

# **KARIANA RESOURCES INC.**

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

**SEPTEMBER 30, 2013**

### **GENERAL**

The following information, prepared as of November 21, 2013, should be read in conjunction with the condensed interim financial statements of Kariana Resources Inc. (the "Company" or "Kariana") for the period ended September 30, 2013 and the audited financial statements of the Company for the year ended December 31, 2012. The condensed interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

During the period ended September 30, 2013, 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 acquisition and exploration of strategic mineral properties. The Company's shares commenced trading on the Canadian Stock Exchange under the trading symbol "KAA" on August 17, 2011.

### **OVERALL PERFORMANCE**

The following discussion of the Company's financial performance is based on the condensed interim financial statements for the period ended September 30, 2013 and audited financial statements for the year ended December 31, 2012.

The condensed interim statements of financial position as of September 30, 2013 indicate a cash position \$11,524 (2012 - \$347,959) and total current assets of \$187,761 (2012 - \$395,219). The decrease in total current assets was mainly due to consulting fees and management fees. Non-current assets at September 30, 2013 totalled \$Nil (2012 - \$138,393). The decrease in non-current assets was due to the termination of the option agreement related to the South Baird Property on July 8, 2013.

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Current liabilities at September 30, 2013 totalled \$46,479 (2012 - \$23,496). Shareholders' equity is comprised of share capital of \$1,022,791 (2012 - \$1,022,791), reserves of \$214,485 (2012 - \$214,485) and accumulated deficit of \$1,095,994 (2012 - \$727,160) for a net of \$141,282 (2012 - \$510,116).

Working capital, which is current assets less current liabilities, is \$141,282 at September 30, 2013 compared to \$371,723 at December 31, 2012. 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 period ended September 30, 2013, the Company reported a net loss of \$368,834 (\$0.03 basic and diluted loss per share) compared to a net loss of \$384,694 (\$0.03 basic and diluted loss per share) during the period ended September 30, 2012. Losses in the nine months period ended September 30, 2013 represent operating expenses of \$371,129.

The weighted average number of common shares outstanding for the nine months period ended September 30, 2013 was 12,025,000 (2012 - 11,917,336).

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

##### Current Quarter

During the quarter ended September 30, 2013, the Company reported a net loss of \$83,580 (\$0.01 basic and diluted loss per share). The net loss of \$83,580 (2012 - \$74,266) was due to consulting fees of \$31,897 (2012 - \$46,902), legal fees of \$3,111 (2012 - \$514), management fees of \$40,000 (2012 - \$22,500), meals and travel expenses of \$2,738 (2012 - \$792), office general expenses of \$2,941 (2012 - \$221), and transfer agent and filing fees of \$3,363 (2012 - \$3,365). During the quarter ended September 30, 2013 expenses were offset by interest and other income of \$470 (2012 - \$28).

During the quarter ended September 30, 2013, there were no operating revenues aside from the interest and other income of \$470 (2012 - \$28) as the Company was still in the acquisition and exploration stage. Costs incurred during the quarter ended September 30, 2013 were primarily related to general and administrative activities.

##### Year-to-Date

During the period ended September 30, 2013, the Company reported a net loss of \$368,834 (\$0.03 basic and diluted loss per share). The net loss of \$368,834 (2012 - \$384,694) was due to accounting fees of \$12,720 (2012 - \$15,780), consulting fees of \$94,064 (2012 - \$139,236), legal fees of \$11,205 (2012 - \$7,668), management fees of \$62,500 (2012 - \$52,500), meals and travel expenses of \$4,331 (2012 - \$2,618), office general expenses of \$6,661 (2012 - \$4,542), project investigation of \$15,825 (2012 - \$Nil), share based payment of \$Nil (2012 - \$148,389), transfer agent and filing fees of \$15,830 (2012 - \$14,043) and write-off of mineral properties of \$147,993 (2012 - \$Nil). During the nine months period ended September 30, 2013, expenses were offset by interest and other income of \$2,295 (2012 - \$82).

The increase in project investigation fee to \$15,825 from \$Nil was due to project feasibility study relating to the Company's mineral properties during the nine months ended September 30, 2013.

