

## **CHAMPION MINERALS INC.**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS 6 MONTHS ENDED SEPTEMBER 30, 2010**

The following discussion and analysis provides a review of current activities and a comparison of the performance and financial position of Champion Minerals Inc. (the "Company") for the six months ended September 30, 2010. It should be read in conjunction with the audited financial statements and accompanying notes. The financial data in this document has been prepared in accordance with Canadian GAAP. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com). Comments in this document are prepared as of November 15, 2010.

Certain of the statements set forth in this MD&A, such as statements regarding planned activity and working capital, and the availability of capital resources to fund capital expenditures and working capital are forward-looking statements. Although the Company believes that its expectations are based on reasonable assumptions, it can give no assurance that expected results will be achieved. There are numerous risks and uncertainties that can affect the outcome and timing of events, including many factors beyond the control of the Company. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove incorrect, the Company's actual results and plans for fiscal 2011 could differ materially from those expressed in this document. All dollar amounts are stated in Canadian dollars unless otherwise indicated.

### **The Company**

The Company is a reporting issuer in Ontario, Alberta and British Columbia and its common shares are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol CHM and on the Frankfurt Stock Exchange under the symbol P02 (WKN – A0LF1C). The Company's shares began trading on the TSX on September 27, 2010.

### **Overall Performance**

#### *Fermont Iron Property, Quebec*

The Company has an 82.5% ownership interest in 16 iron-rich mineral concessions totalling 642 km<sup>2</sup> (the "Fermont Property") in the Fermont Iron Ore District ("FIOD") of north-eastern Quebec, pursuant to a definitive option and joint venture agreement entered into on August 31, 2009 (the "Fermont Agreement") with The Sheridan Platinum Group Ltd. ("Sheridan") and Fancamp Exploration Ltd. ("Fancamp")(collectively, the "Vendors"). On June 8, 2010, the Company earned a 65% interest by exercising its option pursuant to the Fermont Agreement. On July 12, 2010, the Company acquired Sheridan's 17.5% interest by paying \$2,000,000 and issuing 4,000,000 common shares. The other Vendor, Fancamp retains the other 17.5% interest. The Fermont Property is situated 250 km north of the St. Lawrence River port town of Port-Cartier and centered 60 km southwest of Fermont.

Sheridan and Fancamp also retain a 3% royalty on the Fermont Property, which may be reduced to 2% by the Company paying \$3,000,000 to the Vendors. The Company retains a first-right-of-refusal on the royalty. In order to increase its interest by an additional 2.5% in any of the 16 separate properties which comprise the Fermont Property, the Company must make a one-time payment of 250,000 common shares to Fancamp and complete a positive bankable feasibility study in respect of the particular property.

Thereafter, in order to increase its interest an additional 2.5% in any of the other separate properties which comprise the Fermont Property, the Company must complete a positive bankable feasibility study in respect of the particular property.

In addition, in view of the close association with the Company in the developing FIOD, Sheridan and Fancamp have granted Champion a first right of refusal on their last wholly-owned iron property in the district in the event of a third party participation. The 29 claim / 15.37 km<sup>2</sup> Lamelée Lake Iron Property is located immediately northeast of the Consolidated Thompson Iron Mines Ltd. (“Consolidated Thompson”) Peppler Lake Iron Deposit (935 million tonnes @ 29.7% Iron) and is characterized by a magnetic signature similar to, but larger than, that of the Bloom Lake Deposit with Measured and Indicated Reserves of 826.9 million tonnes at a grade of 29.35% Iron currently under development by Consolidated Thompson located 50km to the north. Previous work on the Lamelée Lake Iron Property has been confined to geophysics and geological mapping, and no historical resource has been established.

The Company and Fancamp have now formed a joint venture (“JV”) reflective of their proportionate ownership interests in the Fermont Property in order to explore and develop the mineral concessions. The Company will retain a right-of-first-refusal on any part or all of Fancamp’s proportionate interest in each of the mineral concessions comprising the Fermont Property. If Fancamp elects not to fund its proportionate interest in the JV, its interest would be diluted and, if Fancamp’s interest is reduced below a 10% remaining interest, Fancamp would be left with a 3% NSR royalty subject to a buyback clause at the Company’s option as described above. There is also a 10 km area of influence around each mineral concession.

