

# VIPER GOLD LTD.

## MANAGEMENT'S DISCUSSION & ANALYSIS

### FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012

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This management's discussion and analysis ("**MD&A**") discusses the activities and financial position of Viper Gold Ltd. ("**Viper**" or the "**Company**") for the nine month period ended September 30, 2012. The following information should be read in conjunction with the unaudited condensed interim financial statements of the Company as at and for the nine month period ended September 30, 2012 and the related notes contained therein, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Additional information can be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com), and the Company's website at [www.vipergoldltd.com](http://www.vipergoldltd.com).

All dollar amounts are expressed in Canadian currency unless otherwise stated.

#### **Date of Report**

This MD&A is dated November 12, 2012 and presents material information up to this date.

#### **Forward-Looking Statements**

This MD&A may contain forward-looking statements relating to future events. In some cases, forward-looking statements can be identified by words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "believe", or similar expressions. In particular, this MD&A contains forward-looking statements with respect to the Company's operations and with respect to the use of proceeds and anticipated closing date in respect of its current private placement offering.

These forward-looking statements by their nature involve risks and uncertainties that could cause actual results to differ materially from those contemplated by such statements, including the "Risks and Uncertainties" discussed in this MD&A. In particular, the results are dependent upon the ability of the Company to close the current private placement and the amount of the proceeds pursuant thereto; the accuracy of technical report data respecting the Corongo Property; results of drilling and soil sampling; general market and economic conditions and commodity prices; environmental and weather risks; political, economic and regulatory risks of operating in Peru; availability of qualified personnel and management; access to capital; the Company's ability to maintain its properties in good standing; the Company's ability to earn the optioned interest on the Grindstone Creek Property; the Company's dependence on third parties; and other factors, many of which are beyond the control of the Company. The Company considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but cautions the reader that these assumptions regarding future events, many of which are beyond the control of the Company, may ultimately prove to be incorrect.

## **Brief Description of Business**

Until August 19, 2010, the Company was classified as a Capital Pool Company for the purposes of the policies of the TSX Venture Exchange (the "**TSXV**"). As a Capital Pool Company, the Company's business was to identify and evaluate businesses and assets with a view to completing a Qualifying Transaction, as such term is defined in the policies of the TSXV. Until completion of the Qualifying Transaction, the Company was not permitted to carry on any business other than the identification and evaluation of businesses or assets with a view to completing a potential Qualifying Transaction. On August 17, 2010, the Company closed its Qualifying Transaction and is now classified as a Tier 2 mining issuer.

## **History of the Company and Overall Performance**

Viper Gold Ltd. was incorporated pursuant to the *Business Corporations Act* (Alberta) on January 29, 2008 under the name LeBoldus Capital Inc. The Company completed its initial public offering ("**IPO**") of 1,000,000 common shares in the capital of the Company ("**Common Shares**") at a price of \$0.20 per share on July 10, 2008, and the Common Shares commenced trading on the TSXV on July 25, 2008 under the trading symbol "LEB.P".

The Company realized gross proceeds from the IPO of \$200,000 (net proceeds of \$157,468). In connection with its IPO and pursuant to the terms of an agency agreement, the Company paid an agent a commission of 10% of the gross proceeds (\$20,000) and fees and costs of \$22,532. The Company also granted the agent an option to acquire up to 100,000 Common Shares at a price of \$0.20 per share until July 25, 2010, which option had been valued at \$3,912. The agent's option expired unexercised. The Company incurred additional fees and costs in relation to the IPO of \$75,232, which included legal (\$46,772), accounting and audit (\$10,383), filing (\$17,145), printing (\$581) and other expenses.

On March 17, 2010, the Company entered into an option agreement (the "**Option Agreement**") dated effective March 10, 2010 with Duran Ventures Inc. (TSXV: DRV) ("**Duran**"), an arm's length resource company focused on the exploration and development of porphyry copper, precious metal and polymetallic deposits in Peru, and its subsidiary Minera Aguila de Oro S.A.C. ("**Minera**"). The Option Agreement provided the Company with the right to acquire a 50% interest in certain mineral claims comprising a prospective gold property known as the Corongo Property in Peru (the "**Corongo Property**"). The Company and Duran amended the Option Agreement effective June 22, 2010 to extend the outside date of closing to October 24, 2010 and to modify the payment schedule of exploration expenditures. In addition, the Option Agreement was amended such that the Company is the operator of the project. The Option Agreement was amended effective August 5, 2010 to further modify the payment schedule of exploration expenditures.

Consideration for the 50% interest in the Corongo Property consisted of: (i) the payment of U.S.\$25,000 (\$25,247 paid) in cash upon execution of the Option Agreement (which amount has been paid); (ii) the Company incurring not less than U.S.\$1,000,000 in exploration expenditures on the Corongo Property (U.S. \$1,000,000 has been incurred) prior to March 10, 2012; and (iii) the issuance of 1,000,000 Common Shares, to be issued as follows: (a) 300,000 Common Shares on or prior to the closing of the Qualifying Transaction (which have been issued); (b) 300,000 Common Shares on or prior to March 10, 2011 (which have been issued); and (c) 400,000 Common Shares on or prior to March 10, 2012 (which have been issued).

This transaction constituted the Qualifying Transaction of the Company pursuant to the applicable policies of the TSXV. On August 17, 2010, the Company closed its Qualifying Transaction pursuant to which it acquired the option to acquire a 50% interest in the Corongo Property.

Concurrent with the closing of the Qualifying Transaction, the Company closed a private placement of 1,750,000 units of the Company ("**Units**") at a subscription price of \$0.20 per Unit for aggregate gross proceeds of \$350,000. Each Unit consisted of one Common Share and one warrant to acquire an additional Common Share at a price of \$0.40 per share until August 17, 2012, subject to acceleration in the event the Company issued a press release advising that the Common Shares have traded on the TSXV at a price per share greater than \$0.50 for 10 consecutive trading days, in which case the warrants would expire, without further notice, on the 31st day following the issuance of the press release. All of these warrants have expired without being exercised.

