

# **BONAPARTE RESOURCES INC.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **NINE MONTHS ENDED MAY 31, 2012**

**July 12, 2012**

#### **THE COMPANY**

Bonaparte Resources Inc. (“the Company”) was incorporated pursuant to the Business Corporations Act (British Columbia) on July 10, 2007. The Company was a Capital Pool Company as defined in the TSX Venture Exchange (“TSX-V”) Policy 2.4. On February 5, 2010 the Company announced the acceptance of its filing statement filed with the TSX – Venture Exchange on January 29, 2010.

During the year ended August 31, 2010, the Company entered into an Option agreement with Atac Resources Ltd., (“Atac”) whereby the Company acquired an option to earn a 50% interest in 90 claims located in the Whitehorse Mining District, Yukon Territory. The Company made the necessary filing statement regarding this Qualifying Transaction. The filing statement was accepted for filing by the TSX – Venture exchange so the Company met its requirement to find a qualifying transaction. See “Continuing Operations.”

The ability of the Company to fund its potential future operations and commitments will be dependent upon the ability of the Company to obtain additional financing.

#### **FINANCIAL STATEMENTS**

Readers are directed to the condensed interim financial statements of the Company for the nine-months ended May 31, 2012 and the audited financial statements for the year ended August 31, 2011. The condensed interim financial statements for the nine months ended May 31, 2012 are the second reported financial statements following the conversion to International Financial Reporting Standards (“IFRS”) and contains comparative information for the Company’s conversion on September 1, 2010 and for August 31, 2011 pursuant to IFRS.

#### **FORWARD-LOOKING STATEMENTS**

This MD & A contains certain statements that may be deemed “forward-looking statements”. All statements in this MD & A, other than statements of historical fact, that address exploration drilling, exploitation activities and events or developments that the Company expects to occur, are forward-looking statements. Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words “expects”, “plans”, “anticipates”, “believes”, “intends”, “estimates”, “projects”, “potential” and similar expressions, or that events or conditions “will”, “would”, “may”, “could”, or “should” occur. Information inferred from the interpretation of drilling results and information concerning mineral resource estimates may also be deemed to be forward-looking statements, as it constitutes a prediction of what might be found to be present when and if a project is actually developed. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results may differ materially from these forward-looking statements. Factors that could cause the actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration success, and continued availability of capital and financing as well as general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and

actual results or developments are based on the beliefs, estimates and opinions of the Company's management on the date the statements were made.

At this early stage of the Company's development, forward-looking statements would include any statements regarding the expected exploration programs on the Hopper and the Hooch properties, and the expected sources of funding for the Hopper option acquisition and exploration programme. Undue reliance should not be placed on this forward-looking information because the exploration programs involve a number of risk factors, which would include, but are not limited to discovery of reserves and their estimates, fluctuations in mineral prices and uncertainties as to the availability and cost of financing and changes in the capital markets.

## **FINANCING**

During the year ended August 31, 2011, in conjunction with the Hopper Property Option Agreement, the Company issued by way of private placement 3,000,000 flow-through units at a price of \$0.40 per unit raising \$1,200,000. Each unit comprised one flow-through common share and ½ non-flow-through share purchase warrant exercisable at a price of \$0.50 until December 30, 2011. This gave the Company sufficient cash resources to meet its ongoing administrative expenses and its obligations pursuant to the Hopper Property Options Agreement until at least December 31, 2011. On December 31, 2011, all 1,500,000 warrants expired unexercised.

The Company has prepared and the Directors have authorized a Stock Option Plan (the "Plan") whereby the Company has granted incentive stock options to Directors of the Company. The Plan has been structured to comply with the rules of the TSX-V and accordingly, the aggregate number of shares which may be subject to option at any one time may not exceed 10% of the issued common shares of the Company as of that date including any options which may have been granted earlier, but remain unexercised. These options vested immediately on December 3, 2007 when the Company's shares were called for trading. The options may not exceed a term of five years.

During the year ended August 31, 2011 the Company adopted an amended stock option plan to comply with certain regulatory and income tax changes. The aggregate number of shares which may be subject to option remain at 10% of the issued common shares and may not exceed a period of 5 years. Vesting periods will be determined at the discretion of the directors and if the optionee ceases to be qualified to receive options from the Company those options expiry immediately.