On August 10, 2010, the Company announced that claim staking had increased the Fermont Property’s holdings to roughly 608 km<sup>2</sup> from 385 km<sup>2</sup> by staking an additional 290 claims. The Fermont Property’s 16 strategic claim blocks are grouped into three clusters, termed Clusters 1, 2 and 3.

On September 14, 2010 the Company acquired 3 strategic mineral claims located in the Fermont Property’s O’Keefe-Purdy and Moire Lake Claim Blocks through the issuance of 125,000 common shares and the payment of \$25,000 to an arm’s length vendor. The 3 claims have been added to the Fermont Property joint venture portfolio.

On August 18, 2010, the Company issued an updated National Instrument (“NI”) 43-101 Mineral Resources Estimate (the “Mineral Resources”) for the Fire Lake North Claim Block (“Fire Lake North”). At a 15% Total Iron cut-off grade, there are 388 million tonnes grading 29% Total Iron in Inferred Mineral Resources<sup>1</sup> from Fire Lake North (*all Mineral Resources numbers in the text are rounded per NI 43-101 guidelines*). The current Mineral Resources were estimated by Eugene Puritch, P. Eng., of P&E Mining Consultants Inc. (“P&E”) (Brampton, Ontario), an independent Qualified Person under NI 43-101 guidelines. The geological, mineral resource and pit optimization modeling parameters were established by P&E with assistance from Patrice Live, P. Eng. and André Allarie, P. Eng., both of BBA Inc. (“BBA”) (Montreal, Quebec), who participated in the delivery and completion of a Preliminary Economic Assessment (Scoping Study) for Fire Lake North, the findings of which were announced by the Company on November 3, 2010.

The Inferred Mineral Resource<sup>1</sup> Estimates at varying cutoff grades are summarized in Table 1 below. The geological and Mineral Resources modeling parameters and the Quality Assurance and Quality Control (“QA/QC”) program pertaining to Table 1 can be found in the Company’s press release dated August 18,

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<sup>1</sup> *Inferred Resources are part of a National Instrument 43-101 Mineral Resource for which the estimated quantity and grade of a deposit, or a part thereof, that is determined on the basis of limited sampling, but for which there is sufficient geological information and a reasonable understanding of the continuity and distribution of metal values to outline a deposit of potential economic merit. There is no guarantee that further exploration will upgrade the Inferred Resources to Indicated and/or Measured Resources. Mineralized Material is not recognized Mineral Resources categories and there is no guarantee that any future exploration will ever convert any of this material to compliant NI 43-101 Mineral Resources.*

2010 under the Company's filings on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.championminerals.com](http://www.championminerals.com). The current Mineral Resource estimate represents a 35% increase in tonnage from previous Mineral Resource estimates at Fire Lake North that yielded Inferred Mineral Resources<sup>1</sup> of 288.2 million tonnes grading 27.5% Total Iron (NI 43-101 Technical Report, titled *Technical Report and Resource Estimate on the Bellechasse and Fire Lake North Properties, Fermont Project Area Quebec, Canada*, dated December 23, 2009, available under the Company's filings on SEDAR at [www.sedar.com](http://www.sedar.com)).

**Table 1: Inferred Mineral Resources<sup>1</sup> at 5% incremental Total Iron cutoff grades from 10% to 30%.**

| Cut-off grades | Tonnes <sup>(a)</sup> | Total Iron Grade % | Ca <sub>2</sub> O % | MgO % |
|----------------|-----------------------|--------------------|---------------------|-------|
| 10%            | 425,232,000           | 27.5               | 0.41                | 0.37  |
| 15%            | 387,733,000           | 28.9               | 0.39                | 0.35  |
| 20%            | 327,349,000           | 31.0               | 0.38                | 0.32  |
| 25%            | 252,089,000           | 33.6               | 0.35                | 0.28  |
| 30%            | 184,702,000           | 35.9               | 0.24                | 0.23  |

<sup>(a)</sup> Numbers are rounded according to NI 43-101 guidelines.