Trading of the Common Shares was halted on March 18, 2010 pending receipt and review by the TSXV of acceptable documentation regarding the proposed Qualifying Transaction.

In connection with the private placement, finder's fees were paid in the aggregate amounts of \$20,800 in cash and 104,000 in Finder's Warrants. Each Finder's Warrant entitled the holder thereof to purchase one Common Share at a price of \$0.20 per share until August 17, 2011. These warrants have expired without being exercised.

In connection with closing of the Qualifying Transaction, Mr. Paul Davis and Mr. Joseph Del Campo were appointed to the Company's board of directors following the resignation of Messrs. Merchant and Magnan. Mr. Davis also replaced Mr. Merchant as the Company's President and Chief Executive Officer. Messrs. Davis and Del Campo were each granted 100,000 options in connection with their appointments.

The TSXV released its final bulletin on August 19, 2010 and trading in the Common Shares resumed August 20, 2010 under the trading symbol "LEB".

On October 1, 2010 the Company engaged Advanture Capital Partners Inc. ("**Advanture**") to provide investor relations, corporate communications and marketing services to the Company. This agreement expired on September 30, 2011 and was not renewed.

On October 10, 2010, Surface Rights Agreements were entered into with two communities that cover the Santa Rosa East and Descubridora zones that were valid until October 9, 2011. These agreements were renewed in October 2011 and remain valid to October 25, 2014. These agreements are necessary for surface access and are a requirement to advance the project with more detailed trenching and drilling programs.

At the Company's annual and special meeting of shareholders held October 14, 2010, shareholders voted in favour of the name change from "LeBoldus Capital Inc." to "Viper Gold Ltd.", which was effected on the same day. At the commencement of trading on October 19, 2010, Viper began trading under the new symbol of "VPR" on the TSXV.

On December 17, 2010 the Company closed a private placement of 5,155,000 units of the Company ("**Units**") at a subscription price of \$0.25 per Unit for aggregate gross proceeds of \$1,288,750. Each Unit consisted of one Common Share and one warrant to acquire an additional Common Share at a price of \$0.30 per share until December 17, 2012, subject to acceleration in the event the Company issued a press release advising that the Common Shares had traded on the TSXV at a price per share greater than \$0.50 for 10 consecutive trading days, in which case the warrants would expire, without further notice, on the 31st day following the issuance of the press release.

In connection with the private placement, finder's fees were paid in the aggregate amounts of \$102,300 in cash and 409,200 in Finder's Warrants. Each Finder's Warrant entitled the holder thereof to purchase one

Common Share at a price of \$0.25 per share until December 17, 2011. These warrants expired without being exercised.

On July 29, 2011, the Company filed an Application to Record Ground Staked Mining Claims totalling 369 units in the Porcupine Mining Division in Currie, Egan, Bowman and McCann Townships. Details regarding the Currie-Bowman Property were reported in a press release dated August 8, 2011 and are available on SEDAR.

On August 15, 2011, the Company entered into a property option agreement with a local prospector (the "Vendor") whereby the Company could acquire an undivided 100% interest in certain unpatented mining claims known as the Campbell Lake Property, consisting of 96 claim units representing approximately 1,500 hectares in Northeastern Ontario. On February 15, 2012, the Option Agreement on the Campbell Lake Property was terminated by the Company.

On July 31, 2012, the Company entered into an option agreement (the "Agreement") with Kinross Gold Corporation ("Kinross") and Selkirk Metals Corp. ("Selkirk"), a wholly owned subsidiary of Imperial Metals Corporation on the Currie-Bowman Property, located 54 kilometres east of Timmins Ontario (the "Grindstone Creek Property"). Pursuant to the Agreement the Company can acquire a 100% interest in the Grindstone Creek Property by earning 100% of the 60% participating interest currently held by Kinross and 100% of the 40% interest held by Selkirk. The option requires expenditures totalling \$375,000 over 2 years, with the first \$125,000 committed to be expended during the first year of the Agreement in addition to staged share payments totalling 667,000 common shares of the Company, of which 167,000 (these shares have been issued) are due within 10 days of completing a 30 day due diligence period. Kinross retains a 1% NSR and Selkirk retains a 0.67% NSR, 50% (or 0.835%) of which can be purchased by the Company for a total of \$835,000. Details regarding this property were reported in a press release dated August 1, 2012.

### **The Corongo Property**

The Corongo Property is situated in the Department of Ancash in the Republic of Peru on the continent of South America, approximately 400 km north-northwest of Lima. The eleven claims comprising the Corongo Property (the "**Claims**") are centered on Universal Transverse Mercator coordinate system, Provisional South American Datum 1956, zone 18L, 198797 meters East and 9054173 meters North; or geographic coordinate system 77° 44' 00" of west Longitude and 8° 33' 00" of south Latitude.

The Claims cover an area of 3100 hectares and are named: KFC, PASACANCHA 09, PASACANCHA 13, PASACANCHA 14, PASACANCHA 15, PASACANCHA 16, PASACANCHA 19, PASACANCHA 20, PASACANCHA 21, PASACANCHA 22 and PASACANCHA 23. The Claims are 100%-held by Minera Aguila de Oro S.A.C., a Peruvian company, the subsidiary of Duran Ventures Inc (TSXV: DRV), a Canadian company.

The Corongo Property area is underlain by Jurassic and Cretaceous quartzite, siltstone, and shale sedimentary rocks members of the Chicama and Chimu Formations. The sedimentary rocks are strongly folded and faulted, with a dominant north-west strike direction.

