is comprised of three directors, two of whom are independent of management. Additionally, the Audit Committee pre-approves audit and non-audit services provided by the Company's auditors.

The auditors are appointed annually by the shareholders to conduct an audit of the consolidated financial statements in accordance with generally accepted auditing standards. The external auditors have complete access to the Audit Committee to discuss the audit, financial reporting and related matters resulting from the annual audit as well as assist the members of the Audit Committee in discharging their corporate governance responsibilities.

## **APPROVAL**

The Board of Directors of the Company has approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

Additional information relating to the Company's operations and activities can be found by visiting the SEDAR website at [www.sedar.com](http://www.sedar.com).