The Company estimates that an exploration target of between 320 million and 350 million tonnes of additional Potential Mineralized Material<sup>1</sup> is present for which no sampling data is available to estimate grade. The Potential Mineralized Material<sup>1</sup> includes the un-estimated iron formation between widely spaced drill holes and a recently discovered iron formation of the Northeast Zone. In addition, the conceptual optimized pit-shell of undiluted and in-situ Mineral Resources at Fire Lake North (utilizing a mining cost of US\$ 1.76 per tonne of ore and waste, process cost of US\$1.67 per tonne, process recovery of 82%, transport costs of US\$4.75 per tonne and G&A costs of US\$0.75 per tonne, pit slopes of 48 degrees to accommodate ramp and mine design, and a moving average price of Iron concentrate of US\$ 1.1420 per dry metric tonne unit or US\$ 114.20 per tonne) are 304 million tonnes grading 30% Total Iron. The conceptual pit-shell indicates approximately 80% of Inferred Mineral Resources<sup>1</sup> report within a conceptual open-pit (refer to Table 2) at the same 15% Total Iron cut-off grade.

**Table 2: Pit Optimized Mineral Resources at 5% incremental Iron cutoff grades from 15% to 30%.**

| Cut-off grades | Tonnes <sup>(a)</sup> | Total Iron grade | Ca <sub>2</sub> O | MgO  |
|----------------|-----------------------|------------------|-------------------|------|
| 10%            | 324,800,000           | 29.3             | 0.34              | 0.32 |
| 15%            | 303,732,000           | 30.4             | 0.33              | 0.30 |
| 20%            | 274,787,000           | 31.8             | 0.33              | 0.29 |
| 25%            | 222,095,000           | 33.9             | 0.31              | 0.27 |
| 30%            | 166,645,000           | 36.1             | 0.24              | 0.23 |

<sup>(a)</sup> Numbers are rounded according to NI 43-101 guidelines.

The Fire Lake North iron formations continue on the contiguous Bellechasse Claim Block ("Bellechasse") where the Company had previously outlined Inferred Mineral Resources<sup>1</sup> of 215 million tonnes grading 29% Total Iron. The combined Fire Lake North and Bellechasse estimates total 603 million tonnes grading 29% Total Iron in Inferred Mineral Resources<sup>1</sup>, all in close proximity to ArcelorMittal's road-rail infrastructure and Fire Lake Mine (341 million tonnes grading 33.4% Iron) that supplies ore to the Mont Wright Mine and Concentrator Complex located approximately 50 kilometers to the north.

On August 24, 2010, the Company reported that initial orientation metallurgical tests from the 2009 Fire Lake North drill core samples are producing excellent recoveries using gravity separation at a standard grind size to produce concentrate grading 65% Iron. Furthermore and significantly, no contaminants report to the iron oxide concentrate outside of market specifications.

On October 18, 2010, the Company provided an update on the ongoing 15,000 m diamond drill campaign at Fire Lake North. Specifically, the Company reported that a hole extended drill hole FL10-21 on the East Limb Zone from 227.0 m to 442.2 m, adding 190.5 m of iron mineralization to the original 171.0 m length grading 36.2% Total Iron. The total intersection of continuous iron mineralization in hole FL10-21 is now 361.5 m. Assays remain pending on the recent extension of this drill hole.

Drill hole FL10-24 from the West Limb which initially intersected 197.8 m grading 38.3% Total Iron including an interval of 43.6% Total Iron over 43.0 meters (*refer to the Champion news release dated May 18, 2010*) will also be extended. This hole was collared and ended in higher grade mineralization and will be extended and undercut in the upcoming drilling. This area along with areas in the East Limb adjacent to holes FL10-01, FL10-06, and FL10-08 will be drilled.

The drilling campaign aims to outline additional Inferred<sup>1</sup> Mineral Resources from: (i) the Don Lake, East and West Limb Zones, and (ii) the new Northeast Zone where a large surface outcrop of quartz-specularite iron mineralization was recently mapped.

On November 3, 2010, the Company announced the results of the Preliminary Economic Assessment (“PEA”) study on the Fire Lake North Project performed by BBA. The PEA was completed by Andre Allaire, Ph.D., Eng., and Mr. Patrice Live, Eng., from BBA, an international multi-disciplinary engineering firm with expertise in mining and metallurgy based in Montreal, Quebec. BBA’s National Instrument (“NI”) 43-101 Technical Report on the PEA will be posted under the Company’s filings on SEDAR at [www.sedar.com](http://www.sedar.com) on or before December 18, 2010.