In February, 2011 the Company granted a further 315,000 options exercisable at a price of \$0.45 per share until February 8, 2016. Of these options 78,750 vested immediately and the remaining balance vested quarterly so that all the options were fully vested at November 8, 2011. In July, 2011, the Company's CEO and CFO relinquished a total of 80,000 options that had been granted in February, 2011. The Company granted a further 150,000 options to consultants at a price of \$0.30 exercisable until July 30, 2012. The options vest on a quarterly basis and will fully vest on July 20, 2012.

During 2011, using the Black Scholes option pricing model the Company recognized stock based compensation of \$127,956 related to the options. During the six months ended February 29, 2012 the Company recognized a further \$4,809 in stock based compensation due to continued vesting of the options. As at May 31, 2012, the Company has 971,760 shares under option and of these 934,260 are exercisable at a weighted average price of \$0.25 per share. If fully exercised these options will raise \$242,014 in additional funding. Subsequent to the period end, concurrent with changes to the Board of Directors, two (2) former directors relinquished a total of 200,000 options that had been granted at a price of \$0.45 per share.

During the period the Company entered into an agreement with its CEO, Mr. Thomas Randall Saunders, whereby the Company borrowed \$65,000 from Mr. Saunders to ensure cash liquidity while it performed its work commitments on the Hopper and Hooch properties. The loan is secured by a promissory note with interest at the bank prime rate plus 3.0% and is due and payable on September 6, 2012. During the Quarter ending May 31, 2012, the Company repaid this loan to Mr. Saunders complete with interest of \$2,222.

On December 27, 2011, the Company issued 1,100,000 shares at a price of \$0.20 per share by way of private placement raising \$220,000. No warrants were attached to this issue.

## **FINANCIAL PERFORMANCE**

During the nine months ended May 31, 2012, the Company incurred net administrative expenses totalling \$115,599 before interest income of \$2,226, which resulted in a net and comprehensive loss for the period of \$113,333 (2011 - \$255,647). This amounted to a loss per share of \$0.01 per share (2011 - \$0.03) for the nine-month period. The largest expenses for the period were legal, audit and accounting fees of \$10,827, management fees of \$54,000 and consulting fee of \$31,500. The largest difference between this period and the comparative period on May 31, 2011 was \$54,000 in management fees as compared to only \$30,000 for 2011 and, in addition, the write-off of the Rosy Property, totalling \$405,236, during the 2011 period. Additionally, the Company abandoned its arrangement with IBK Capital on the premise that no financings were forthcoming from this source. Accordingly the Company wrote-off the \$28,500 fee advance that was paid to IBK Capital. The Company has working capital of \$44,403 as of the end of the quarter.

## **LIQUIDITY AND CAPITAL MANAGEMENT**

Bonaparte has cash and equivalents at the period end of \$99,495. The current cash is sufficient to meet the Company's current liabilities. The company needs to raise further capital of approximately \$675,000 to meet the exploration program to December 31, 2012. The Company will need to raise more funds to complete the required exploration program for 2012 and is exploring its options to do so.

The Company intends to manage its cash resources with the view, wherever possible, to maintain sufficient cash resources to ensure it can meet its ongoing administrative obligations and its property obligations for at least one year. The Company plans to address future cash needs through the issue of shares when required and warranted. Surplus funds are invested in high quality Canadian banks in instruments that allow the Company flexibility in managing its cash resources. As the Company does not operate in any countries other than Canada it is not subject to any foreign exchange risk.

## **SUMMARY OF QUARTERLY RESULTS**

The following is selected financial data from the condensed interim financial statements.

Quarter Ended	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter	4 <sup>th</sup> Quarter
	IFRS	IFRS	IFRS	IFRS
	'May 31/12	'Feb 29/12	'Nov 30/11	'Aug 31/11
Net income (loss) before discontinued or extraordinary items	\$ (55,376)	\$ (28,209)	\$ (29,747)	\$ (22,149)
Per common share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Net income (loss) for the period	\$ (55,376)	\$ (28,209)	\$ (29,747)	\$ (22,149)
Per common share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Total Assets	\$ 1,713,472	\$ 1,817,324	\$ 1,617,568	\$ 1,587,655
Long Term Liabilities	Nil	Nil	Nil	Nil
Cash Dividends	Nil	Nil	Nil	Nil

