

# **KARIANA RESOURCES INC.**

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

**MARCH 31, 2014**

### **GENERAL**

The following information, prepared as of May 9, 2014, should be read in conjunction with the condensed interim consolidated financial statements of Kariana Resources Inc. (the "Company" or "Kariana") and its wholly-owned subsidiaries, 0994537 B.C. Ltd. and 0994540 B.C. Ltd., for the period ended March 31, 2014 and the audited financial statements of the Company for the year ended December 31, 2013. The condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

During the period ended March 31, 2014, 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 consolidated 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 March 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.

### **CHANGES IN MANAGEMENT**

On May 21, 2013, Joel Dumaresq resigned his position as the CEO of the Company. On May 22, 2013, Nicholas Miller was appointed as the CEO and director of the Company and resigned on December 3, 2013. On May 28, 2013, Isaac Moss was appointed as a director of the Company and resigned on December 9, 2013. On June 21, 2013, Lawrence Dick resigned his position as a director of the Company. On December 13, 2013, David Velisek, the Company's director, was appointed as the CEO of the Company, and Savio Chiu was appointed a director of the Company. On December 16, 2013, Christian Klingebiel resigned his position as a director of the Company.

### **OVERALL PERFORMANCE**

The following discussion of the Company's financial performance is based on the condensed interim consolidated financial statements for the period ended March 31, 2014 and audited financial statements for the year ended December 31, 2013.

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The condensed interim consolidated statements of financial position as of March 31, 2014 indicate a cash position of \$15,437 (2013 - \$1,140) and total current assets of \$43,447 (2013 - \$70,023). The decrease in total current assets was mainly due to general office administrative expenditures and consulting fees.

Current liabilities at March 31, 2014 totalled \$31,935 (2013 - \$1,707). Shareholders' equity is comprised of share capital of \$1,022,791 (2013 - \$1,022,791), reserves of \$87,432 (2013- \$102,314) and accumulated deficit of \$1,098,711 (2013 - \$1,056,789) for a net \$11,512 (2013 - \$68,316).

Working capital, which is current assets less current liabilities, is \$11,512 at March 31, 2014 compared to \$68,316 at December 31, 2013. 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 March 31, 2014, the Company reported a net loss of \$56,804 (\$0.02 basic and diluted loss per share) compared to a net loss of \$72,965 (\$0.02 basic and diluted loss per share) during the period ended March 31, 2013. Losses in the three months period ended March 31, 2014 represent operating expenses of \$56,870.

The weighted average number of common shares outstanding for the three months period ended March 31, 2014 was 3,006,250 (2013 – 3,006,250).

#### COMPARISON RESULTS OF OPERATIONS

During the quarter ended March 31, 2014, the Company reported a net loss of \$56,804 (\$0.02 basic and diluted loss per share). The net loss of \$56,804 (2013 - \$72,965) was due to accounting fees of \$10,220 (2013 - \$11,220), consulting fees of \$32,853 (2013 - \$31,047), management fees of \$Nil (2013 – \$22,500), meals and travel expenses of \$2,041 (2013 - \$973), office general expenses of \$864 (2013 - \$593) and transfer agent and filing fees of \$10,912 (2013 - \$7,265). During the quarter ended March 31, 2014 expenses were offset by interest income of \$66 (2013 - \$633).

The increase in transfer agent and filing fees of \$3,647 was mainly due to the management and depositary fee incurred by the Company's transfer agent relating to the Company's share consolidation effective January 16, 2014.

During this quarter, there were no operating revenues aside from the interest income of \$66 as the Company was still in the acquisition and exploration stage. Costs incurred during the quarter ended March 31, 2014 were primarily related to general and administrative activities.