The PEA study shows a Net Present Value (NPV) of US\$ 1.637 billion at a cash flow discount rate of 5% based on an Iron concentrate production rate of 7 million tonnes per year at a grade of 65% Iron. The internal rate of return (“IRR”) for the project is 24.8%.

Based on these positive results, a Feasibility Study is being planned for 2011. The ongoing 15,000m drilling campaign has the potential to enhance the project’s economics if it increases the NI 43-101 compliant Mineral Resources and production profile that could result in higher Net Present Value and extend the mine life. This PEA has an accuracy of +/- 30%, which is considered industry standard for preliminary capital and operating cost estimates. The table below lists the key metrics:

| FIRE LAKE NORTH – PRELIMINARY ECONOMIC ASSESSMENT RESULTS (PRE-TAX) |       |               |
|---|-------|---------------|
| INTERNAL RATE OF RETURN (IRR)                                       | 24.8  | %             |
| Un-discounted cash flow   | 2,821 | US\$ millions |
| Net Present Value @ 5% discounted cash flow                         | 1,637 | US\$ millions |
| Net Present Value @ 10% discounted cash flow                        | 938   | US\$ millions |
| PAYBACK PERIOD  | 2.8   | Years         |

**Notes:**

Based on the 3 year moving average price of Iron set at US\$ 1.25/dry metric tonne unit (“dmtu”) of Iron equivalent to US \$81.38/tonne of concentrate FOB Pointe Noire (Quebec) and a US\$ Exchange Rate of 1.1. The cut-off grade is 10% Iron. The weight recovery is 38.4% or 83% Iron unit recovery. The pre-production period is 1 year. The in-pit resources are 250.5 million tonnes at 30.4% Total iron. The strip ratio is 3.04 in the open pit envelope. There are no deleterious elements above the lower specification limits. The liberation size of the Iron is -20 mesh or 850 microns which is similar to the other operations in the area.

The PEA study is based on a stand-alone operation at Fire Lake North and does not consider the Bellechasse NI 43-101 Inferred Resource Estimates of 215.1 million tonnes grading 28.7% Total Iron (*refer to the Champion news release dated November 18, 2009*). Bellechasse is located 12km to the northwest of Fire Lake North. There are synergies anticipated from the significant exploration potential within Bellechasse and the Company’s other adjacent claim blocks in the area. An increased exploration program will be considered in response to these favorable results so that they can be incorporated in the

Feasibility Study. The combined Fire Lake North and Bellechasse Inferred Mineral Resources estimates total 603 million tonnes grading 29% Total Iron.

A 20% contingency of US\$137 million was included in the capital costs (refer to the table below). These costs include building ship loading facilities and a port berth at Pointe Noire, Quebec. In the event that a multi-user port facility is constructed at Pointe Noire, the capital cost for development of Fire Lake North would be reduced.

| CAPITAL COSTS (US\$ MILLIONS)                           |         |
|---|---------|
| PARAMETERS  | AMOUNTS |
| Pre-stripping of open pit                               | 68.90   |
| Concentrator and infrastructure                         | 429.20  |
| Rail, Train loading silo and conveyor                   | 103.60  |
| Rail car dumper, stock yard and ship loading facilities | 152.20  |
| Sub-total   | 753.90  |
| Contingency (20% of sub-total less pre-stripping)       | 137.00  |
| Total   | 890.90  |

The mine life in the PEA is 14 years and the payback period is 2.8 years for the US\$890.90 million of capital expenditures. A pipeline scenario is also being included in the PEA as a possible option for concentrate transport which would result in projected higher capital costs but lower operating costs. Operating costs are outlined in the table below. Mineral Resources following the current exploration drill program could help justify this additional capital expenditure over a longer mine life. Champion's objective is to increase the mine life from 14 to 25 plus years and to demonstrate the potential for a higher concentrate production rate at Fire Lake North, Bellechasse and/or from the Company's other claim blocks in the area.

