

## **KARIANA RESOURCES INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**March 31, 2012**

#### **GENERAL**

The following information, prepared as of June 12, 2012, should be read in conjunction with the condensed interim financial statements of Kariana Resources Inc. (the "Company" or "Kariana") for the period ended March 31, 2012 and the audited financial statements of the Company for the year ended December 31, 2011. The condensed interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

During the quarter ended March 31, 2012, the Company's critical accounting estimates and significant accounting policies have remained substantially unchanged and are still applicable to the Company unless otherwise indicated. All amounts are expressed in Canadian dollars unless noted otherwise.

The risk factors identified in previous management's discussion and analysis (the "MD&A") have also remained substantially unchanged but the risk factor of future financings has assumed a greater importance to the Company in view of the current economic climate and stock market volatility. Management has assessed and will continue to address the implications of recent events in order to ensure that Kariana can continue to achieve its long term objectives.

As of January 1, 2011, the Company adopted IFRS and the following disclosure, and associated condensed interim financial statements, are presented in accordance with the International Accounting Standard 34, Interim Financial Reporting.

#### **CAUTIONARY NOTE REGARDING FORWARDING LOOKING STATEMENTS**

Certain statements contained in the foregoing management discussion & analysis (the "MD&A") constitutes forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below.

#### **DESCRIPTION OF BUSINESS**

The Company was incorporated on September 14, 2010 pursuant to the *Business Corporations Act*, British Columbia. The Company's principal business activity is the exploration of mineral properties. The Company's shares commenced trading on the Canadian Stock Exchange under the trading symbol "KAA" on August 17, 2011.

The Company is a junior mineral exploration company engaged in the acquisition and exploration of strategic mineral properties. The Company holds an option to acquire an undivided 100% interest in the South Baird Property (the "South Baird Property"), an exploration property situated in the Townships of Baird and Heyson in the District of Red Lake Mining in the Province of Ontario.

#### **CHANGES IN MANAGEMENT**

On February 28, 2012, Joel Dumaresq was appointed as the CEO and director of the Company. Herrick Lau has resigned as CEO and continued to act as a director of the Company.

The Company's Board of Directors now consists of the following: Lawrence Dick, Joel Dumaresq, Herrick Lau, Christian Klingebiel, Bastian Stein and David Velisek.

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#### **OVERALL PERFORMANCE**

The following discussion of the Company's financial performance is based on the condensed interim financial statements for the period ended March 31, 2012 and audited financial statements for the year ended December 31, 2011.

The condensed interim statements of financial position as of March 31, 2012 indicates a cash position of \$641,240 (2011 - \$686,498) and total current assets of \$662,204 (2011 - \$720,229). The decrease in total current assets was mainly due to general office administrative expenditures. Non-current assets at March 31, 2012 totalled \$103,145 (2011 - \$103,145).

Current liabilities at March 31, 2012 totalled \$21,806 (2011 - \$2,418). Shareholders' equity is comprised of share capital of \$1,022,039 (2011 - \$925,291), reserves of \$214,485 (2011 - \$163,596) and accumulated deficit of \$492,981 (2011 - \$267,931) for a net \$743,543 (2011 - \$820,956).

Working capital, which is current assets less current liabilities, is \$640,398 at March 31, 2012 compared to \$717,811 at December 31, 2011. Management believes that there is sufficient working capital to cover potential option payments, mineral property exploration projects and maintain its day-to-day operations.

During the quarter ended March 31, 2012, the Company reported a net loss of \$225,050 (\$0.019 basic and diluted loss per share) compared to a net loss of \$35,870 (\$0.006 basic and diluted loss per share) during the quarter ended March 31, 2011. Losses in the quarter ended March 31, 2012 represent operating expenses of \$225,077.

The weighted average number of common shares outstanding for the quarter ended March 31, 2012 was 11,700,824 (2011 - 6,425,000).

