



# **Management's Discussion and Analysis**

**For the year ended December 31, 2013**

(Financial information expressed in Canadian dollars unless otherwise noted)

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## Introduction

This management's discussion and analysis ("MD&A") is dated April 30, 2014, and is in respect of the annual reporting period ended December 31, 2013. All dollar amounts referenced, unless otherwise indicated, are expressed in Canadian dollars and narrative references to financial values are rounded. References to "US\$" mean United States dollars.

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with its consolidated financial statements and related notes for the annual period ended December 31, 2013. This section contains forward-looking statements that involve risks and uncertainties. The Company's actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including those described under "Forward looking information".

## Forward looking information

Certain statements in this MD&A are forward-looking statements or information (collectively "forward-looking statements"). The Company is hereby providing cautionary statements identifying important factors that could cause the actual results to differ materially from those projected in the forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "may", "is expected to", "anticipates", "estimates", "intends", "plans", "projection", "could", "vision", "goals", "objective" and "outlook") are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes may not occur or may be delayed. The risks, uncertainties and other factors, many of which are beyond the control of the Company, that could influence actual results include, but are not limited to: limited operating history; exploration, development and operating risks; regulatory risks; substantial capital requirements and liquidity; financing risks and dilution to shareholders; competition; reliance on management and dependence on key personnel; fluctuating mineral prices and marketability of minerals; title to properties; local resident concerns; no mineral reserves or mineral resources; environmental risks; governmental regulations and processing licenses and permits; conflicts of interest of management; uninsurable risks; exposure to potential litigation; dividends; and other factors beyond the control of the Company.

Furthermore, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

## Historical information

Josephine Mining Corp. ("the Company") was incorporated under the laws of British Columbia and, together with its subsidiary and associate, is engaged in the exploration and development of the Turner Gold Property in southern Oregon. Following the final payment to General Moly, Inc. ("GMI"), the Company's associate, Gold Coast Mining, Inc. ("GCM"), received title to the Turner property and all relevant mining rights. The Company finalized the disposition of 79% of the

Company's interest in Turner by way of the sale of 79% of the common shares of the Company's previously wholly owned subsidiary, GCM. The sale of GCM shares was made to companies owned and operated by individuals who are also officers and owners of the Company.

GMI retains a production royalty of 1.5% of net smelter return on future production from the Turner Gold Property.

The Turner Gold project comprises three patented mining claims and an additional 265 acres of contiguous private land. In addition, GCM purchased 40 acres of private land to the west of the property and has an option to purchase an additional 333 acres to the east of the property. GCM also controls 25 mineral lode claims. The Turner Gold deposit was initially discovered in the early 1900s.

In March 2008, the Company completed an initial public offering of 3,000,000 common shares. The Company's shares began trading on the TSX Venture Exchange (the "Exchange") on March 24, 2008, under the trading symbol "GRP.P". Prior to March 24, 2011, the Company was classified as a Capital Pool Company within the meaning ascribed by the Exchange policy and the British Columbia Securities Act.

In March 2010, the Company entered into a letter agreement to purchase all of the issued and outstanding securities of 0854742 B.C. Ltd. The acquisition of 0854742 B.C. Ltd., then known as Josephine Mining Corp., constituted the Company's Qualifying Transaction under the policies of the Exchange. 0854742 was at arm's length to the Company.

On March 24, 2011, the Company completed its Qualifying Transaction, as defined under the rules of the Exchange, when its wholly-owned subsidiary 0890810 B.C. Ltd. ("Subco") amalgamated with 0854742 B.C. Ltd. ("0854742"), formerly known as Josephine Mining Corp. Since the Qualifying Transaction, the Company's sole activities have related to the acquisition and exploration of the Turner Gold Property ("Turner" or the "Project"), including ancillary properties. In connection with the Qualifying Transaction, the Company changed its name to Josephine Mining Corp., ceased to be a Capital Pool Company ("CPC") as defined in Policy 2.4 of the Exchange and commenced trading as a Tier 2 mining issuer on the Exchange on March 29, 2011. On commencement of trading the Company's trading symbol changing from "GRP.H" to "JMC".

## Current highlights

Management is actively seeking sources of funds through an issuance of a combination of debt and equity, the terms of which are in negotiation.

During the years ended December 31, 2013 and 2012, the Company raised limited funds, through related party debt. At December 31, 2013, the Company had limited cash and a working capital deficit.