#### 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 are prepared in accordance with IFRS.

	<b>Qtr 1 March 31, 2013</b>	<b>Qtr 4 December 31, 2013</b>	<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>
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net Loss	\$56,804	\$72,965	\$83,580	\$212,290	\$72,965	\$74,537	\$74,266	\$85,376
Basic and diluted loss per share	\$0.02	\$0.02	\$0.03	\$0.07	\$0.02	\$0.02	\$0.02	\$0.03
Total assets	\$43,447	\$70,023	\$187,761	\$275,336	\$497,255	\$533,612	\$595,588	\$682,842
Working Capital	\$11,512	\$68,316	\$141,282	\$224,862	\$298,758	\$371,723	\$443,538	\$555,022

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#### **Net Loss**

Overall, management fees, consulting fees, accounting 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 March 31, 2014, the major expenses of the Company are the consulting fees of \$32,853, accounting fee of \$10,200 and transfer agent and filing fee of \$10,912.

During the quarter ended December 31, 2013, the major expenses of the Company are the management fees of \$30,000 and consulting fees of \$67,407.

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.

#### **Working Capital**

Working capital for the quarter ended March 31, 2014 decreased compared to the previous quarters mainly due to consulting fees.

### **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.

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 18,750 common shares on December 23, 2010.

Pursuant to the Option Agreement, the Company issued 25,000 common shares at \$0.80 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.

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#### LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2014, the Company's cash and cash equivalents balance was recorded as \$15,437 (2013 – \$1,140) and the Company had a working capital of \$11,512 (2013 - \$68,316). As at March 31, 2014, the Company has share capital of \$1,022,791 (2013 – \$1,022,791) representing 3,006,250 (2013 – 3,006,250) common shares, reserves of \$87,432 (2013 – \$102,314) and an accumulated deficit of \$1,098,711 (2013 – \$1,056,789).

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, 2014 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	\$31,935	\$31,935	N/A	N/A	N/A
<b>Total</b>	<b>\$31,935</b>	<b>\$31,935</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

#### 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 aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

Services provided by:		Three Months Ended, March 31	
		2014	2013
Baron Global Financial Canada Ltd.	a	\$30,000	\$30,000
Pashleth Investment Ltd.	b	-	\$22,500

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

(b) Pashleth Investment Ltd. is owned by the former CEO and director of the Company. On December 31, 2013, the former CEO and director forgave amounts owing of \$45,000 which was recorded as a cost recovery.

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Related Party Payable:

	March 31, 2014	December 31, 2013
Baron Global Financial Canada Ltd.	\$ 21,000	-

#### 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 consolidated financial statements for the period ended March 31, 2014.

#### 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 consolidated financial statements for the period ended March 31, 2014.

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

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's balance sheet as at March 31, 2014 as follows:

	Fair Value Measurements Using			Balance, March 31, 2014 \$	Balance, December 31, 2013 \$
	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$		
Cash	15,437	-	-	15,437	1,140
Short-term investment	11,500	-	-	11,500	54,500

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.

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### *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:

- (1) Authorized: Unlimited common shares without par value.
- (2) As at the date of this MD&A, the Company has 3,006,250 common shares, and 132,500 options issued and outstanding.

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

The Company has expensed the following material cost components:

	Three months ended March 31, 2014	Three months ended March 31, 2013
	\$	\$
Accounting fees	10,200	11,220
Consulting fees	32,853	31,047
Transfer agent and filing fees	10,912	7,265

Accounting fees of \$10,200 included the accounting services provided for the audit of the Company's year ended December 31, 2013.

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Consulting fees of \$32,853 included \$30,000 financial advisory fees paid to a consulting firm affiliated to the officers and directors of the Company and \$2,853 paid for IT consulting services.

Transfer agent and filing fees of \$10,912 was mainly due to securities commission fees, management and depositary fee incurred by the transfer agent relating to the Company's share consolidation effective January 16, 2014 and SEDAR filing fees relating to the filing of the Company's annual financial statements for the year ended December 31, 2013.

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
Field expenses and others	2,304
Geological consulting	12,736
Balance December 31, 2012	138,393
Alteration study	9,600
Property write-off during the period	(147,993)
Balance December 31, 2013 and March 31, 2014	-

#### FUTURE ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for the March 31, 2014 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 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.

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(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.

### **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.

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).