The Corongo Property's geological setting (proximity to the Aguila Cu-Mo porphyry and the occurrence of small monzonitic stocks) is favorable for several types of intrusion-related hydrothermal deposits such as vein, manto and porphyry deposit types.

In 2009, Duran completed a phase I exploration program including mapping, trenching and underground sampling which identified four prospective zones that are characterized by contrasting geochemical signatures consistent with intrusion-related mineralization and possibly related to epithermal Au-Ag, Porphyry Cu  $\pm$  Au  $\pm$  Mo, and polymetallic Ag, Pb, Zn  $\pm$  Au deposit types.

The Descubridora Zone is the most prospective zone of the Corongo Property. Both surface and underground samples returned significant grades. Initial underground along strike sampling has outlined two mineralized zones characterized by elevated precious metal concentrations. These zones possibly represent high-grade ore shoots which may continue at depth. The Descubridora mineralized structure offers good precious metals and copper potential and should be drilled if the geophysical studies are positive.

At least one Cu, Mo  $\pm$  Au, Ag, W vein has been identified within the Pucapampa Zone where the previous owners operated an underground mine. The vein has an apparent length that reaches up to 150 m and has mineralized widths that reach up to 3.0 m. The Pucapampa mineralized structure offers good copper potential with Au, Mo as an added value.

The Breccia Zone is at an early exploration stage and only reconnaissance studies and sampling have been performed.

The Santa Rosa East mineralized zone comprises shallow to steeply dipping vein and breccia structures that are considered the continuation of the Descubridora vein system.

In 1998, Rio Tinto carried out a regional exploration program aimed at identifying new porphyry targets in the area. An exploration drilling campaign was performed within the Santa Rosa East zone. Rio Tinto drilled 8 diamond drill holes for a total of 1,465.9 metres.

During 2011, the Company completed 1,759 metres of diamond drilling in 12 holes on the Santa Rosa East, Descubridora and Santa Rosa areas. A total of 1,026 samples were sent for analysis during the year.

A summary of exploration work completed on the Corongo property in the third and fourth quarters of 2010 and the first, second and third quarters of 2011 is available in the Company's MD&A for the year ended December 31, 2010 as well as for the quarters ended March 31, 2011, June 30, 2011 and September 30, 2011, respectively.

*Santa Rosa East*

A total of 8 holes representing 1,315 metres of diamond drill core were completed on the Santa Rosa East area in 2011. Assay results for the eight holes of the program were reported in two press releases dated June 9, 2011 and July 26, 2011 and are available on SEDAR. Highlights of the assay results from the Santa Rosa East area are summarized in the following table.

| Hole ID      | From (m)      | To (m)        | Width (m)   | Gold (ppm)  | Silver (ppm)  | Copper (%)  |
|--------------|---------------|---------------|-------------|-------------|---------------|-------------|
| COR001       | 96.00         | 105.00        | 9.00        | <0.01       | 1.12          | 0.14        |
| and          | 151.10        | 158.50        | 7.40        | 0.12        | 2.51          | <0.01       |
| and          | 324.00        | 328.40        | 4.40        | 0.25        | 3.85          | <0.01       |
| COR002       | 6.80          | 10.50         | 3.70        | 0.29        | 6.35          | 0.11        |
| and          | 8.00          | 30.00         | 22.00       | 0.02        | 1.22          | 0.12        |
| <b>and</b>   | <b>152.00</b> | <b>154.50</b> | <b>2.50</b> | <b>0.57</b> | <b>61.00</b>  | <b>0.14</b> |
| COR003       | 0.20          | 15.00         | 14.80       | 0.08        | 3.00          | 0.14        |
| Incl.        | 10.50         | 15.00         | 4.50        | 0.17        | 3.27          | 0.29        |
| and          | 48.00         | 54.00         | 6.00        | 0.02        | 16.80         | 0.14        |
| COR004       | 0.00          | 6.00          | 6.00        | 1.08        | 16.55         | 0.34        |
| <b>Incl.</b> | <b>4.50</b>   | <b>6.00</b>   | <b>1.50</b> | <b>4.07</b> | <b>61.20</b>  | <b>1.30</b> |
| and          | 73.90         | 76.20         | 2.30        | 1.64        | 1326.0        | 1.98        |
| <b>Incl.</b> | <b>74.50</b>  | <b>76.20</b>  | <b>1.70</b> | <b>2.15</b> | <b>1785.0</b> | <b>2.64</b> |
| COR006       | 38.95         | 44.60         | 5.65        | 0.32        | 2.05          | 0.03        |
| and          | 102.50        | 104.00        | 1.50        | 0.18        | 2.90          | 0.10        |
| COR007       | 103.50        | 104.57        | 1.07        | 0.34        | <0.50         | <0.01       |
| COR008       | 2.75          | 5.33          | 2.58        | 0.14        | 9.28          | 0.03        |

All assay intervals reported are core length and do not represent true widths (defined as being measured at right angles to the direction of extension of the mineralized body).

*Descubridora*

A total of two holes representing 200 metres of diamond drill core were completed on the Descubridora area in 2011. Assay results for the two holes of the program were reported in a press release dated July 26, 2011 and are available on SEDAR. Highlights of the assay results from the Descubridora area are summarized in the following table.

| Hole ID       | From (m) | To (m) | Width (m) | Gold (ppm) | Silver (ppm) | Copper (%) |
|---------------|----------|--------|-----------|------------|--------------|------------|
| <b>COR009</b> | 9.50     | 10.50  | 1.00      | 0.49       | 6.10         | <0.01      |
| and           | 31.50    | 34.50  | 3.00      | 0.88       | 0.90         | <0.01      |
| and           | 42.00    | 47.80  | 5.80      | 0.92       | 9.36         | <0.01      |
| incl.         | 45.00    | 46.40  | 1.40      | 2.48       | 8.00         | <0.01      |
| <b>COR010</b> | 7.00     | 9.50   | 2.50      | 0.42       | 37.74        | 0.04       |
| incl.         | 8.00     | 9.50   | 1.50      | 0.60       | 50.70        | 0.07       |
| and           | 19.50    | 32.50  | 12.50     | 0.91       | 9.10         | 0.01       |
| incl.         | 19.50    | 22.50  | 3.00      | 3.57       | 25.65        | <0.01      |

All assay intervals reported are core length and do not represent true widths (defined as being measured at right angles to the direction of extension of the mineralized body).