Quarter Ended	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter	4 <sup>th</sup> Quarter
	IFRS	IFRS	IFRS	Cdn GAAP
	'May 31/11	'Feb 28/11	'Nov 30/10	'Aug 31/10
Net income (loss) before discontinued or extraordinary items	\$ (52,164)	\$ (555,454)	\$ (5,882)	\$ (36,070)
Per common share	\$ (0.01)	\$ (0.05)	\$ (0.00)	\$ (0.00)
Net income (loss) for the period	\$ (52,164)	\$ (555,454)	\$ (5,882)	\$ (36,070)
Per common share	\$ (0.01)	\$ (0.05)	\$ (0.00)	\$ (0.00)
Total Assets	\$ 1,587,655	\$ 1,620,599	\$ 956,314	\$ 979,085
Long Term Liabilities	Nil	Nil	Nil	Nil
Cash Dividends	Nil	Nil	Nil	Nil

The results of operation for the most recently completed quarter resulted in a loss of \$55,379. The only revenues were \$44 of interest income. The largest expenses were consulting fees of \$28,500, management fees of \$18,000 and accounting and legal expenses of \$5,003.

## **CONTINUING OPERATIONS**

### Hopper Property

The Company has entered into an Option Agreement (the "Option") with Strategic Metals Inc., ("Strategic") whereby the Company has acquired the option to acquire up to a 100% interest in 192 claims, comprising approximately 4,000 hectares located in the Whitehorse mining District, Yukon Territory, known as the Hopper Property. The Hopper Property is located southwest of Whitehorse and is accessible from the Alaska Highway along the access to the Aishihik hydroelectric facility. The Company can earn its 100% interest as part of the three ( 3 ) phase option programme.

Phase 1 – the Company will earn a 50% interest in the Hopper Property by: paying \$50,000 within 10 days of the acceptance of the option by the TSX- Venture Exchange (paid) and by paying \$150,000, \$300,000 and \$500,000 on or before December 31, 2011, 2012 and 2013 respectively: In addition, the Company will be required to incur exploration expenditures of \$700,000, \$1,300,000 and \$2,000,000 on or before December 31, 2011, 2012 and 2013 respectively;

Phase 2 – the Company will earn a further 30% ( 80% total ) interest in the Hopper Property by paying Strategic \$1,000,000 each on or before December 31, 2014 and 2015 and by incurring further exploration expenditures of \$3,000,000 and \$7,000,000 on or before December 31, 2014 and 2015 respectively;

Phase 3 - Upon completion of Phase 2 the Company shall have the option to acquire the remaining 20% of the Hopper Property by paying \$5,000,000 to Strategic on or before March 31, 2016. Strategic; and, retains the right, but not the obligation, to accept all or part of the final payment in shares of the Company and Strategic shall retain a 2% Net Smelter Returns royalty.

### Hooch Property

During the year ended August 31, 2011, the Company entered into an agreement with Strategic to acquire an option to earn a 50% interest in 12 mineral claims located in the Whitehorse Mining District, Yukon Territory, known as the “Hooch” claims for the following consideration:

- i) paying \$5,000 on the execution of the agreement (paid) and \$15,000, \$30,000 and \$50,000 on or before December 31, 2011, 2012 and 2013 respectively, and;
- ii) incurring exploration expenditures totalling \$30,000, \$70,000 and \$100,000 on or before December 31, 2011, 2012 and 2013 respectively.

On completion of the first option the Company has the option to earn a further 50% (100% total) interest in the Hooch claims for the payment of a further \$875,000 in increments of \$125,000 on or before January 31, 2014 and \$250,000 and \$500,000 on or before December 31, 2014 and 2015 respectively. In addition, the Company will be required to make further exploration expenditures in the amounts of \$500,000 and \$600,000 on or before December 31, 2014 and 2015 respectively. Strategic will retain a 2% Net Smelter Returns royalty.

### Work Programs

The Hopper and Hooch claims are close to each other and this permitted the Company to utilize the same crews during the exploration season. To the year ended August 31, 2011 the Company spent \$501,837 in exploration expenditures on the Hopper claims. During the nine-month period ended May 31, 2012 the Company spent a further \$229,482 on the Hooch claims and \$626,888 on the Hopper. In December 2011, the Company made the required \$150,000 and \$15,000 property payments on the Hopper and Hooch properties respectively. To May 31, 2012 the Company has spent a total of \$1,580,207 on the Hopper and Hooch claims. The Company has met the work requirements under the agreement for 2011. In addition, the Company has already incurred sufficient exploration expenditures on the Hooch claims to satisfy the entire exploration requirements and has spent \$428,725 towards the \$1,300,000 work commitment on the Hopper claims for 2012.