#### **COMPARISON RESULTS OF OPERATIONS**

During the quarter ended March 31, 2012, the Company reported a net loss of \$225,050 (\$0.019 basic and diluted loss per share). The net loss of \$225,050 (2011 - \$35,870) was due to accounting fees of \$14,280 (2011 - Nil), consulting fees of \$46,047 (2011 - Nil), filing and transfer agent fees of \$3,289 (2011 - \$12,165), legal fees of \$2,927 (2011 - \$22,500), management fees of \$7,500 (2011 - Nil), meals and travel expenses of \$971 (2011 - Nil), office general expenses of \$1,674 (2011 - \$1,205) and share-based payments of \$148,389 (2011 - Nil). During the quarter ended March 31, 2012 expenses were offset by interest income of \$27 (2011 - Nil).

The increase in consulting fees of \$46,047 was mainly due to a monthly financial advisory fee of \$15,000 to a consulting firm that is affiliated to a director of the Company and IT consulting services.

The increase in share-based payments of \$148,389 was due to the granting of 350,000 stock options and issuing 500,000 common shares to an officer and director of the Company on February 28, 2012.

During this quarter, there were no operating revenues aside from the interest income of \$27 as the Company was still in the acquisition and exploration stage. The Company's current exploration focus is on the South Baird Property. Costs incurred during the quarter ended March 31, 2012 were primarily related to general and administrative activities.

As the Company is a junior mineral exploration company without any significant revenue, it will continue to require funds to meet its ongoing day-to-day operating requirements and will have to continue to rely on equity and debt financing during the year. There can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at any particular year or if available, that it can be obtained on terms satisfactory to the Company.

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#### SUMMARY OF QUARTERLY RESULTS

The following table presents unaudited selected financial information for each of the last eight quarters:

	Qtr 1 March 31, 2011	Qtr 4 December 31, 2011	Qtr 3 September 30, 2011	Qtr 2 June 30, 2011	Qtr 1 March 31, 2011	Qtr 4 December 31, 2010	Qtr 3 September 30, 2010	Qtr 2 June 30, 2010
Revenue	-	-	-	-	-	-	N/A	N/A
Net Loss	\$225,050	\$13,670	\$168,308	\$42,367	\$35,870	\$7,716	N/A	N/A
Basic and diluted loss per share	\$0.02	\$0.03	\$0.02	\$0.01	\$0.01	0.00	N/A	N/A
Total assets	\$765,349	\$823,374	\$898,066	\$384,705	\$410,258	\$422,284	N/A	N/A
Working Capital	\$640,398	\$717,811	\$770,886	\$265,190	\$317,557	\$353,427	N/A	N/A

The financial data for 2012 and 2011 quarters are prepared in accordance with IFRS. The financial data for December 31, 2010 quarter is prepared in accordance with Canadian GAAP. In preparing the opening IFRS statements of financial position and the financial statements for the period ended December 31, 2010, there were no effect to the amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

#### Net Loss

Overall, accounting, consulting, filing and legal fees, and share-based payments are the major components that caused variances in net losses from quarter to quarter.

During the quarter ended March 31, 2012, the major expenses of the Company are the accounting fees of \$14,280, consulting fees of \$46,047, management fees of \$7,500 and share-based payments of \$148,389.

During the quarter ended December 31, 2011, the major expenses of the Company are the consulting fees of \$45,000.

During the quarter ended September 30, 2011, the major expenses of the Company are the consulting fees of \$24,531, filing fees of \$3,090, legal fees of \$4,062 and share-based payments of \$132,076.

During the quarter ended June 30, 2011, the major expenses of the Company are the accounting fees of \$16,030, accrued legal fees of \$15,000 and filing fees of \$10,149.

During the quarter ended March 31, 2011, the major expenses of the Company are the filing fees of \$12,165 and accrued legal fees of \$22,500.

#### Working Capital

Working capital for the quarter ended March 31, 2012 decreased compared to the previous quarters due to general office administrative expenditures.

#### MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

##### South Baird Property, Ontario, Canada

On September 21, 2010, the Company signed an option agreement (the "Option Agreement") with optionor to acquire an undivided 100% interest in the South Baird Property, subject to a 2% NSR to the optionor, with an option buyout of 50% of the NSR for \$1,000,000 upon or prior to the commencement of commercial production. The South Baird Property is located in the District of Red Lake Mining in the province of Ontario.