### *Santa Rosa*

A total of two holes representing 242 metres of diamond drill core were completed on the Santa Rosa area in 2011. The drill program was designed to test the down plunge extent of the Santa Rosa Copper Porphyry system and the gold silver potential of the hosting sedimentary sequence. Assay results for the COR011 were reported in a press release dated July 26, 2011 and are available on SEDAR. Highlights of the assay results from the Santa Rosa area are summarized in the following table.

| Hole ID       | From (m) | To (m) | Width (m) | Gold (ppm) | Silver (ppm) | Copper (%) |
|---------------|----------|--------|-----------|------------|--------------|------------|
| <b>COR011</b> | 37.90    | 40.50  | 2.60      | 1.18       | 96.81        | 2.22       |
| incl.         | 37.90    | 39.50  | 1.60      | 1.81       | 140          | 2.46       |
| and           | 60.00    | 63.00  | 3.00      | 0.24       | 24.55        | 0.22       |
| incl.         | 63.00    | 61.50  | 1.50      | 0.19       | 45.10        | 0.30       |
| <b>COR012</b> | 69.00    | 70.50  | 1.50      | 0.26       | 19.70        | 0.06       |

All assay intervals reported are core length and do not represent true widths (defined as being measured at right angles to the direction of extension of the mineralized body).

### **The Currie – Bowman Property**

The Currie-Bowman Property is located approximately 50 kilometres east of Timmins, Ontario, and consists of 369 contiguous staked unpatented mining claims covering over 5,900 Ha in a relatively under explored volcanic assemblage with documented occurrences of gold mineralization.

Viper Gold holds a 100% interest in the staked mining claims that are located in Currie, Bowman, Egan and McCann Townships. The property is located 10 kilometres south of the interpreted Destor Porcupine Fault Zone and appears to be cut by a number of northwest and north trending faults and fold features.

Viper Gold was attracted to this area given the close proximity to existing gold deposits (Golden Arrow and Grindstone Creek zones), documented gold occurrences in the Ontario Ministry of Northern Development, Mines and Forestry, Mineral Deposit Inventory, the presence of ultramafic rocks within the volcanic package (key to gold mineralization throughout the Destor Porcupine Fault System), interpreted fault, fold and shear features and the intrusion of the sequence by porphyry intrusions.

The area is considered by Viper Gold to represent a pull apart basin associated with strike-slip movement along the Destor Porcupine Fault Zone. Pull apart basins in other parts of the world are known to host significant deposits of gold associated with the development of fault and shear features associated with the tensile structural zone. The tensile structural zone is an area that will focus hydrothermal fluids and provides a zone for the intrusion of porphyry bodies that may be related to gold mineralization.

## ***Exploration***

### *Corongo:*

During the third quarter of 2012, a soil sampling program was conducted on the Pucapama area. The sampling has identified a new copper in soil anomaly over an area of 1,200 metres east-west and up to 900 metres north-south on the property. Results from sampling indicate a broad copper and molybdenum anomaly (defined by values of greater than 500 ppm copper and/of 100 ppm molybdenum) that is broadly coincident with the interpreted boundaries of the altered dioritic intrusion.

The soil sampling program consisted of 215 samples taken along north-south lines with a 200 metres line separation with a maximum length of 1,500 metres. The program was designed to identify areas of potential copper-molybdenum mineralization under cover associated with an altered dioritic intrusion. Copper-in-soil values included 78 samples (36%) with more than 500 parts-per-million (“ppm”) and molybdenum-in-soils values included 79 samples (37%) with more than 100 ppm.

Previous sampling on the Pucapampa area completed by Duran Ventures in 2009 identified anomalous copper-molybdenum and gold-silver mineralization associated with historic small scale mining and excavations. Initial underground chip sampling indicates that the mineralization is characterized by anomalous mineral contents which assay on average 0.17 grams per tonne (“gpt”) gold 4.5 gpt silver, 0.141% copper and 0.040% molybdenum. Furthermore, limited surface rock sampling from 2009 also returned anomalous metal contents that reached up to 2.96 gpt gold, 121.7 gpt silver, 0.570% copper and 0.044% molybdenum.

The definition of new copper and molybdenum soil anomalies in the Pucampa area are highly encouraging for the porphyry potential of the area, especially when combined with the known porphyry style copper mineralization associated with the Santa Rosa zone located approximately 3 kilometres to the east of Pucapampa. Less than 20% of the Corongo Property has been explored to date and these results further indicate that the property does not only have gold and silver potential, but also copper and molybdenum potential.

### *Campbell Lake Property*

On February 15, 2012, the Company effectively terminated the option agreement for the Campbell Lake Property entered into with the vendor of the property on August 15, 2011. This decision was taken as a result of the discrepancy in analytical results identified by the Company in the fourth quarter of 2011.

### *Currie-Bowman Property*

Compilation work was completed on the Company’s unpatented mining claims and surrounding properties in the first quarter of 2012 in preparation for a potential exploration program to be completed throughout the remainder of the year. The exploration work contemplated on the property would include airborne geophysics, surface mapping and sampling and diamond drilling.