## **EXECUTIVE COMPENSATION**

Commencing January 2011, the Board of Directors has agreed to compensate the Company’s Chief Executive Officer, Mr T. Randall Saunders in the amount of \$4,000 per month and its Chief Financial Officer, Mr Robert Jamieson C. A. in the amount of \$2,000 per month for their services to the Company. These payments are made to Mr. Jamieson personally and to Mr. Saunders’ wholly owned company Malesa Investments Inc.

The Company also compensates its Officers and Directors through stock options. At present, there are 806,760 stock options outstanding for Directors. The weighted average exercise price is \$0.25. Subsequent to the period end, 200,000 options at a price of \$0.45 per share were relinquished by two Directors who resigned from the Board of Directors.

## **RISK**

The Company is subject to a number of risk factors due to the nature of its business. The following factors should be considered:

Mineral Exploration and Development - The Company’s properties are in the exploration stage and are without a known body of commercial ore. Development of any of the Company’s properties will only follow upon obtaining satisfactory exploration results. Mineral exploration and development involves a high degree of risk and

few properties which are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in the discovery of a body of commercial ore on any of its properties. Several months, if not years, may pass between the discovery and the development of commercial mineable mineralized deposits. Most exploration projects do not result in the discovery of commercially mineralized deposits.

Trends – The Company's financial success is dependent upon discovery of properties which could be economically viable to develop. Such development could take years to complete and the resulting income, if any, is difficult to determine. The sales value of any mineralization discovered by the Company is largely dependent upon factors beyond the Company's control, such as market value of the products produced. Other than disclosed herein, the Company is not aware of any trends, uncertainties, demands, commitments or events which are reasonably likely to have a material effect on the Company's results or financial position.

Operating Hazards and Risks – Mineral exploration involves many risks. The operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of resources, any one of which could result in work stoppages and damages to personal property or the environment and possible legal liability for any and all damage. Fires, power outages, labour disruptions, flooding, explosions, cave-ins, land slides and the inability to obtain suitable or adequate machinery, equipment or labour are some of the risks involved in the operation of mines and the conduct of exploration programs. Although the Company will, when appropriate, secure suitable insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liability and hazards might not be insurable, or the Company might elect not to insure itself against such liabilities due to high premium costs or other reasons, in which event, the Company could incur significant costs that could have a materially adverse effect upon its financial condition.

Economics and Development of Mineral Properties – Substantial expenditures are required to establish ore reserves through drilling, to develop metallurgical processes to extract metal from ore and to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operation or that the funds required for development can be obtained on a timely basis.

The marketability of any minerals acquired or discovered may be effected by numerous factors which are beyond the Company's control and which cannot be predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. Depending on the price of minerals produced, the Company may determine that it is impractical to commence or continue commercial production.

Environmental Factors – The Company proposes to conduct exploration activities in various parts of Canada. Such activities are subject to various laws, rules and regulations governing the protection of the environment, including, in some cases, posting of reclamation bonds. In Canada, extensive environmental legislation has been enacted by federal, provincial and territorial governments. All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed properties and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operation. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations or to preclude entirely the economic development of a property. Environmental hazards may exist on the Company's properties, which hazards are unknown to the Company at present, which have been caused by previous or existing owners or operators of the properties. The Company is not aware of any environmental hazards on any of its properties.

The approval of new mines on federal lands in Canada is subject to detailed review through a clearly established public hearing process, pursuant to the Federal Canadian Environment Assessment Act. In addition, lands under federal jurisdiction are subject to the preparation of a costly environmental impact assessment report prior to commencement of any mining operations. These reports entail a detailed and scientific assessment as well as a prediction of the impact on the environment by the proposed development. Further, under such review process,

there is no assurance that regulatory and environmental approval will be obtained on a timely basis or at all. Failure to comply with legislation may have serious consequences. Orders may be issued requiring operations to cease or be curtailed or requiring installation of additional facilities or equipment. Violators may be required to compensate those suffering loss or damage by reason of its mining activities and may be fined if convicted of an offence under such legislation.