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As at March 31, 2012, the Company has the following future requirements to fulfil its obligation under the Option Agreement:

<b>Date</b>	<b>Shares</b>	<b>Cash Payments</b>
Paid on September 21, 2010	-	\$12,000 (Paid)
Issue within 30 days of completion of IPO	100,000 (Issued)	-
September 21, 2011	-	\$15,000 (Paid)
September 21, 2012	-	\$20,000
September 21, 2013	-	\$30,000
September 21, 2014	-	\$35,000
<b>Total</b>	<b>100,000</b>	<b>\$112,000</b>

The Company entered into a finder's fee agreement dated November 25, 2010 in connection with the acquisition of the South Baird Property. The Company paid finder's fee in cash of \$25,000 and issued 75,000 common shares on December 23, 2010.

Pursuant to the Option Agreement, the Company issued 100,000 common shares at \$0.20 per share to the optionor on August 17, 2011 after the completion of the Company's IPO.

#### LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2012, the Company's cash and cash equivalents balance was recorded as \$641,240 (2011 – \$686,498) and the Company had a working capital of \$640,398 (2011 - \$717,811). At March 31, 2012, the Company has share capital of \$1,022,039 (2011 – \$925,291) representing 12,025,000 (2011 – 11,525,000) common shares, reserves of \$214,485 (2011 – 163,596) and an accumulated deficit of \$492,981 (2011 – \$267,931).

The Company has not yet put into commercial production any of its mineral properties and therefore has no operating revenues. Accordingly, the Company is dependent on the equity markets as its sole source of operating working capital. The Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for the investor support of its projects.

The Company will continue to require funds to meet its obligations under its Option Agreement and as a result, will have to continue to rely on equity and debt financing during such period. There can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to the Company.

#### CONTRACTUAL OBLIGATIONS

A summary of our contractual obligations at March 31, 2012 is detailed in the table below.

<b>Contractual Obligations</b>	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 Year</b>	<b>1 – 3 Years</b>	<b>4 – 5 Years</b>	<b>After 5 Years</b>
Accounts Payable, Accrued and other Liabilities	\$21,806	\$21,806	N/A	N/A	N/A
<b>Total</b>	<b>\$21,806</b>	<b>\$21,806</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

Also refer to Mineral Properties and Deferred Exploration Expenditures section above for option payment requirements.

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#### OFF BALANCE SHEET ARRANGEMENTS

To the best of management's knowledge, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

#### TRANSACTIONS WITH RELATED PARTIES

The Company paid or accrued amounts to related parties during the quarter ended March 31, 2012 as follows:

Services provided by:	Three Months Ended, March 31,	
	2012	2011
Baron Global Financial Canada Ltd.	\$45,000	-
Pashleth Investment Ltd.	\$7,500	-

On September 1, 2011, the Company entered into an advisory agreement with Baron Global Financial Canada Ltd. ("Baron") to provide accounting and administrative services. The term of agreement is 12 months. A director of the Company is also the managing director of Baron. For the three months ended March 31, 2012, the Company has paid consulting fees of \$45,000 (March 31, 2011 – Nil) to Baron.

On February 28, 2012, the Company entered into a consulting agreement with Pashleth Investment Ltd., a company owned by Joel Dumaresq ("Dumaresq"), the CEO and director of the Company, for providing strategic planning and executive management services. The term of the agreement is one year beginning February 28, 2012 and the Company pays \$7,500 per month plus HST. On February 28, 2012, the Company granted 350,000 stock options and issued 500,000 common shares to Dumaresq as a bonus.

#### PROPOSED TRANSACTIONS

The Company does not currently have any proposed transactions approved by the Board of Directors. All current transactions are fully disclosed in the condensed interim financial statements for the period ended March 31, 2012.

#### SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

All significant accounting policies and critical accounting estimates are fully disclosed in Note 2 of the condensed interim financial statements for the period ended March 31, 2012.