## Selected Quarterly Financial Information

A summary of selected financial information for the periods indicated follows:

|                    | For the three months ended |                  |                 |                 |                 |                  |                 |                 |
|--------------------|----------------------------|------------------|-----------------|-----------------|-----------------|------------------|-----------------|-----------------|
|                    | Sep 30,<br>2012            | June 30,<br>2012 | Mar 31,<br>2012 | Dec 31,<br>2011 | Sep 30,<br>2011 | June 30,<br>2011 | Mar 31,<br>2011 | Dec 31,<br>2010 |
| Net Loss           | \$ 29,072                  | \$ 24,599        | \$ 31,457       | \$ 184,974      | \$ 52,571       | \$ 103,741       | \$ 222,875      | \$ 97,042       |
| Net Loss Per Share |                            |                  |                 |                 |                 |                  |                 |                 |
| Basic and Diluted  | \$ -                       | \$ -             | \$ -            | \$ 0.02         | \$ -            | \$ 0.01          | \$ 0.02         | \$ 0.01         |
| Total Assets       | \$ 1,259,369               | \$ 1,270,602     | \$ 1,333,978    | \$ 1,326,113    | \$ 1,567,390    | \$ 1,878,913     | \$ 1,598,103    | \$ 1,683,317    |
| Total Liabilities  | \$ 29,474                  | \$ 11,136        | \$ 49,913       | \$ 42,591       | \$ 95,832       | \$ 394,784       | \$ 10,233       | \$ 83,886       |

No dividends have been declared or paid by the Company in any of the periods presented above. The Company does not anticipate declaring or paying any dividends on its Common Shares in the foreseeable future.

## Results of Operations

The Company's major assets are its 50% interest in the Corongo Property, its 100% interest in the Currie – Bowman Property, and its option to acquire 100% interest on the Grindstone Creek Property. This is reflected in the Company's statements of financial position as at September 30, 2012 as exploration and evaluation assets of \$1,214,112 (December 31, 2011 - \$1,171,592). The change during 2012 is mostly made up of the value (\$32,000) of the 400,000 common shares of the Company issued to Duran in order to complete the earn in on the Corongo Property and the value (\$10,020) of the 167,000 common shares issued on the Grindstone Creek Property.

The Company incurred a net loss of \$85,128 during the nine months ended September 30, 2012, compared with a net loss of \$379,187 in the nine months ended September 30, 2011. Included in the 2011 loss is a share-based payment of \$139,314 as a result of granting stock options to certain directors and officers of the Company. No stock options were granted in the first nine months of 2012.

The Company has reduced the overall levels of general and administrative expenditures in order to conserve cash.

## Liquidity and Capital Resources

The Company does not currently own or have an interest in any producing mineral properties and does not derive any revenues from operations. The Company's activities have been funded through equity financing and the Company expects that it will continue to be able to utilize this source of financing until it develops cash flow from operations. There can be no assurance, however, that the Company will be successful in its efforts. If such funds are not available or other sources of financing cannot be obtained, then the Company will be forced to curtail its activities to a level for which funding is available or can be obtained.

At September 30, 2012, the Company had a cash balance of \$28,641, and a working capital surplus of \$14,416. The Company has reduced the levels of spending in order to conserve cash.

On October 3, 2012, the Company announced a non-brokered private placement of up to \$502,000 consisting of up to 4.3 million common shares to be issued on a "flow-through" basis at a price of \$0.07 per share and up to 3.35 million units at a price of \$0.06 per unit, each unit consisting of one common share and one warrant to acquire an additional share at a price of \$0.10 per share for a period of two years from the date of closing.

In connection with the private placement, finder's fees may be paid of up to 8% in cash and up to 8% in warrants, each warrant entitling the holder thereof to purchase one common share at a price of \$0.10 per share for a period of two years.

The Company intends to use the proceeds from the private placement to fund its exploration expenditure requirements on the Grindstone Creek and Currie-Bowman properties in Canada, the Corongo Property in Peru and for general working capital purposes. All securities issued in connection with the Private Placement will be subject to applicable resale restrictions. Closing of the Private Placement is expected to occur on or about November 15, 2012 and is subject to applicable regulatory approvals.

## **Commitments and Contingencies**

### *Consulting agreements*

On August 31, 2012, the Company entered into a consulting agreement with Paul C. Davis, the Company's President and Chief Executive Officer, to provide management services to the Company. The Company will pay Mr. Davis a per diem rate of \$650 to a maximum of \$4,000 monthly, along with a vehicle allowance of \$55 per day to a maximum of \$330 per month. The agreement is for a one year term expiring August 31, 2013.

On January 1, 2012, the Company entered into a consulting agreement with Joseph Del Campo, the Company's Interim Chief Financial Officer, to provide management services to the Company. The Company will pay Mr. Del Campo a monthly fee of \$1,000. The agreement is for a one year term, expiring December 31, 2012.

### *Office lease commitment*

On February 14, 2011, the Company entered into a lease agreement for office space commencing May 1, 2011. The term of the lease is for a period of two years, expiring on April 30, 2013. As part of the agreement, the Company paid a rental deposit of \$1,233 to be applied to the first rental payment due and an additional \$1,253 to be held as a security deposit. Future minimum rental payments under this lease are as follows:

|                                       |                 |
|---------------------------------------|-----------------|
| September 1, 2012 – December 31, 2012 | \$ 3,758        |
| January 1, 2013 – April 1, 2013       | <u>\$ 3,758</u> |
|                                       | <u>\$ 7,516</u> |

### *Environmental matters*

The Company currently has exploration property interests in Peru and Canada. The enforcement of environmental regulation in Peru is evolving and the enforcement posture of governmental authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations for both Peru and Canada.