Effective December 31, 2013, management finalized the reduction of 79% of the Company's interest in Turner by way of the sale of 51% of the common shares of the Company's previously wholly owned subsidiary, GCM, and a settlement of debt for 28% of the common shares in GCM. The sale of GCM shares was made to companies owned and operated by individuals who are also officers and owners of the Company. A loss of \$2,487,162 was reported as a result of the loss of control of GCM. The Company's interest in GCM was reported as an investment in associate at December 31, 2013, at a value of \$1,882,327.

The Company received total consideration of US\$1,605,421 under the terms of this transaction. Consideration from this transaction was used to cause GCM to own an undivided interest in the Turner, such that the Company's interest in its sole mining project became held through a 21% interest in GCM, which has an undivided interest in Turner.

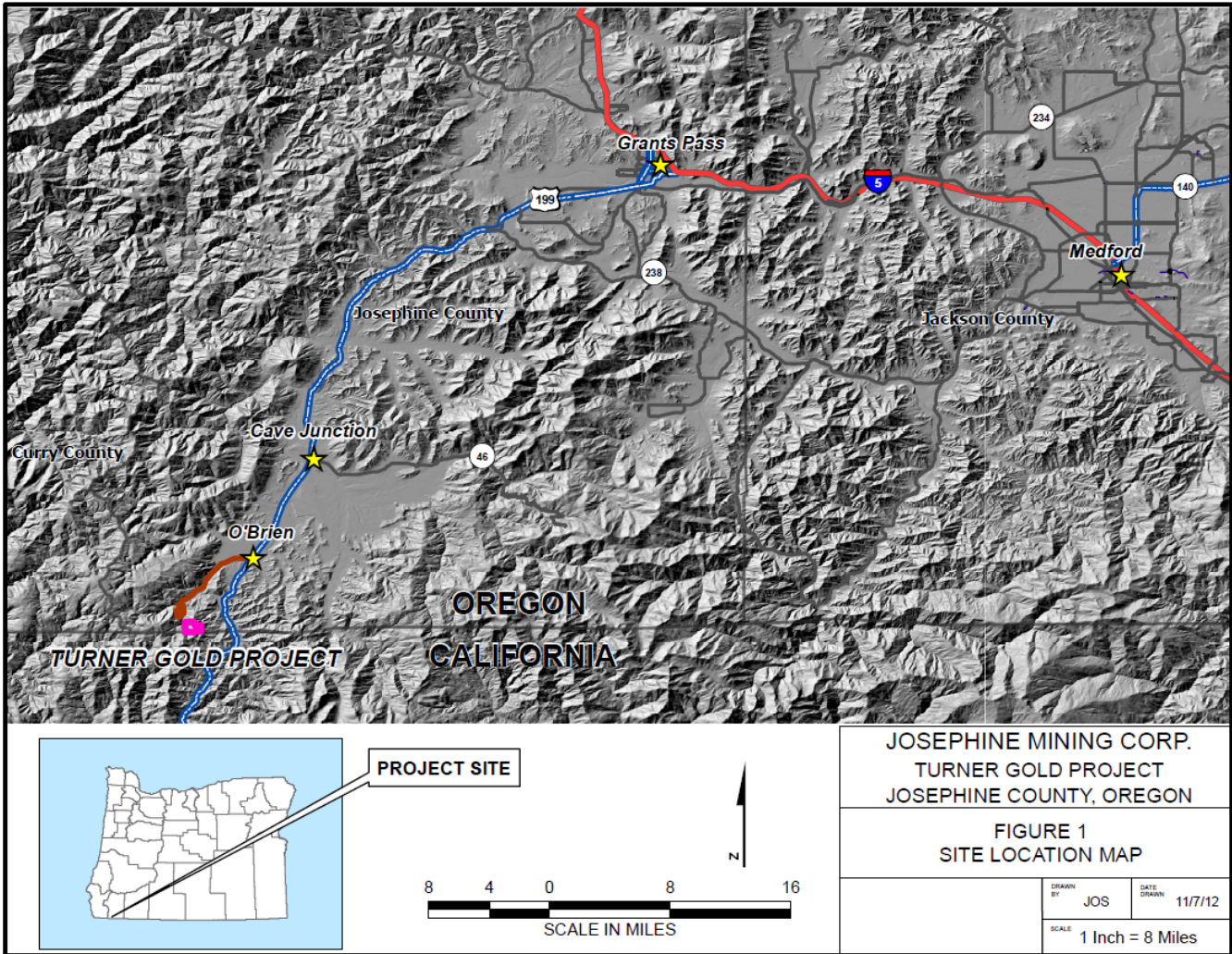
In April 2014, the Company received approximately \$60,000 from its President, who is also an officer and director of entities related to the Company as described in the 'Transactions with related parties' section of this MD&A, in order to

meet the Company’s regulatory requirements. The terms of the loan have not been finalized at the date of this MD&A, and are expected to approximate normal arms-length commercial terms.