Canadian provincial mining legislation establishes requirements for the decommissioning, reclamation and rehabilitation on mining properties in a state of temporary or permanent closure. Such closure requirements relate to the protection and restoration of the environment and the protection of public safety. Some former mining properties must be managed, for long periods of time following closure in order to fulfill closure requirements. The costs of closure of mining properties, and in particular, the cost of long term management of mining properties can be substantial. The Company intends to progressively rehabilitate its mining properties during their period of operation, should any properties become operational, so as to reduce the cost of fulfilling closure requirements and the termination or suspension of production.

The Company has adopted environmental practices designed to ensure that it continues to comply with or exceeds all environmental regulations currently applicable to it. All of the Company's activities are in compliance in all material respects with applicable environmental regulation. The Company is currently engaged in exploration with limited or minimal impact.

Title – Although the Company has exercised all due diligence with respect to title to properties in which it has a material interest, there is no guarantee that title to the properties will not be challenged or impugned. The Company's mineral properties or interests may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. In addition, certain of the mining claims in which the Company has an interest are not recorded in the name of the Company and cannot be recorded until certain steps are taken by other parties. Before a number of claims under option can be recorded in the Company's name, the underlying title holder has to assign title to the Company once the Company satisfies its option agreement obligations. There is no assurance that the underlying titleholder will assign title.

Canadian Aboriginal Land Claims – Canadian Aboriginal rights may be claimed on Crown properties or other types of tenure with respect to which mining rights have been conferred. The Company is aware of the mutual benefits afforded by cooperative relationships with indigenous people in conducting exploration activity and is supportive of measures established to achieve such cooperation. While there is, to the Company's knowledge, no existing claim in respect of any of its properties, the advent of any future aboriginal land claims and the outcome of any aboriginal land claims negotiations cannot be predicted.

Competition and Agreements with Other Parties – The Company competes with other mining companies for the acquisition of mineral claims and other mining interests as well as for the recruitment and retention of qualified employees and contractors. There is significant and increasing competition for a limited number of resource acquisition opportunities and as a result, the Company may be unable to acquire attractive mining properties it considers acceptable. The Company competes with many other companies that have substantially greater financial resources than the Company.

The Company, may in the future, be unable to meet its obligations under agreements to which it is a party and the Company may have its interest in the property subject to such agreements reduced as a result. Furthermore, if other parties to such agreements, do not meet their share of such costs the Company may be unable to finance the cost required to complete the recommended programs.

Governmental Regulation – Operations, development and exploration of the Company's properties are affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labour; (ii) mining law reform; (iii) restrictions on production, price controls, and cost increases; (iv) maintenance of claims; (v) tenure; and (vi) expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations. Changes in such regulation could result in additional expenses and capital expenditures, availability of capital, competition, reserve uncertainty, potential conflicts of interest, title risks, dilution, and restrictions and delays in operations, the extent of which cannot be predicted.

The Company is in the exploration stage on all of its properties. Exploration of the Company's properties requires responsible best exploration practices that comply with Company policy, government regulations, and maintenance of claims and tenure. The Company is required to be registered to do business and have a valid prospecting licence required to prospect or explore for minerals on Crown Mineral land or to stake a claim. In any Canadian province in which it is carrying on work, mineral exploration primarily falls under provincial jurisdiction. However, the Company is also required to follow the regulations pertaining to the mineral exploration industry that fall under federal jurisdiction, such as the Fish and Wildlife Act.

If any of the Company's projects are advanced to the development stage, those operations will also be subject to various laws and regulations concerning development, production, taxes, labour standards, environmental protection, mine safety and other matters. In addition, new laws or regulations governing operations and activities of mining companies could have a material adverse impact on any project in the mine development stage that the Company may possess.

Mineral Prices – The Company's revenues, if any, are expected to be in large part derived from the discovery of mineral properties and the sale of minerals contained or interests related thereto. The price of those commodities has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company's control including international economic and political considerations, expectations of inflation, international currency exchange rates, interest rates, global or regional consumptive patterns, speculative activities, levels of supply and demand, increased production due to new mine developments and improved mining and production methods, availability and costs of metal substitutes, metal stock levels maintained by producers, and therefore the economic viability of the Company's operations, cannot be accurately predicted.