| OPERATING COSTS (US\$/TONNE OF CONCENTRATE)       |         |
|---|---------|
| PARAMETERS  | AMOUNTS |
| Mining costs                                      | 17.53   |
| Crushing and processing costs                     | 5.99    |
| Transport, port berth and ship loading facilities | 16.22   |
| G&A   | 1.95    |
| Total   | 41.69   |

The Fermont Property's significant updated Mineral Resource Estimate and historic pre-NI 43-101 Mineral Resources are located in proximity to and locally contiguous to an operating iron mine and a number of former operating iron mines and projects currently being developed for iron mining. The pre-NI 43-101 Historical Mineral Resources<sup>2</sup> are outlined in the table below.

| Cluster and Claim Block | No. Claims (km <sup>2</sup> ) | Historical Mineral Resources <sup>(2)</sup> |                     |                     |
|-------------------------|-------------------------------|---|---------------------|---------------------|
|                         |                               | Tonnes (millions)                           | Grade (% Iron)      |                     |
| <b>CLUSTER 1</b>        |                               |   |                     |                     |
| 1                       | Moire Lake                    | 25/10.9                                     | 101                 | 30.8 <sup>(4)</sup> |
| <b>CLUSTER 2</b>        |                               |   |                     |                     |
| 2                       | O'Keefe-Purdy-Audrea Lakes    | 71/37.2                                     | 25                  | 35.5 <sup>(4)</sup> |
| 3                       | Harvey-Tuttle Lakes           | 122/63.9                                    | n/a                 | n/a                 |
| 4                       | Bellechasse                   | 13/6.8                                      | updated and current |                     |
| 5                       | Midway Southeast              | 15/7.9                                      | n/a                 | n/a                 |
| 6                       | Oil Can Lake                  | 19/10.0                                     | n/a                 | n/a                 |
| 7                       | Fire Lake North               | 76/39.9                                     | updated and current |                     |
| 8                       | Hope Lake                     | 61/32.2                                     | n/a                 | n/a                 |
| 9                       | Lamêlée Lake <sup>(3)</sup>   | 16/8.4                                      | n/a                 | n/a                 |
| <b>CLUSTER 3</b>        |                               |   |                     |                     |
| 10                      | Cassé Lake                    | 27/14.2                                     | n/a                 | n/a                 |

| Cluster and Claim Block |                         | No. Claims<br>(km <sup>2</sup> ) | Historical Mineral Resources <sup>(2)</sup> |                     |
|-------------------------|-------------------------|----------------------------------|---|---------------------|
|                         |                         |                                  | Tonnes (millions)                           | Grade (% Iron)      |
| 11                      | Audrey-Ernie Lakes      | 106/56.0                         | 23  | 33.2 <sup>(4)</sup> |
| 12                      | Big Three Lakes         | 9/4.8                            | 25  | 34.0 <sup>(4)</sup> |
| 13                      | Aubertin-Tougaard Lakes | 52/27.6                          | n/a   | n/a                 |
| 14                      | Jeannine Lake           | 6/3.2                            | n/a   | n/a                 |
| 15                      | Silicate-Brutus Lakes   | 56/29.8                          | 304   | 29.4 <sup>(4)</sup> |
| 16                      | Penguin Lake            | 60/31.8                          | 100   | 30.0 <sup>(4)</sup> |
| <b>TOTALS</b>           |                         | <b>34/384.6</b>                  | <b>578</b>                                  | <b>30.4</b>         |

- (2) The historical Mineral Resources estimates quoted are strictly historical in nature and are non-compliant to NI 43-101 Mineral Resource standards, and should therefore not be relied upon. A Qualified Person has not done sufficient work to classify these historical Mineral Resource estimates as current NI 43-101 compliant Mineral Resources.
- (3) Champion holds a first right of refusal to acquire the Lam  e Lake Claim Block.
- (4) From Paquet, 1963 (*Minist  re des ressources naturelles et de la faune Qu  bec* Assessment File GM 13035).

#### The Fermont Property Exploration Campaign Completed during Recent Quarter

On July 6, 2010, the Company announced the resumption of diamond drilling at Harvey-Tuttle with a scheduled 7,000 m (31 hole) program. The Company's objective is to define over 1 billion tonnes of Iron mineral resources at Harvey-Tuttle and to define several smaller 200 million to 500 million tonnes Iron resources close to existing infrastructure. These estimates are purely conceptual in nature and are not part of a recognized mineral resource or mineral reserve category. They are being used by the Company to identify priority mineralized target areas for diamond drill testing and definition.