Mining project

Turner Gold Property

The Turner Gold Property is the Company’s sole property, by way of its interest in GCM, and the focus of all of its operations to date. The Turner Gold Property is located in southwestern Josephine County, Oregon, approximately 2 miles west of Highway 199 and 40 miles southwest of Grants Pass, Oregon.



The Turner Gold project is a volcanogenic massive sulfide deposit with an indicated and inferred resource of 4.7 million tons. As stated in the October 2012 press release with the updated resource, the indicated resource has increased 42.55% in tonnage and shows metal grades of 1.015% copper, 2.91 g/t gold, 13.3 g/t silver and 2.46 % zinc. Encompassed in the indicated resource are a total of 296,493 contained troy ounces of gold, 70.8 million pounds copper, 1.35 million troy ounces silver and 171.8 million lbs. of zinc or alternately 6.1 g/t equivalent gold (equating to 620,891 equivalent troy ounces of gold contained). With this increase to a total of 4.71 million tons of resource above an increased NSR cutoff grade of \$52/ton, JMC is pleased to report the improved delineation of the resource; with the newly compiled 2011 drilling data, 1.04 million tons of the resource was moved from inferred to the indicated category. Equivalent troy oz/ton gold (“Eq Au”) levels are used to illustrate the combined effect of copper, gold, silver, and zinc in the project in one metal.

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**Economic Parameters for Turner Gold**

| Parameter                               | Units  | Mill     |
|-----------------------------------------|--------|----------|
| Copper Price per Pound                  | (US\$) | 3.00     |
| Gold Price per Pound                    | (US\$) | 1,200.00 |
| Silver Price per Pound                  | (US\$) | 15.00    |
| Zinc Price per Pound                    | (US\$) | 0.75     |
| Base Mining Cost Per Ton of Material    | (US\$) | 27.45    |
| Process Cost Per Ton                    | (US\$) | 14.68    |
| General and Administrative Cost Per Ton | (US\$) | 2.66     |
| Process Recovery of Copper (Average)    | (%)    | 90.8     |
| Process Recovery of Gold (Average)      | (%)    | 71.9     |
| Process Recovery of Silver (Average)    | (%)    | 83.2     |
| Process Recovery of Zinc (Average)      | (%)    | 75.1     |
| Smelting/Refining Payable for Copper    | (%)    | 96.5     |
| Smelting/Refining Payable for Gold      | (%)    | 97.0     |
| Smelting/Refining Payable for Silver    | (%)    | 77.0     |
| Smelting/Refining Payable for Zinc      | (%)    | 95.0     |
| Gross Royalty                           | (%)    | 1.5      |

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Source: Parameters described in the Turner Gold Resource and Preliminary Economic Assessment dated November 16, 2009 as revised May 17, 2010 available at [www.sedar.com](http://www.sedar.com) (contents were reviewed by qualified persons; John M. Marek, P.E. of Independent Mining Consultants, Brian W. Buck, P.G. of JBR Environmental Consultants, Michael D. Strickler, P.G. of LithoLogic Resources, Srikanth Annavarapu, P.E. of Master Geotech Services, and James J. Moore, P.E.).

**Market Trends**

Average annual prices as well as the 2013 average price through the date of this document, for copper and gold are summarized in the table below:

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| Average annual market prices (US\$) |             |           |
|-------------------------------------|-------------|-----------|
| Year                                | Copper (lb) | Gold (oz) |
| 2008                                | 3.11        | 880       |
| 2009                                | 2.41        | 981       |
| 2010                                | 3.45        | 1,233     |
| 2011                                | 4.02        | 1,568     |
| 2012                                | 3.63        | 1,681     |
| 2013                                | 3.30        | 1,394     |
| 2014*                               | 3.17        | 1,294     |

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Source: Monthly spot prices per London PM Fix – Kitco (Gold) and London Metal Exchange (Copper).