The increase in write-off of mineral properties of \$147,993 from \$Nil was due to the termination of option agreement related to the Company's South Baird Property on July 8, 2013, and the property was written off of during the reporting period ended June, 2013.

During the nine months ended September 30, 2013, there were no operating revenues aside from the interest and other income of \$2,295 (2012 - \$82) as the Company was still in the acquisition and exploration stage. Costs incurred during the nine months period ended September 30, 2013 were primarily related to general and administrative activities.

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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.

#### SUMMARY OF QUARTERLY RESULTS

The following table presents unaudited selected financial information for each of the last eight quarters. The financial data for all quarters were prepared in accordance with IFRS.

	<b>Qtr 3 September 30, 2013</b>	<b>Qtr 2 June 30, 2013</b>	<b>Qtr 1 March 31, 2013</b>	<b>Qtr 4 December 31, 2012</b>	<b>Qtr 3 September 30, 2012</b>	<b>Qtr 2 June 30, 2012</b>	<b>Qtr 1 March 31, 2012</b>	<b>Qtr 4 December 31, 2011</b>
Revenue	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Net Loss	\$83,580	\$212,290	\$72,965	\$74,537	\$74,266	\$85,376	\$225,050	\$13,670
Basic and diluted loss per share	\$0.01	\$0.02	\$0.01	\$0.01	\$0.01	\$0.01	\$0.02	\$0.00
Total assets	\$187,761	\$275,336	\$497,255	\$533,612	\$595,588	\$682,842	\$765,349	\$823,374
Working Capital	\$141,282	\$224,862	\$298,758	\$371,723	\$443,538	\$555,022	\$640,398	\$717,811

#### Net Loss

Overall, accounting, consulting, filing and legal fees, project investigation, share-based payments and write-off of mineral properties are the major components that caused variances in net losses from quarter to quarter.

During the quarter ended September 30, 2013, the major expenses of the Company are the management fees of \$40,000 and consulting fees of \$31,897.

During the quarter ended June 30, 2013, the major expenses of the Company are the write-off of mineral properties of \$147,993, consulting fees of \$31,120 and project investigation expenses of \$15,825.

During the quarter ended March 31, 2013, the major expenses of the Company are the consulting fees of \$31,047, management fees of \$22,500 and accounting fees of \$11,220.

During the quarter ended December 31, 2012, the major expenses of the Company are the consulting fees of \$46,047 and management fees of \$22,500.

During the quarter ended September 30, 2012, the major expenses of the Company are the consulting fees of \$46,902 and management fees of \$22,500.

During the quarter ended June 30, 2012, the major expenses of the Company are the consulting fees of \$46,287 and management fees of \$22,500.

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.

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#### Working Capital

Working capital for the quarter ended September 30, 2013 decreased compared to the previous quarters mainly due to management fees, consulting fees and general office administrative expenditures.

#### MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

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.

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.

On July 8, 2013, the Company terminated the Option Agreement. The Company wrote off all the related exploration and evaluation assets expenses of the South Baird Property during the reporting period ended June 30, 2013.

#### LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2013, the Company's cash and cash equivalents balance was recorded as \$11,524 (2012 – \$347,959) and the Company had a working capital of \$141,282 (2012 - \$371,723). At September 30, 2013, the Company has share capital of \$1,022,791 (2012 – \$1,022,791) representing 12,025,000 (2012 – 12,025,000) common shares, reserves of \$214,485 (2012 – \$214,485) and an accumulated deficit of \$1,095,994 (2012 – \$727,160).

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 have to continue to rely on equity and debt financing. 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 September 30, 2013 is detailed in the table below.