The Company's exploration activities are subject to various federal and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

### **Significant accounting judgments and use of estimates**

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

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

- i. Capitalization of exploration and evaluation costs*  
Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See note 6 for details of capitalized exploration and evaluation costs.
- ii. Share-based payments*  
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- iii. *Estimation of decommissioning and restoration costs and the timing of expenditure*  
The cost estimates are updated annually and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.
- iv. *Impairment of exploration and evaluation assets*  
While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.
- v. *Income taxes and recoverability of potential deferred tax assets*  
In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws. Future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

### **Transactions with Related Parties**

During the nine month period ended September 30, 2012, the Company incurred legal fees in the amount of \$19,073 (2011 - \$25,398) from a law firm of which a director of the Company is a partner, of which \$2,459 (December 31, 2011 - \$Nil) was included in accounts payable.

During the nine month period ended September 30, 2012, directors and officers of the Company were paid a total of \$44,100 (2011 - \$44,100) for services rendered as disclosed in compensation table below, and \$19,600 (December 31, 2011 - \$6,110) was included in accounts payable.

All related party transactions are in the normal course of business. They have been measured at the agreed upon exchange amounts, which is the amount of consideration established and agreed to by the related parties.

### Compensation of Key Management

The remuneration of directors and members of key management personnel during the nine month period ended September 30, 2012 and 2011 was as follows:

|                        | <u>2012</u>      | <u>2011</u>      |
|------------------------|------------------|------------------|
| Aggregate compensation | \$ 44,100        | \$ 44,100        |
| Share-based payments   | \$ -             | \$133,092        |
|                        | <u>\$ 44,100</u> | <u>\$177,192</u> |

No options were granted during the nine month period ended September 30, 2012. The directors and key management were awarded the following share options under the employee share option plan during the nine month period ended September 30, 2011:

| <b>Date of grant</b> | <b>Number of options</b> | <b>Exercise price</b> | <b>Expiry</b>    |
|----------------------|--------------------------|-----------------------|------------------|
| January 26, 2011     | 456,000                  | \$0.40                | January 26, 2016 |
| March 29, 2011       | 100,000                  | \$0.26                | March 29, 2016   |

### Disclosure of Outstanding Share Data

The Company is authorized to issue an unlimited number of Common Shares, of which 12,772,000 Common Shares were issued and outstanding as at September 30, 2012. Of these Common Shares, 1,239,000 were held in escrow to be released *pro rata* to the holders thereof in accordance with the applicable policies of the TSXV. The Common Shares began to be released from escrow upon the issuance of the final bulletin from the TSXV announcing the acceptance of the Company's Qualifying Transaction on August 19, 2010. As at September 30, 2012, there were 906,000 Common Shares issuable upon exercise of incentive stock options granted to the Company's directors, officers and consultants.

As at September 30, 2012 and as at the date hereof, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company:

|  | <b>Authorized</b>   | <b>Outstanding as at<br/>September 30, 2012</b> | <b>Outstanding as at<br/>November 12, 2012</b> |
|--|---|---|--|
| Voting or equity securities issued and outstanding   | Unlimited Common Shares   | 12,772,000                                      | 12,772,000                                     |
| Securities convertible or exercisable into voting or equity securities - stock options           | Stock Options to acquire up to 10% of outstanding Common Shares | 906,000   | 906,000  |
| Securities convertible or exercisable into voting or equity securities – Warrants <sup>(1)</sup> | 5,155,000   | 5,155,000                                       | 5,155,000                                      |

Notes:

- (1) Each warrant entitles the holder thereof to acquire one additional Common Share at a price of \$0.30 per share until December 17, 2012, subject to acceleration in the event the Company issues a press release advising that the Common Shares have traded on the TSXV at a price per share greater than \$0.50 for 10 consecutive trading days, in which case the warrants shall expire, without further notice, on the 31st day following the issuance of the press release.

## Stock Options

The Company has adopted an incentive stock option plan (the "**Plan**"), whereby it may grant options to directors, officers, employees, and consultants of the Company. The maximum number of Common Shares that may be reserved for issuance under the Plan is limited to 10% of the issued Common Shares of the Company at any time with no one individual being granted more than 5% of the issued and outstanding Common Shares. The exercise price of options granted under the Plan shall not be less than the closing price of the Common Shares on the day proceeding the day the options are granted, less any discounted price permitted by the TSXV.

On July 10, 2008, the Company granted options to the officers, directors and a consultant of the Company providing the right to purchase an aggregate of up to 250,000 Common Shares of the Company at an exercise price of \$0.20 per share until July 10, 2013.

On August 17, 2010, the Company granted options to two directors of the Company to acquire an aggregate of 200,000 options, exercisable at a price of \$0.20 per common share for a period of five years from the date of grant. The options vested immediately upon grant.

On October 1, 2010, the Company granted options to a consultant to acquire an aggregate of 50,000 options, exercisable at a price of \$0.20 per share for a period of five years from the date of grant. The options vest in four equal tranches every quarter with the first tranche having vested on December 31, 2010. These options expired unexercised.

On January 26, 2011, the Company granted a total of 481,000 stock options to directors, officers and a consultant of the Company, exercisable at a price of \$0.40 per common share for a period of five years from the date of grant. The 456,000 options granted to directors and officers vested immediately. The 25,000 options granted to the consultant vest as to ¼ on each of the 3rd, 6th, 9th, and 12th month anniversaries of the date of grant. The 25,000 options have expired unexercised.

On March 29, 2011, the Company granted options to a director of the Company to acquire an aggregate of 100,000 common shares, exercisable at a price of \$0.26 per common share for a period of five years from the date of grant, all of which vested immediately. These options have expired unexercised.

The grant date fair value of the options granted was determined using the Black-Scholes option pricing model, using the following range of assumptions:

|                                  | <u>2011</u>     | <u>2010</u>   |
|----------------------------------|-----------------|---------------|
| Risk-free interest rate          | 2.56% - 2.71%   | 2.03% - 2.18% |
| Expected life                    | 5 years         | 5 years       |
| Expected volatility              | 100%            | 100%          |
| Dividend yield                   | nil             | nil           |
| Exercise price                   | \$0.26 - \$0.40 | \$0.20        |
| Grant date fair value per option | \$0.20 - \$0.25 | \$0.13        |

If and when the stock options are ultimately exercised, the applicable amounts in the share-based payments reserve account will be transferred to share capital.