\* Most current data available through the date of this MD&A

## Summary of quarterly results

|                                              | Three months ended |                    |               |                |
|----------------------------------------------|--------------------|--------------------|---------------|----------------|
|                                              | December 31, 2013  | September 30, 2013 | June 30, 2013 | March 31, 2013 |
| Total operating expenses                     | \$ 60,082          | \$ 121,726         | \$ 125,326    | \$ 205,003     |
| Net loss                                     | 2,572,318          | 156,663            | 163,293       | 243,497        |
| Total comprehensive loss                     | 2,381,191          | 156,809            | 152,904       | 254,567        |
| Net loss per common share, basic and diluted | 0.10               | 0.01               | 0.01          | 0.01           |
| Total assets                                 | 4,139,897          | 8,338,923          | 8,371,570     | 7,959,841      |
| Total liabilities                            | 255,203            | 1,673,038          | 1,547,898     | 1,390,595      |
|                                              | Three months ended |                    |               |                |
|                                              | December 31, 2012  | September 30, 2012 | June 30, 2012 | March 31, 2012 |
| Total operating expenses                     | \$ 217,526         | \$ 333,904         | \$ 495,458    | \$ 346,786     |
| Net loss (income)                            | 219,084            | (98,936)           | 461,212       | 341,383        |
| Total comprehensive loss                     | 165,555            | 1,370              | 403,251       | 516,138        |
| Net loss per common share, basic and diluted | 0.01               | 0.00               | 0.02          | 0.01           |
| Total assets                                 | 7,943,743          | 7,417,559          | 7,527,058     | 7,448,606      |
| Total liabilities                            | 1,161,087          | 591,624            | 809,168       | 379,816        |

## Results of operations

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards and are expressed in Canadian dollars.

### Three months ended December 31, 2013 and 2012

#### *Net loss and operating expenses*

Operating expenses for the three months ended December 31, 2013 ("Q4 2013") were approximately \$60,000; during the comparative period in 2013 ("Q4 2013"), operating expenses were approximately \$218,000. Expenses were limited during the three months ended December 31, 2013 due to the Company's limited available cash. Also contributing to the decrease was a lower share-based payment expense, as no new option-based payments were granted during the three months ended December 31, 2013. Net loss was higher for Q4 2013 because the Company lost control of its former subsidiary and recorded a loss of approximately \$2.5 million as a result of the loss of control described in the Current Highlights section of this MD&A.

#### *Mineral property*

The Company's investment in mineral properties decreased from September 30, 2013, to December 31, 2013, due to the loss of control of its formerly consolidated subsidiary, GCM, as described in the Current Highlights section of this document.

During the Comparative period in 2012, this asset increased by approximately \$500,000 due to Turner-related option and land payments

### Years ended December 31, 2013, 2012 and 2011

|                                              | Year ended December 31, |              |              |
|----------------------------------------------|-------------------------|--------------|--------------|
|                                              | 2013                    | 2012         | 2011         |
| Total operating expenses                     | \$ 512,137              | \$ 1,343,674 | \$ 2,575,553 |
| Net loss                                     | 3,135,771               | 872,743      | 3,011,117    |
| Total comprehensive loss                     | 2,946,449               | 1,036,314    | 2,858,836    |
| Net loss per common share, basic and diluted | 0.12                    | 0.03         | 0.14         |
| Total assets                                 | 4,139,897               | 7,943,743    | 8,241,375    |
| Total liabilities                            | 255,203                 | 1,161,087    | 780,719      |

### *Net loss and operating expenses*

The Company's net loss increased from \$872,743 for the year ended December 31, 2012, to \$3,135,771 for the year ended December 31, 2013. General and administrative costs decreased by approximately \$560,000 and share-based payment expense decreased by approximately \$210,000 as a result of the Company's limited cash position and lack of new option grants, respectively. During 2013, the Company recorded no debt forgiveness income (2012 - \$445,670).

The primary difference between the years was the loss recorded upon the Company's loss of control of its subsidiary, GCM, which was approximately \$2.5 million. The transactions that generated this loss is described in the Current Highlights section of the MD&A. Net loss for 2013 was approximately \$650,000, excluding this loss (2012 – approximately \$870,000).

### *Mineral property*

The following table summarizes the changes to the Company's investment in mineral properties for the years ended December 31, 2013 and 2012.

|                                                  | December 31, 2013 | December 31, 2012 |
|--------------------------------------------------|-------------------|-------------------|
| Balance, beginning of year                       | \$ 7,847,658      | \$ 7,293,077      |
| Option and land payments                         | -                 | 497,450           |
| Exploration expenditures                         | -                 | 179,946           |
| Exchange rate variances                          | 386,993           | (122,815)         |
| Derecognition upon loss of control of subsidiary | (5,991,358)       | -                 |
| Balance, end of year                             | \$ 2,243,293      | \$ 7,847,658      |

## **Capital resources and liquidity**

At December 31, 2013, the Company had cash and cash equivalents of approximately \$14,000, compared to approximately \$4,600 on December 31, 2012. Its working capital deficit at December 31, 2013 was approximately \$241,000 (December 31, 2012 – approximately \$1,100,000).