On July 21, 2010, the Company announced the discovery of a third multi-kilometric hematite-magnetite iron formation at Fire Lake North, termed the Northeast Iron Formation. The Northeast Iron Formation is composed of specular hematite, magnetite and quartz, and is defined by a series of stacked and concentric magnetic linears over a 5 km combined strike length. Samples were taken for Total Iron assays from the 150 m by 100 m discovery outcrop located 2 km northeast of the East Limb. Three short historic diamond drill holes were drilled on the outer limits of the Northeast Iron Formation: two holes drilled on section in the northwestern extremity and a third hole located 1 km to the southeast. One of the two holes to the northwest yielded 21.3 m grading 28.6% Iron (drill hole 21A-17) (MRNFQ Assessment Files). All 3 drill holes were drilled less than 70 m in length, and they did not test the core of the prolific magnetic responses.

On August 18, 2010, the Company issued updated Mineral Resources for Fire Lake North and announced the resumption of diamond drilling at Fire Lake North with a 15,000 m program designed to upgrade Mineral Resources to Measured and Indicated Resources<sup>1</sup> category, and to delineate the remaining potential, including the newly discovered Northeast Zone.

On August 24, 2010, the Company reported favourable iron recoveries from metallurgical tests at Fire Lake North with no significant contaminants reporting to concentrate. The initial orientation metallurgical tests from the 2009 Fire Lake North drill core samples produced favourable recoveries using gravity separation at a standard grind size to produce concentrate grading 65% Iron. Test recoveries range from 83.6% to 89.2% Total Iron at a standard grind size of -20 mesh or 850 microns, typical for the FIOD. Binocular microscope examination of the samples did not identify any minerals that would lead to contamination and is supported by the analytical test results.

The Company is advancing metallurgical test work on drill core samples collected from the 24 holes completed on Fire Lake North in Q1-2010. The samples include coarse grained massive specular hematite intersections that returned higher grades such as 38.3% Total Iron over 197.8 m in drill hole FL-10-24, including an interval of 43.6% Total Iron over 43.0 m.

All drill core logging and sample preparation from the recent diamond drilling was conducted by qualified Company personnel under NI 43-101 guidelines at the Company's core logging facilities in

Labrador City, Newfoundland. The NQ-sized drill core was split and one-half retained in the core tray as a reference sample while the other half core samples were individually bagged, tagged, and sealed within large sealed nylon bags and shipped by commercial ground transport for analysis to ALS-Chemex Laboratories in Val d'Or, Quebec. Certified reference standards and blank samples were inserted regularly for Quality Assurance and Quality Control purposes.

The Company has sufficient cash reserves to complete its proportionate share of the scheduled exploration program at the Fermont Property. The Fermont Property joint venture exploration program total budget from August 2010 to December 2010 is \$9,400,000. Fancamp is responsible for 17.5% of the exploration program pursuant to the Fermont Agreement. The Company is working towards finalizing the planning and budgeting of further exploration at the Fermont Property.

Attikamagen Lake Iron Property, Labrador and Quebec

On May 12, 2008, the Company and Labec Century Iron Ore Inc. ("LCIO") signed a \$12,500,000 definitive option and joint venture agreement (the "Attikamagen Agreement"), as amended July 9, 2009 and March 25, 2010, to allow LCIO to earn up to a 60% interest in the Company's wholly-owned Attikamagen property ("Attikamagen Property"). The Attikamagen Property consists of 938 claims comprising 310.7 square kilometers extending over a 56 km strike length. The provincial boundary is the topographic high separating both provinces. The Attikamagen Property has a strike length of taconite bearing Sokoman Iron Formation of 34km in Labrador and 22km in Quebec.