Price Fluctuations/Share Price Volatility – In recent times, the securities markets in North America and the rest of the world have experienced a high level of price and volume volatility, and the market price of securities of many mineral exploration companies have experienced wide fluctuations in price which have not necessarily been related to their operational performance, underlying asset values or prospects of such companies. There can be no assurance that continued fluctuations in price or volume will not occur.

## **CONFLICTS OF INTEREST**

Certain officers and directors of the Company are officers and/or directors of, or are associated with other natural resource companies that acquire interests in mineral properties. Such associations may give rise to conflicts of interest. The directors are required by law, however, to act honestly and in good faith with a view to the best interests of the Company and the shareholders and to disclose any personal interest which they may have in any material transaction which is proposed to be entered into with the Company and to abstain from voting as a director for the approval of any such transaction.

## **DIRECTORS AND OFFICERS**

T. Randall Saunders  
Robert A. Jamieson  
William Pettigrew  
Tom McCandless  
Mike England

Chief Executive Officer  
Chief Financial Officer

## **CONTRACTUAL OBLIGATIONS**

The Company has the following contractual obligations:

- (a) the payments and expenditure requirements pursuant to the Hopper Agreement;
- (b) the payments and expenditure requirements of the Hooch Agreement;
- (c) to issue up to 934,260 shares pursuant to the exercise of stock options at a weighted average price of \$0.25 per share:



## **SHARE CAPITAL**

Authorized: An unlimited number of common shares without par value:

Issued:

	<u>Shares</u>	<u>Amount</u> \$
Balance at August 31, 2009	6,237,839	534,320
Private placement at \$0.45 per share	812,334	365,550
For mineral property	300,000	165,000
Share issue costs	-	(37,187)
Agent warrants issued at \$0.15 per share	232,240	34,836
From contributed surplus	-	18,015
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Balance at August 31, 2010	7,582,413	1,080,534
Stock options exercised at \$0.15 per share	86,574	12,986
From contributed surplus	-	9,902
Flow-through private placement at \$0.40 per share	3,000,000	1,200,000
Share issue costs	-	(97,968)
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Balance at August 31, 2011	10,668,987	2,205,454
Private placement at \$0.20 per share	1,100,000	220,000
Share issue costs	-	(3,850)
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Balance at May 31 and July 12, 2012	11,768,987	2,421,604

### Escrowed Shares

Pursuant to an escrow agreement dated August 27, 2007, the 3,733,339 common shares issued on the Company's incorporation are held in escrow and are to be released on a staged basis, with 10% to be released on the issuance of the final exchange bulletin by the TSX-V, and 15% to be released every six months thereafter for a period of thirty-six months. Upon the issuance of the final exchange bulletin 10% or 373,331 shares were released from escrow in February, 2010. In addition, 560,000 shares each were released in August 2010, February and August 2011 and February 2012. As of May 31 and July 12, 2012 a total of 1,120,008 (2011 – 2,240,008) shares remain in escrow.

### Private Placement

On December 27, 2011, the Company issued 1,100,000 shares by way of private placement, raising \$220,000 at a price of \$0.20 per share. There were no warrants attached to this placement.

### Warrants

On December 30, 2011, all the remaining 1,500,000 warrants that were issued pursuant to the flow-through private placement on December 30, 2011 expired unexercised.

## Stock Options

During 2011, the company's directors approved a new stock option plan (the "Plan") on February 18, 2011. The Plan has been structured to comply with the rules of the TSX-V. The aggregate number of common shares, which may be subject to option at any time, may not exceed 10% of the issued common shares of the Company as of that date including options granted prior to the Plan. Options granted may not exceed a term of five years. All Options vest granted unless otherwise specified by the Board of Directors. If the optionee ceases to be qualified to receive options from the Company those options expire immediately.

On February 18, 2011, the Company granted 315,000 options at a price of \$0.45 per share to Directors and consultants at an exercise price of \$0.40 per share until February 18, 2016. On July 20 2011, Mr Saunders, the CEO and Mr Jamieson, the CFO, each relinquished 40,000 of their options for a total of 80,000 options that had been granted in February, 2011. The Company recognized \$32,987 in stock based compensation for the relinquished options. A further 150,000 options were granted to consultants at a price of \$0.30 in July, 2011. These options vest quarterly and the Company recognized a further \$96,969 in stock based compensation, using the Black Scholes option pricing model.