The Company manages liquidity risk through maintaining sufficient cash or credit terms with its suppliers to meet the operating requirements of the business and investing excess funds in highly liquid short term cash deposits. Management's ability to manage liquidity over the next 12 months is dependent on the Company's ability to raise funds.

During the year ended December 31, 2013, the Company was advanced and loaned operating cash from related parties; the funds were used to maintain the Company's essential corporate functions and to complete the acquisition of all mining rights to Turner for GCM. As discussed elsewhere, the Company simultaneously disposed of 79% of GCM.

## **Contractual obligations and rights**

On June 26, 2009, the Company entered into the Turner Option agreement with General Moly Inc. ("GMI") for land, patented mining claims and unpatented mining claims at the Turner Gold Property in Josephine County, Oregon, USA for US\$2,000,000, originally to be paid by December 2011.

The agreement was amended and extended through subsequent agreements. By December 31, 2013, the Company exchanged 79% of its interest in the underlying property, through shares of its formerly wholly owned subsidiary, GCM, in order to make the option payments and cause GCM to have an undivided interest in the relevant mining rights.

GMI retains a production royalty of 1.5% of net smelter return on future production from the Turner Gold Property.

On June 30, 2009, the Company acquired an exclusive option to purchase approximately 333 acres of land in Josephine County, Oregon, for a 12 month period commencing June 18, 2011 (the “Wagner Option”). The Company paid US\$25,000 for this option, which applies against the purchase price of US\$925,000.

The Company’s associate investee, GCM, must make payments against the commitment under the amended agreement as follows in order to acquire the underlying property:

| Payment                       | Scheduled due date | Date paid     | Extension fee, US\$ | Scheduled credit to purchase price | Total payments remitted through December 31, 2013, US\$ | Balance of purchase price due at December 31, 2013 |
|-------------------------------|--------------------|---------------|---------------------|------------------------------------|---------------------------------------------------------|----------------------------------------------------|
| <b>Initial purchase price</b> |                    |               |                     |                                    |                                                         | <b>\$ 925,000</b>                                  |
|                               |                    |               |                     | \$                                 |                                                         |                                                    |
| Initial payment               | June 30, 2011      | June 2011     | \$ -                | 25,000                             | \$ 25,000                                               | 900,000                                            |
| 1st extension                 | January 30, 2013   | January 2013  | 5,000               | 25,000                             | 30,000                                                  | 875,000                                            |
| 2nd extension                 | December 5, 2013   | December 2013 | -                   | 10,000                             | 10,000                                                  | 865,000                                            |
| 3rd extension                 | March 1, 2014      |               | -                   | 10,000                             | -                                                       | 865,000                                            |
| 4th extension                 | June 1, 2014       |               | -                   | 10,000                             | -                                                       | 865,000                                            |
| 5th extension                 | September 1, 2014  |               | -                   | 10,000                             | -                                                       | 865,000                                            |
| 6th extension                 | December 1, 2014   |               | -                   | 10,000                             | -                                                       | 865,000                                            |
| 7th extension                 | March 1, 2015      |               | 10,000              | -                                  | -                                                       | 865,000                                            |
| Purchase payment              | September 30, 2015 |               | -                   | 825,000                            | -                                                       | 865,000                                            |
| Total                         |                    |               | \$15,000            | \$ 925,000                         | \$ 65,000                                               | \$ 865,000                                         |

## Transactions with related parties

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

The following entities transacted with the Company in the reporting period of these Financial Statements. The terms and conditions of the transactions with key management personnel and their related parties were no more favorable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities at an arm’s length basis.

### *Russell Mining Corporation (“RMC”)*

RMC is a private corporation which owns 10,600,010 shares in the Company and owns 51% of the Turner mineral rights. RMC’s management has owners, officers and directors in common with the Company and Big Rock Holdings, LLC (“BRH”).

### *Big Rock Holdings (“BRH”)*

BRH is a private corporation which owns 28% of the Turner mineral rights. BRH has owners, officers and directors in common with the Company and RMC.

### *St. Augustine Gold and Copper Limited (“SAGC”)*

SAGC is a Toronto Stock Exchange registrant which has owners, officers and directors in common with the Company, RMC and BRH. Further, the Company utilizes the services of SAGC’s corporate staff, which is billed by SAGC to the Company at terms which approximate market terms for similar services.