### **Financial Instruments and Other Instruments**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures from the previous year.

#### Credit Risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. Cash is held with a reputable Canadian financial institution, from which management believes the risk of loss is remote. Financial instruments included in amounts receivable consists of harmonized sales tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable is minimal.

#### Liquidity Risk

As at September 30, 2012, the Company had working capital of \$14,416 (December 31, 2011 - \$109,798). The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

#### Market Risk

At the present time, the Company does not hold any interest in a mining property that is in production. The Company's viability and potential success depends on its ability to develop, exploit, and generate revenue from the development of mineral deposits. Revenue, cash flow, and profits from any future mining operations in which the Company is involved will be influenced by precious and/or base metal prices and by the relationship of such prices to productions costs. Such prices can fluctuate widely and are affected by numerous factors beyond the Company's control.

#### Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has cash balances and currently does not carry interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its financial institutions. As at September 30, 2012, the Company's exposure to interest rate risk is minimal.

#### Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Company is required to make all exploration expenditures required under the Option Agreement in US dollars (see Note 6 to the condensed interim financial statements) but does not use derivative instruments to manage its exposure to foreign currency. As at September 30, 2012, the Company had cash balances of \$629 in US dollars. Sensitivity to a plus or minus 5% change in the foreign exchange rate would not have had a material effect to the net loss for the nine month period ended September 30, 2012.

### Commodity Price Risk

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

### Fair Value of Financial Assets and Liabilities

The book values of the cash, amounts receivable, and accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature of these instruments.

The fair values together with the carrying amounts shown in the statements of financial position are as follows:

|  | As at September 30,<br>2012 |               | As at December 31,<br>2011 |               |
|--|-----------------------------|---------------|----------------------------|---------------|
|  | Carrying<br>amount          | Fair<br>value | Carrying<br>amount         | Fair<br>value |
| Cash                                     | \$ 28,641                   | \$ 28,641     | \$ 98,813                  | \$ 98,813     |
| Amounts receivable                       | 12,614                      | 12,614        | 43,004                     | 43,004        |
| Accounts payable and accrued liabilities | (29,474)                    | (29,474)      | (42,591)                   | (42,591)      |

### **Changes in Internal Controls over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting during the three and nine months ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

### **Qualified Person**

The foregoing scientific and technical information has been prepared or reviewed by Paul C. Davis, P.Geo., the President and Chief Executive Officer of the Company. Mr. Davis is a “qualified person” within the meaning of National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* (“NI 43-101”).

### **Risks and Uncertainties**

#### *Title Matters*

Although a legal opinion was prepared in respect of the mineral claims comprising the Corongo Property, there is no guarantee that title to the claims will not be challenged or impugned. The mining claims comprising the Corongo Property may be subject to prior unregistered licences, agreements or transfers, native land claims or other undetected title defects. In particular, the KFC mineral concession acquired by Minera was forfeited in September 1996 by a previous owner due to non-compliance with payment of license fees. The previous owner initiated judicial proceedings to challenge the termination of his mineral application and to seek restitution of rights. However, the claims were dismissed by final rulings in 2000



and 2003, and the maximum term to initiate a judicial action has expired. Accordingly, the Company is satisfied that evidence of title to the mining claims comprising the Corongo Property is adequate and acceptable by prevailing industry standards.

#### *No History of Operations or Earnings*

The Company does not have a history of operations, and there is no assurance that it will produce revenue, operate profitably or provide a return on investment in the future. Furthermore, the Company has limited financial resources, has no source of operating cash flow and there is no assurance that additional funding will be available to it for exploration and development.

#### *Resources*

There can be no assurance that the Company's future exploration and development efforts will result in the discovery and development of commercial accumulations of natural resources. No NI 43-101-compliant mineral resource or reserve study has been prepared on the Corongo Property.

#### *Exploration, Development and Production Risks*

An investment in the Common Shares is speculative due to the nature of the Company's business, being the earning of its interest in the Corongo Property pursuant to the terms of the Option Agreement and the exploration for minerals. Mineral exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration by the Company will result in new discoveries in commercial quantities.

The Company will evaluate prospects on an ongoing basis in a manner consistent with industry standards. The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce economic reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions have made such acquisitions or participations uneconomic. The continued operation of the Company will be dependent upon its ability to procure additional financing or generate operating revenue and there is no assurance it will be able to do either. Additional financings will be required to complete the Phase III exploration program. If the Company fails to make timely payment of all required license fees, together with required minimum exploration expenditures and maintenance obligations or penalties, it may lose its title to the mineral claims.

#### *Community Relations and Project Support*

The successful development of the Corongo Property is dependent on support from local communities. On October 25, 2011, Surface Rights Agreements were entered into with two communities that cover the Santa Rosa East and Descubridora zones that are valid until October 25, 2014. These agreements are necessary for surface access and are a requirement to advance the project with more detailed trenching and drilling programs. There is no assurance that such agreements will be extended beyond October 25, 2014.