As of August 31, 2011, May 31 and July 12, 2012 the weighted average remaining contractual life of these outstanding and exercisable options was 1.85 years.

	Number of Options	Weighted Average Exercise Price
Balance at August 31, 2009	623,334	0.15
Granted	50,000	0.45
Balance at August 31, 2010	673,334	0.17
Exercised at \$0.15	(86,574)	0.15
Granted at \$0.40	315,000	0.40
Cancelled at \$0.40	(80,000)	0.40
Granted at \$0.30	150,000	0.30
Balance at August 21, 2011 and May 31 and July 12, 2012	971,760	0.26

Stock based compensation was calculated by using the Black Scholes option pricing model with the following weighted average assumptions:

	2011	2011
Weighted average risk free interest rate	1.98%	2.65%
Expected life	2.98 years	5 years
Weighted average volatility	114%	137%
Expected dividends	Nil	Nil

The weighted average grant date fair value of options granted during the year ended August 31, 2011 was \$0.27 (2010 - \$0.40).

The following table summarizes the outstanding and exercisable options at August 31 2011 and February 29 and April 13, 2012.

----- Outstanding Options -----			----- Exercisable Options -----		
Exercise Price (\$)	Weighted Ave. Remaining Life Years	Number of Shares	Weighted Ave Exercise Price (\$)	Number of Shares	Weighted Ave. Exercise Price (\$)
0.15	0.52	536,760	0.15	536,760	0.15
0.45	3.06	50,000	0.45	50,000	0.45
0.45	3.69	235,000	0.45	235,000	0.45
0.30	0.14	150,000	0.30	112,500	0.30
	1.85	971,760	0.26	934,260	0.25

<u>Contributed Surplus</u>	<u>\$</u>
Balance at August 31, 2009	89,309
Stock based compensation	19,877
Transferred on exercise of agents warrants	(18,015)
Balance at August 31, 2010	91,171
Transferred on exercise of stock options	(9,902)
Stock based compensation	127,956
Balance at August 31, 2011	209,225
Stock based compensation	4,809
Balance at May 31 and July 12, 2012	214,034

## **OFF-BALANCE SHEET ITEMS**

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

## **RELATED PARTY TRANSACTIONS**

During the 2011, the Company entered into a loan agreement with its CEO, Mr T. Randall Saunders whereby the Company was advanced \$65,000 for working capital purposes. The loan is secured by a promissory note, attracts interest at bank prime plus 3 percent and is due and payable on or prior to its September 6, 2012 anniversary date. At the period end, Mr Saunders is owed a total of \$66,891 in principal and interest. During the Quarter, the Company repaid the loan of \$65,000 to Mr. Saunders together with \$2,222 of accumulated interest.

The Company is also indebted to Malesa Investments Inc for \$58,240 in unpaid management fees and out of pocket expenses and applicable HST. The Company is also indebted to its CFO, Mr. Robert Jamieson in the amount of \$22,000 for unpaid management fees. (See Executive Compensation).

## **PROPOSED TRANSACTIONS**

The Company does not have any proposed transactions.

## **FINANCIAL INSTRUMENTS**

At September 1, 2010, August 31, 2011 and May 31, 2012 there are no financial liabilities measured at fair value on a recurring basis present on the Company's statement of financial position. Fair value estimates of financial instruments are made at a specific point in time, based upon relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

As at May 31, 2012 the Company's financial instruments consist of cash and cash equivalents of \$99,495, accounts payable and amounts owing to related parties totalling \$88,862. The fair value of these instruments approximate their carrying values because of the short term nature of those instruments. The Company does not hold and marketable securities.

## **SUBSEQUENT EVENT**

Subsequent to the period-end, Mr. Matt Turner and Mr. Richard Drechsler resigned from the Board of Directors and were replaced by Mr. Mike England and Mr. Tom McCandless. Mr. Turner and Mr. Drechsler subsequently relinquished a total of 200,000 stock options that they held which were exercisable at a price of \$0.45 per share.

## **CRITICAL ACCOUNTING ESTIMATES**

### Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure on contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant areas requiring the use of management estimates relate to future income taxes, the assumptions used in stock based compensation calculations and possible impairment of mineral properties.

### Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined on the temporal differences between the accounting and the tax bases of the existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized, up to the portion relating to the renunciation of Canadian exploration expenditures and the issuance of flow-through shares.