### *Norton Rose Canada LLP (“NRC”)*

NRC is the Company's securities counsel, and a principal of the firm is the Company's corporate secretary.

#### *Disposition of 79% of Turner*

Effective December 31, 2013, management finalized the disposition of 79% of the Company's interest in Turner by way of the sale of 79% of the common shares of the Company's previously wholly owned subsidiary, GCM. The sale of GCM shares was made to companies owned and operated by individuals who are also officers and owners of the Company. A loss of \$2,487,162 was reported as a result of the loss of control of GCM. The Company's interest in GCM is reported as an investment in associate at December 31, 2013, at a value of \$1,882,327.

The Company received total consideration of US\$1,605,421 under the terms of this transaction. Consideration from this transaction was used to cause GCM to own an undivided interest in Turner.

#### *Notes payable to BRH*

The Company's payable to BRH of US\$600,521 was settled in exchange for 28% of the Project in December 2013. The Company issued 2,220,000 warrants, valued at \$99,800, as part of the consideration for the note in 2012 which were cancelled as part of the exchange.

#### *Convertible note payable to RMC*

On September 26, 2012, the Company issued a note payable to RMC, a private company with officers and directors common to the Company, for US\$50,000. The principal and accrued interest totaled approximately \$56,000 at December 31, 2013, when it was derecognized as a liability of GCM, following the Company's loss of control of GCM.

RMC was issued 100,000 shares ("Finance Shares"), fair-valued on the grant date at \$12,500 as part of consideration for the note.

#### *Finder's Agreement*

On June 22, 2009, the Company entered into a finder's agreement with RMC for mining claims located in Josephine County, Oregon. Pursuant to this agreement, RMMU agreed to advance the Company funds and provide the technical support to complete a reserve study on the claims. The agreement also contemplates RMC and the Company entering into a management agreement for RMMU to provide technical and administrative services to the Company.

When production begins on the Turner Gold Property, US\$1,500,000 is due to Russell Mining Corp. ("RMC") in 24 equal installments.

#### *Summary of transactions with SAGC, RMC and Norton Rose:*

|             | Amounts payable as at December 31, |            | Expenses incurred during the years ended December 31, |            |
|-------------|------------------------------------|------------|-------------------------------------------------------|------------|
|             | 2013                               | 2012       | 2013                                                  | 2012       |
| SAGC        | \$ 42,517                          | \$ 132,911 | \$ 43,134                                             | \$ 116,995 |
| RMC         | 26,360                             | 20,578     | 162,741                                               | (76,789)   |
| Norton Rose | 96,233                             | 74,607     | 1,998                                                 | 89,565     |
| Totals      | \$ 165,110                         | \$ 228,096 | \$ 207,873                                            | \$ 129,771 |

The above transactions were conducted in the normal course of operations and measured at the agreed upon exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

## Off-balance sheet arrangements

As at December 31, 2013, the Company had no off-balance sheet arrangements.

## Financial instruments and other instruments

The fair values of the Company's cash and cash equivalents, accounts payable and notes payable approximate their carrying values because of the short-term nature of these instruments.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, and commodity price risk.

### Currency risk

The Company's property interests in the United States make it subject to foreign currency fluctuations which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian Dollar and foreign functional currencies. The Company does not use hedging instruments to mitigate the financial statement or cash flow risks associated with fluctuations in exchange rates.

### Credit risk

The Company's cash is held in large Canadian and United States financial institutions. The Company does not have any short-term investments.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within twelve months of the balance sheet date. At December 31, 2013, current liabilities exceeded current assets, resulting in negative working capital of approximately \$241,000 (December 31, 2012 – approximately \$1,100,000).

### Commodity price risk

The ability of the Company to explore its mineral properties and the future profitability of the Company are directly related to the market price of gold and other precious metals. The Company has not hedged any of its potential future gold sales. The Company's input costs are also affected by the price of fuel. The Company monitors gold and fuel prices to determine the appropriate course of action to be taken by the Company.