#### *Political and Economic Risk in Peru*

The Corongo Property is located in Peru. Regardless of recent progress in restructuring its political institutions and revitalizing its economy, Peru's history since the mid-1980s has been one of political and economic instability under both democratically elected and dictatorial governments. These governments

frequently have intervened in the national economy and social structure, including periodically imposing various controls, the effects of which have been to restrict the ability of both domestic and foreign companies to freely operate. Although the Company believes that the current conditions in Peru are relatively stable and conducive to conducting business, the Company's current and future mineral exploration and mining activities in Peru are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to, terrorism, hostage taking, military repression, extreme fluctuations in currency exchange rates, high rates of inflation, political and labour unrest, the risks of war or civil unrest, expropriation and nationalization, renegotiation or nullification of existing concessions, licences, permits and contracts, illegal mining, changes in taxation policies, restrictions on foreign exchange and repatriation, changing political conditions, fluctuations in currency exchange rates, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. There has been a significant level of social unrest in Peru in recent years resulting from a number of factors, including a high rate of unemployment. Protestors have targeted foreign firms in the mining sector in recent years. The Company believes that the current conditions in Peru are relatively stable and conducive to conducting business; however, there is no assurance that future social unrest will not have an adverse impact on the Company's operations.

The Company's exploration and development activities may be affected by changes in government, political instability and the nature of various government regulations relating to the mining industry. Peru's fiscal regime has historically been favourable to the mining industry and has been relatively stable over the past 10 years or so, but there is a risk that this could change. Ollanta Humala, the left-wing candidate and former army officer, was elected as President of Peru in the run-off Presidential election held on June 5, 2011. In addition, labour in Peru is customarily unionized and there are risks that labour unrest or wage agreements may impact operations. The Company cannot predict the government's positions on foreign investment, mining concessions, land tenure, environmental regulation or taxation. A change in government positions on these issues could adversely affect the Company's business and/or its holdings, assets and operations in Peru. Any changes in regulations or shifts in political conditions are beyond the control of the Company. The Company's operations in Peru will entail significant governmental, economic, social, medical and other risk factors common to all developing countries. The status of Peru as a developing country may also make it more difficult for the Company to obtain any required financing because of the investment risks associated with it.

The Company's operations in Peru may be adversely affected by economic uncertainty characteristic of developing countries. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and safety factors. Any such changes could have a material adverse effect on the Company's results of operations and financial condition.

Peru has no limitation on profit or capital remittances to foreign shareholders provided that all applicable Peruvian taxes have been paid. However, there can be no assurance that additional restrictions on the repatriation of earnings in Peru will not be imposed in the future.

#### *Approvals and Permits*

Government approvals and permits are currently, or may in the future be, required in connection with the Company's operations. To the extent such approvals are required and not obtained; the Company may be curtailed or prohibited from proceeding with planned exploration, development or operation of mineral properties. 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 and parties that were engaged in operations in the past may be required to compensate those suffering loss or damage by reason of such mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

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

#### *Substantial Capital Requirements and Liquidity*

The Company anticipates that it will have to make substantial capital expenditures for the acquisition, exploration, development and production of natural resources in the future. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

#### *Additional Funding Requirements*

From time to time, the Company may require additional financing in order to carry out its acquisition, exploration and development activities. Additional financings will be required to complete additional exploration programs. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. Lower commodity prices and general market conditions can affect the Company's ability to raise the necessary capital.

#### *Environmental Risks*

All phases of the natural resources business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with operations. The legislation also requires that facility sites and mines be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of tailings or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

Companies engaged in the exploration and development of mineral properties generally experience increased costs, and delays as a result of the need to comply with applicable laws, regulations and permits.

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 natural resource exploration and development activities may be required to compensate those suffering loss or damage by reason of its activities and may have civil or criminal fines or penalties imposed for violations of applicable laws of regulations and, in particular, environmental laws.

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

#### *Regulatory Requirements*

Natural resource activities may be affected in varying degrees by political and financial instability, inflation and haphazard changes in government regulations related to this industry. Any changes in regulations or shifts in political or financial conditions are beyond the Company's control and may adversely affect the Company's business. Operations may be effected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of Corongo property, environmental legislation and safety.

#### *Reliance on Operators and Key Employees*

The success of the Company will be largely independent upon the performance of its management and key employees. The Company will not have any key man insurance policies and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company. In assessing the risk of an investment in the Common Shares, potential investors should realize that they are relying on the experience, judgment, discretion, integrity and good faith of the management of the Company.

#### *Insurance*

The Company's involvement in the exploration for and development of natural resource properties may result in the Company becoming subject to liability for certain risks, and in particular unexpected or unusual geological operating conditions, including rock bursts, cave-ins, fire, floods, earthquakes, pollution, blow-outs, Corongo property damage, personal injury or other hazards.

Although the Company will obtain insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable, or, in certain circumstances, the Company may elect not to obtain insurance to cover specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer, could have a material adverse effect on the Company's financial position, results of operations or prospects.

No assurance can be given that insurance to cover the risk to which the Company's activities will be subject will be available at all or at economically feasible premiums. Insurance against environmental risks (including potential for pollution or other hazards as a result of the disposal of waste products occurring from production) is not generally available to the Company or to other companies within the industry. The payment of such liabilities would reduce the funds available to the Company. Should the Company be unable to fund fully the costs of remedying an environmental problem, the Company might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy.

#### *No Prior Trading*

Prior to the IPO, there was no public market for the Common Shares. Since the IPO, there has been limited trading of the Common Shares on the TSXV. The Company cannot predict at what price the Common Shares will trade and there can be no assurance that an active trading market will be maintained.

#### *Availability of Equipment and Access Restrictions*

Natural resource exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities.

#### *Conflict of Interest of Management*

Certain of the directors and officers of the Company are also directors and officers of other natural resources companies. Consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by such directors and officers relating to the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with the Company and such other companies.

#### *Share Price Fluctuations*

The market price of the Common Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company, lack of liquidity, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company, general economic conditions, changes in commodity prices, changes in mineral reserves or resource estimates, results of exploration, changes in results of mining operations, legislative changes and other events and factors outside of the Company's control.

In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Common Shares.

The Company is unable to predict whether substantial quantities of Common Shares will be sold in the open market. Any sales of substantial quantities of Common Shares in the public market, or the perception that such sales might occur, could materially and adversely affect the market price of the Common Shares.

**Approval**

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