Pursuant to the March 25, 2010 amendment agreement, the dates in the Attikamagen Agreement by which remaining payments are permitted to be made by LCIO were extended by one year and the \$12,500,000 exploration expenditures required to be funded by LCIO to earn up to a 60% interest have been increased by \$500,000 to \$13,000,000. In order to earn its interest, LCIO must incur exploration expenditures as follows:

|                                    | <b>Exploration<br/>expenditures</b> |
|------------------------------------|-------------------------------------|
|                                    | <b>\$</b>                           |
| <b>To earn 51% interest</b>        |                                     |
| March 26, 2009 (incurred)          | 2,500,000                           |
| March 26, 2011                     | 2,500,000                           |
| March 26, 2012                     | 2,500,000                           |
|                                    | <hr/> 7,500,000                     |
| <b>To increase to 56% interest</b> |                                     |
| March 26, 2013                     | 2,500,000                           |
| <b>To increase to 60% interest</b> |                                     |
| March 26, 2014                     | 3,000,000                           |
|                                    | <hr/> 13,000,000                    |

Attikagamagen Property Exploration Program

In April 2009, the Company completed geophysical Magnetic Inversions ("MI"), Magnetic Volumetric Estimates ("MVE") and Taconite Tonnage Potential Estimates ("TTPE") (*refer to the April 27, 2009 news release by the Company*). The objective of the study (the "Study") was to better understand the geometry of the taconite iron formation on the Property. The airborne vertical gradient magnetic survey response was utilized for the MI and MVE of the taconites across the entire 80km long Attikamagen Property and more specifically in the selected target areas.

The Study and the Taconite tonnage Potential Estimates or TTPE were part of a NI 43-101 *Technical Report*, available with the Company's other filings on SEDAR at [www.sedar.com](http://www.sedar.com).

MI are generally used in outlining the lengths, widths, depths and dips of the magnetic units, in this case taconites, ultimately resulting in an estimate of their volumes (“MVE”) and also conceptual Taconite Tonnage Potential Estimates (“TTPE”) at different specific gravities, but not their grades. The Company and LCIO are of the opinion the MVE and conceptual TTPE can add value to the exploration targeting process at the Attikamagen Property by producing higher quality drill targets to possibly convert the conceptual TTPE to mineral resources. The conceptual TTPE quantities are strictly conceptual in nature, being used to refine exploration efforts, and are stated as a range of tonnes, in that there has been insufficient exploration to define a Mineral Resource and that it is uncertain if further exploration will result in the conceptual TTPE being delineated as a Mineral Resource.

At specific gravities of 3.0, 3.3 and 3.6 tonnes/m<sup>3</sup>, the total conceptual TTPE in explored and unexplored areas of the Attikamagen Property vary from 24.404 billion to 29.285 billion tonnes of iron formation; whereas the field sampled or explored taconites iron formations yielded values ranging from 3.873 billion to 4.651 billion tonnes and 1.355 billion to 1.626 billion tonnes, of iron formation respectively for the Lac-Sans-Chef and Jennie Lake sectors.

Taconites at Lac-Sans-Chef demonstrate excellent upside conceptual potential where tightly folded taconite iron formations with 8 fold-repetitions form intervals of magnetite-rich rocks that extend 3km in length and 300m in width. Previously released channel and grab sample assays (*refer to the Company’s news release dated February 26, 2009*) from Lac-Sans-Chef averaged 26.79% Iron, and assays from limited drill core averaged 27.93% Iron; whereas the Jennie Lake channel and grab sample assays averaged 30.66% Iron.

Locally, where the magnetic signature is relatively lower along strike of higher magnetic anomalies, there is a good potential for DSO. Typically, the DSO is found in low-lying areas where the taconite does not outcrop since it is usually softer and more friable and has been scraped to a lower elevation due to glaciations. The ongoing gravity surveys will help to refine these target areas where a low magnetic response corresponds with a high gravity anomaly.

The Attikamagen Property could potentially host significant taconite mineral resources with grades in the range of 26.5% to 30% Iron based on the limited surface and drill core sampling to date. The conceptual TTPE and assay grades are very similar to those outlined in the Schefferville Mining Camp of Quebec and Labrador for the LabMag and KeMag Deposits containing NI 43-101 Measured and Indicated Resources of 4.590 Billion Tonnes at 29.32% Iron and 1.349 Billion Tonnes at 30.9% Iron respectively (*New Millenium Capital Corp. website*).

On October 21, 2010, the Company announced that a 2,000 m diamond drilling program had been initiated at the Attikamagen Property by LCIO. The program is expected to be completed by November 2010. Pursuant to the Attikamagen Agreement, LCIO is solely responsible for funding the Attikamagen Property exploration program.