#### FINANCIAL INSTRUMENTS

All financial assets and financial liabilities are initially recorded at fair value and designated upon inception into one of the following categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Held-to-maturity instruments, loans and receivables and financial liabilities not at fair value through profit and loss are measured at amortized cost using the effective interest rate method.

The Company has implemented the following classifications for its financial instruments:

- a) Cash has been classified as FVTPL.
- b) Short-term investments have been classified as FVTPL.
- c) Receivables have been classified as loans and receivables.
- d) Payables and accruals have been classified as financial liabilities not at fair value through profit and loss.

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Assets and liabilities measured at fair value on a recurring basis were presented on the Company's balance sheet as at March 31, 2012 as follows:

	Fair Value Measurements Using			Balance, March 31, 2012 \$	Balance, December 31, 2011 \$
	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$		
Cash	641,240	–	–	641,240	686,498
Short term investment	11,500			11,500	11,500

The Company's financial instruments are exposed to a number of financial and market risks, including credit, liquidity, interest rate and currency risks. The Company may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of its operations would warrant such hedging activities.

#### *Credit risk*

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

#### *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.

#### *Interest rate risk*

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has interest-bearing assets in relation to cash at banks and GIC carried at floating interest rates with reference to the market. The Company's operating cash flows are substantially independent of changes in market interest rates. The Company has not used any financial instrument to hedge potential fluctuations in interest rates. The exposure to interest rates for the Company is considered minimal. The Company has no interest bearing borrowings.

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

#### *Price Risk*

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

### **OTHER MD&A DISCLOSURE REQUIREMENTS**

#### **Disclosure of Outstanding Share Data**

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

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(1) Authorized: Unlimited common shares without par value.

(2) As at the date of this MD&A, the Company has 12,025,000 common shares, 300,000 warrants, and 1,180,000 options issued and outstanding.

#### Additional Disclosure For Junior Issuers

The Company has expensed the following material cost components:

	Three months ended March 31, 2012	Three months ended March 31, 2011
	\$	\$
Accounting fees	14,280	-
Consulting fees	46,047	-
Share-based payments	148,389	-

Accounting fees of \$14,280 included the accounting services provided for the audit of the Company's year ended December 31, 2011.

Consulting fees of \$46,047 included \$45,000 financial advisory fees paid to a consulting firm affiliated to the officers and directors of the Company and \$1,047 paid for IT consulting services.

Share-based payments of \$148,389 is recognized since 350,000 stock options were granted and 500,000 common shares were issued to Dumaresq on February 28, 2012.

The Company has capitalized the following exploration and development costs:

#### **South Baird Property, Ontario, Canada**

	\$
Acquisition Costs	12,000
Finder's Fee	32,500
Mineral Property Interest	44,500
Exploration Costs	
Geological consulting	1,857
Balance December 31, 2010	46,357
Acquisition Costs	35,000
Exploration Costs	
Drilling	5,585
Field expenses and others	4,698
Geological consulting	7,350
Report and assays	4,155
Balance December 31, 2011, March 31, 2012	103,145

#### **FUTURE ACCOUNTING STANDARDS AND INTERPRETATIONS**

Certain new accounting standards and interpretations have been published that are not mandatory for the March 31, 2012 reporting period. The following standards are assessed not to have any impact on the Company's financial statements:

(a) IFRS 9, Financial Instruments

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

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financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard.

(b) IFRS 10, Consolidated Financial Statements

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

(c) IFRS 11, Joint Arrangements

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

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

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

(e) IFRS 13, Fair Value Measurements

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

(f) IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

In IFRIC 20, the IFRS Interpretations Committee sets out principles for the recognition of production stripping costs in the balance sheet. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. While the Company is not yet in the production phase, the Company is currently assessing the future impact of this interpretation.

### RISKS AND UNCERTAINTIES

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

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



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

The Company's property interests are located in remote, undeveloped areas and the availability of infrastructure such as surface access, skilled labour, fuel and power at an economic cost, cannot be assured. These are integral requirements for exploration, development and production facilities on mineral properties. Power may need to be generated on site.

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

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

#### **ADDITIONAL INFORMATION**

Additional information about the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).