### Stock-based Compensation

The company applies the fair value method to stock-based payments to all awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. Compensation expense is recognized over the applicable vesting period with a corresponding increase in contributed surplus. When the options are exercised, the price proceeds together with the amount initially recorded in contributed surplus are credited to share capital.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

### **Adoption of New Accounting Policies**

These condensed interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statement, including IAS 34 and IFRS 1. Subject to certain transitional elections disclosed in the condensed interim financial statements Note 10, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position as of September 1, 2010 and throughout the periods presented, as if these policies had always been in effect. Note 10 discloses the impact of the transition to IFRS on the Company's reported financial position, net loss and comprehensive loss and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the year ended August 31, 2010. These condensed interim financial statements do not include all of the information required for full annual financial statements.

The policies applied in these condensed interim financial statements are based on IFRS issued and outstanding as of April 13, 2012, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ended August 31, 2012 could result in restatement of these condensed interim financial statements, including the transitional adjustments recognized on change-over to IFRS.

### **Accounting Standards Issued and Effective**

IFRS – Financial Instruments: Disclosures – In October, 2010 the IASB issued amendments to IFRS 7 that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective to annual periods beginning on or after July 1, 2011, with early adoption permitted. The Company has adopted this amendment and it is expected to have no significant impact on the condensed interim financial statements.

### **Standards Issued Bur Not Yet Adopted**

For the purposes of preparing and presenting the Company's condensed interim financial statements, the Company has adopted all standards and interpretations issued other than those listed below. These standards have not been adopted because they are not effective until subsequent to August 31, 2012. Standards and interpretations issued, but not effective are:

Amendment to IAS 12, Income Taxes	January 1, 2012
IFRS 9 – Financial Instruments	January 1, 2015
IFRS 10 – Consolidated Financial Statements	January 1, 2013
IFRS 11 – Joint Arrangements	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13 – Fair Value Measurement	January 1, 2013
IAS 27 – Separate Financial Statements	January 1, 2013
IAS 28 – Investments in associates and Joint Ventures	January 1, 2013
Amendment to IAS 32, Offsetting Financial Assets and Financial Liabilites	January 1, 2014

These condensed interim financial statements have been prepared in with IFRS applicable at the date of preparation. Subject to certain transitional elections disclosed in Note 10 to the condensed interim financial statements, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position as of September 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

The Company believes that, with the exception of IFRS 9, Financial Instruments, the adoption of these revised standards will have no material impact on the condensed interim financial statements.

IFRS 9, Financial Instruments, proposes to replace IAS 39 Financial Instruments: Recognition and Measurement. The replacement standard has three main phases, the first of which provides new guidance to the classification and measurement of financial assets and liabilities. The second part, which is currently an exposure draft, provides guidance for amortized cost and impairment methodology for financial assets. The third part, which is also currently an exposure draft, proposes a revised general hedge accounting model. The Company will evaluate the impact of the change to its condensed interim financial statements based upon the characteristics of the financial instruments anticipated to be outstanding at the time of adoption.

## **VENTURE ISSUER**

The Company is a Venture Issuer as defined by Multi-Lateral Instrument 51-102. It has recently acquired an option agreement in a mineral property. It has begun to capitalize the cost of its mineral property and to defer exploration and development expenses. Readers are directed to the Condensed Interim Statement of Operations, Comprehensive Loss and Deficit and the Schedule of Mineral Properties within the Condensed interim Financial Statements for a complete breakdown of the Company's administrative and exploration expenses.

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgement and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

### **Disclosure Controls and Internal Controls Over Financial Reporting**

The Company's Chief Executive Officer and its Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures and our internal controls over financial reporting. The primary weaknesses in the Company's internal controls is that there is an insufficient number of accounting and approve all payments by the Company and all strategic administration staff to properly segregate certain duties that require segregation in order to have good internal control. Management and the Board of Directors have implemented processes to mitigate the risks arising from this weakness. The Chief Executive Officer and the Chief Financial Officer review and non-routine matters prior to submission to the Board of Directors for its approval. They require to be fully apprised of any material information affecting the Company so that information may be evaluated and discussed and the appropriateness and timing of public releases determined. The Board of Directors reviews and approves the Company's financial reports on a quarterly basis and approves all public disclosures.

The Chief Executive Officer and the Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as at August 31, 2009, have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company would have been known to them.