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Accounts Payable, Accrued and other Liabilities	\$46,479	\$46,479	N/A	N/A	N/A
<b>Total</b>	<b>\$46,479</b>	<b>\$46,479</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

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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 period ended September 30, 2013 as follows:

Services provided by:		Nine Months Ended September 30,	
		2013	2012
Baron Global Financial Canada Ltd.	a	\$90,270	\$135,855
Compensation to key management	b	\$20,000	-
Littlehampton Capital Corp.	c	\$20,000	-
Pashleth Investment Ltd.	d	\$22,500	\$52,500

a) Baron Global Financial Canada Ltd. ("Baron") is related by way of a director, who is also the managing director of Baron.

b) On July 1, 2013, the Company entered into a consulting agreement with a director of the Company for strategic planning services. The term of the agreement is one year beginning July 1, 2013 and \$5,000 per month. The Company also paid \$5,000 to the director as a signing bonus.

c) On July 1, 2013, the Company entered into a consulting agreement with Littlehampton Capital Corp. ("Littlehampton"), a company owned by the CEO and director of the Company for strategic planning services. The term of the agreement is one year beginning July 1, 2013 and \$5,000 per month. The Company also paid \$5,000 to Littlehampton as a signing bonus.

d) Pashleth Investment Ltd. ("Pashleth") is owned by the former CEO and director of the Company.

Related Party Payable:

	September 30, 2013	December 31, 2012
Pashleth	\$ 45,000	\$22,500

All amounts due to Pashleth are unsecured, non-interest bearing and have no fixed terms of repayment.

#### 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 September 30, 2013.

#### 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 September 30, 2013.

#### FINANCIAL INSTRUMENTS

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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; and
- d) Payables and accruals have been classified as financial liabilities not at fair value through profit and loss.

Assets measured at fair value on a recurring basis were presented on the Company's balance sheet as at September 30, 2013 as follows:

	Fair Value Measurements Using			Balance, September 30, 2013 \$	Balance, December 31, 2012 \$
	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$		
Cash	11,524	-	-	11,524	347,959
Short-term investment	163,500	-	-	163,500	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

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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:

(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 and 630,000 options issued and outstanding.

### **Additional Disclosure For Junior Issuers**

The Company has expensed the following material cost components:

	Nine months ended September 30, 2013	Nine months ended September 30, 2012
	\$	\$
Consulting fees	94,064	139,236
Management fees	62,500	52,500
Write-off of mineral properties	147,993	-

Consulting fees of \$94,064 included \$90,000 financial advisory fees paid to a consulting firm affiliated to the officers and directors of the Company, \$3,794 paid for IT consulting services to the Company's IT consulting company and \$270 paid to the Company's geologist.

Management fees of \$62,500 included \$22,500 accrued for the strategic planning services provided by a former officer and director of the Company, and \$40,000 for the strategic planning services provided by an officer and director and a director of the Company.

Write-off of mineral properties of \$147,993 was related to the termination of the option agreement related to the Company's South Baird Property on July 8, 2013. The property was written during the June 30, 2013 reporting period.

The Company has capitalized the following exploration and development costs:

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

	\$
Balance December 31, 2011	103,145
Acquisition Costs	20,000
Report and assays	208

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Field expenses and others	2,304
Geological consulting	12,736
Balance December 31, 2012	138,393
Alteration study	9,600
Write-off during the period	(147,993)
Balance September 30, 2013	-

#### FUTURE ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for the September 30, 2013 reporting period. The following standards are assessed not to have any impact on the Company's financial statements:

(a) Amendment to IAS 1, Presentation of Financial Statements

The amendments to IAS 1 revised the presentation of other comprehensive income (OCI). Separate subtotals are required for items which may subsequently be recycled through profit or loss and items that will not be recycled through profit or loss. The Company has updated the presentation of OCI on the face of the Statement of Comprehensive Income.

(b) 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.

The adoption of IFRS 13 by the Company has had no material impact. The fair value of the available-for-sale investment has been determined directly by reference to published price quotations in an active market. Prior to adoption of IFRS 13 the Company measured the available for sale investment on the same basis.

In addition, the following new or amended standards and interpretations that are mandatory for 2013 annual periods have not had a material impact on the Company:

- IFRS 7 Financial Instruments: Disclosures: Amendments – Offsetting Financial Assets and Financial Liabilities
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IAS 19 Employee Benefits (Amendments)
- IFRIC 20 Stripping Costs in the Production Phases of a Surface Mine

#### 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



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shortages and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a positive return on shareholders' investment.

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

The 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).