## Outstanding share data

As at the date of this MD&A, the Company's outstanding equity securities are described as follows:

| Security                                                                            | Outstanding                                            |
|-------------------------------------------------------------------------------------|--------------------------------------------------------|
| Voting equity securities issued and outstanding                                     | 25,551,010 common shares                               |
| Securities convertible or exercisable into voting equity securities – stock options | Stock options to acquire up to 1,800,000 common shares |
| Securities convertible or exercisable into voting equity securities – warrants      | Warrants to acquire up to 10,500,000 common shares     |

## **Risks and uncertainties**

### **No history of earnings**

The Company has no history of earnings. Additional external financing will be required to finish a feasibility study and develop the Turner Gold Property, which is now owned by a related party, GCM, which will likely require further related party financing. There can be no assurances that any of the Company's properties contain an economic ore body.

### **Title risks**

Although the Company has exercised due diligence with respect to determining title to the properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral property interest may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. Until competing interests, if any, in the mineral lands have been determined, the Company can give no assurance as to the validity of title to those lands or the size of such mineral lands.

### **Exploration and development**

Resource exploration and development is a highly speculative business activity, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. The marketability of minerals the Company may acquire or discover may be affected by numerous factors that are beyond its control and that cannot be accurately 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, the import and export of minerals and environmental protection, the combination of such factors may result in the Company not receiving an adequate return of investment capital.

The Turner Gold Property is in the development stage and is without a known commercially-mineable ore body.

There is no assurance that the Company's mineral exploration and development activities will result in any discoveries of commercial bodies of ore. The long-term profitability of its operations will in part be directly related to the costs and success of its development programs, which may be affected by a number of factors.

Substantial expenditures are required to establish reserves through drilling and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis.

The Company is required to obtain required permits from various government departments to carry out its work programs. There is no guarantee all required permits will be granted on terms satisfactory to the Company, or at all. If such permits are not received, the Company may not be able to carry out or complete its business objectives.

### **Uninsured or uninsurable risks**

Exploration, development and production of mineral properties is subject to certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes may occur. It is not always possible to insure fully against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or for other reasons. Should such liabilities arise, they could have a material adverse impact on the Company's operations and could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

## **Operating hazards and risks**

Mineral exploration and development involves risks which even a combination of experience, knowledge and careful examination may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to hazards and risks normally incidental to exploration, developments and production of minerals, any of which could result in work stoppages, damage to or destruction of property, loss of life and environmental damage. The nature of these risks is such that liabilities might exceed insurance policy limits, the liabilities and hazards might not be insurable or the Company may elect not to insure itself against such liabilities due to high premium costs or other factors. Such liabilities may have a materially adverse effect upon the Company's financial condition.

## **Environmental risks, regulations, permits and licenses and other regulatory requirements**

The Company's operations may be subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas that would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner that means standards are stricter, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

The Company's operations, including development activities and commencement of production on its properties, require permits from various federal, provincial or territorial and local governmental authorities, and such operations are and will be governed by laws, and regulations governing prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

Such operations and exploration activities are also subject to substantial regulation under applicable laws by governmental agencies that may require that the Company obtains permits from various governmental agencies. There can be no assurance, however, that all permits that the Company may require for its operations and exploration activities will be obtainable on reasonable terms or on a timely basis or that such laws and regulations will not have an adverse effect on any mining project which it might undertake.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

## **Competition**

The mining industry is intensely and increasingly competitive in all its phases, and the Company will compete with other companies that have greater financial and technical resources. Competition in the precious metals mining industry is primarily for mineral rich properties which can be developed and produced economically and businesses compete for the

technical expertise to find, develop, and produce such properties, the skilled labor to operate the properties and the capital for the purpose of financing development of such properties. Such competition could adversely affect the Company's ability to acquire suitable producing properties or prospects for mineral exploration, recruit or retain qualified employees or acquire the capital necessary to fund its operations and develop its properties.

### **Dependence on management and directors**

The Company is largely dependent on the performance of its directors and officers. There is no assurance the Company will be able to maintain the services of its directors and officers or other qualified personnel required to operate its business. The loss of the services of these persons could have a material adverse effect on the Company and its prospects.

### **Fluctuating mineral prices**

The mining industry is heavily dependent upon the market price of metals or minerals being mined. There is no assurance that, even if commercial quantities of mineral resources are discovered, a profitable market will exist at the time of sale. Factors beyond the Company's control may affect the marketability of metals or minerals discovered, if any. Metal prices have fluctuated widely, particularly in recent years, and the Company will be affected by numerous factors beyond the control of the Company. The effect of these factors on the Company's operations cannot be predicted. If mineral prices decline significantly, it could affect the Company's decision to proceed with further exploration of its properties.

### **Future financing**

The Company's continued operation will be dependent upon its ability to generate operating revenues and to procure additional financing. There can be no assurance that any such revenues can be generated or that other financing can be obtained on acceptable terms to the Company, if at all. Failure to obtain additional financing on a timely basis may result in delay or indefinite postponement of further exploration and development or forfeiture of some rights in some or all of the Company's properties. If additional financing is raised by the issuance of shares from treasury, control of the Company may change and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to further explore and develop its properties, take advantage of other opportunities, or otherwise remain in business. Events in the equity market may impact the Company's ability to raise additional capital in the future.

### **Future acquisitions**

As part of the Company's business strategy, it may seek to grow by acquiring companies, assets or establishing joint ventures that it believes will complement its current or future business. The Company may not effectively select acquisition candidates or negotiate or finance acquisitions or integrate the acquired businesses and their personnel or acquire assets for its business. The Company cannot guarantee that it can complete any acquisition it pursues on favorable terms, or that any acquisitions completed will ultimately benefit its business.

### **Volatility of share price**

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price that have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market for the shares will be subject to market trends and conditions generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earning.

### **Conflicts of interest**

Certain directors and officers of the Company will and may continue to be involved in the mining and mineral exploration industry through their direct and indirect participation in corporations, partnerships or joint ventures which are potential

competitors of the Company. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers may conflict with the interest of the Company. Directors and officers of the Company with conflicts of interest will be subject to and follow procedures set out in applicable corporate and securities legislation, regulation, rules and policies.

### **Dividends**

The Company has never paid a dividend on its common shares. It is not anticipated that the Company will pay any dividends on its common shares in the foreseeable future.

### **Adverse fluctuations in currency exchange rates**

The Company will be subject to fluctuations in the rates of currency exchange between the Canadian dollar and the United States dollar and these fluctuations could materially affect the Company's financial position and results of operations as costs may be higher than anticipated. The costs of goods and services could increase due to changes in the value of the Canadian dollar or the United States dollar. Consequently, operation and development of the Company's properties might be more costly than the Company anticipates.

### **Current global economic conditions**

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, could impede the Company's access to capital or increase its cost of capital. The Company's failure to raise capital when needed or on reasonable terms may have material adverse effects on the Company's business, financial condition and results of operations. A trend in the global mining industry relates to government nationalization of natural resources; the Company's sole project is located in the United States.

### **Valuation of investment in mineral properties**

Management has identified indicators of impairment and tested its investment in mineral properties for impairment. No impairment expense was recorded during the year ended December 31, 2013 (2012 – nil). However, management disposed of 79% of its mineral asset rights (see the Current Highlights section of this MD&A), which reduced the carrying value of its investment in mineral properties. Were it not for this disposal, recognition of impairment expense would have been necessary.

## **Critical accounting policies and estimates**

### **Statement of compliance**

The Company's consolidated financial statements, including comparatives, for the years ended December 31, 2013, have been prepared in accordance with International Financial Reporting Standards effective for the Company's reporting year ending December 31, 2013.

### **Statement of compliance analysis**

Management has implemented internal controls over financial reporting and disclosure controls and procedures which management believes operate effectively. In addition to performing a rigorous period-end review of the close and financial reporting process, management analyzes its financial statements and related disclosures in relation to IFRS guidance effective for the reporting method. As of December 31, 2013, management determined that the financial statements, notes to the financial statements, and this MD&A are in compliance with IFRS and do not contain material misstatements of financial information or fact.

## Exploration and evaluation

The Company is in the exploration stage with respect to its investment in mineral properties and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral claims and crediting all revenues received against the cost of the related claims. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and assaying. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that an exploration expenditure is not expected to be recovered, it is charged to the results of operations. Exploration areas where reserves have been discovered, but require major capital expenditures before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway as planned.

## Exploration and evaluation analysis

Management has performed a rigorous review of its contractual commitments and rights and IFRS 6- Exploration for and evaluation of mineral resources. The Company's expenditures included in the Company's mineral properties include those which have directly benefited the Turner Gold Project and which management has determined, based on an impairment analysis, to be recoverable.

The impact of the Company's treatment of capitalized expenses in respect of the Company's financial statements has been to increase the Company's assets and decrease net loss, as compared to a policy which expenses a higher proportion of Project expenditures.

## Outlook

The Company disposed of 79% of its interest in Turner during 2013. Management's future focus is to support its associate, GCM, in the development and stewardship of GCM's undivided interest in Turner.

Due to an ongoing lack of funds available in public debt and equity markets, management expects to continue to support GCM by way of related party funding. However, there can be no reliance on additional related party funding, as there are no commitments or guarantees have been made with respect to further financing.