#### *Gullbridge and Powderhorn Base Metals Properties, Newfoundland*

On May 5, 2008, the Company executed a definitive option and joint venture agreement (the “Gullbridge Agreement”) with Copper Hill Resources Inc. (“Copper Hill”), as amended March 26, 2010, to acquire an interest in the Gullbridge Base Metals Property (the “Gullbridge Property”), in the Buchans Mining Camp, Newfoundland. The Gullbridge Property adjoins the Company’s National Instrument 43-101 Qualifying Powderhorn Property (“Powderhorn” or “Powderhorn Property”) to the southeast.

In order to earn its interest in the Gullbridge Property, the Company must make the option payments, issue common shares and incur exploration expenditures as follows:

|   | Option<br>payments<br>\$ | Common shares  | Exploration<br>expenditures<br>\$   |
|---|--------------------------|----------------|---|
| <b>To earn 51% interest</b>             |                          |                |   |
| On closing (paid and issued)            | 10,000                   | 50,000         | –   |
| May 5, 2009 (paid, issued and incurred) | 10,000                   | 100,000        | 200,000   |
| March 26, 2010 (issued)                 | –                        | 75,000         | –   |
| May 5, 2011                             | 10,000                   | 75,000         | 200,000   |
| May 5, 2012                             | –                        | –              | 400,000   |
|   | <u>30,000</u>            | <u>300,000</u> | <u>800,000</u>  |
| <b>To increase to 75% interest</b>      |                          |                |   |
| 2 years after earning 51% interest      | –                        | 150,000        | 700,000   |
| <b>To increase to 85% interest</b>      | –                        | –              | All necessary<br>expenditures up to<br>the completion of<br>a positive<br>bankable<br>feasibility study |

The Company entered into an option agreement (the “Option Agreement”) on June 11, 2006 with Copper Hill, as amended May 5, 2008 and March 26, 2010, to acquire a 70% interest in the Powderhorn mineral exploration property. The Powderhorn Property consists of a total of 115 claims covering an area of 29 square kilometres situated in the Buchans-Robert's Arm Belt, in Central Newfoundland, Canada. It is approximately 40 km to the NE of, and on strike with, the renowned Buchans Mine Volcanogenic Massive Sulphide (“VMS”) deposits which produced 16.2 million tonnes from 5 ore bodies with average mill head grades of 14.5% Zn, 7.6% Pb, 1.3% Cu, 126 g/t Ag and 1.4 g/t Au (source: J.G. Thurlow, 1990).

Pursuant to the Option Agreement, the Company has the option to acquire a 70% interest in the Powderhorn Property. In order to earn its interest, the Company must make option payments, issue common shares and incur exploration expenditures as follows:

|  | Option<br>payments<br>\$ | Common shares  | Exploration<br>expenditures<br>\$ |
|--|--------------------------|----------------|-----------------------------------|
| <b>To earn 70% interest</b>  |                          |                |                                   |
| Paid, issued and incurred prior to March 31, 2008  | 40,000                   | 250,000        | 200,000                           |
| June 11, 2008 (paid, issued and incurred)  | 10,000                   | 250,000        | 300,000                           |
| At the earliest date the Company completes the exploration expenditure requirements, makes an economic discovery as evidenced by a pre-feasibility study or June 11, 2009 (issued) | –                        | 100,000        | –                                 |
| June 11, 2011  | –                        | –              | 500,000                           |
|  | <u>50,000</u>            | <u>600,000</u> | <u>1,000,000</u>                  |

The Powderhorn Property is encumbered with a 2.85% net smelter royalty (“NSR”), of which 1.85% can be purchased by the joint venture participants for \$2,300,000 to reduce the NSR to 1.0%.

The Company's geological model for the Gullbridge-Powderhorn area is similar geologically and in metallogenic context to the Neves Corvo area of the Iberian Pyrite Belt in Portugal. The large massive sulphide deposits of Neves Corvo lay below extremely conductive sedimentary rocks (similar to the Gullbridge-Powderhorn area) that made their discovery by conventional electromagnetic geophysical methods more difficult. Gravity surveying provided critical data necessary to delineate prospective base metal horizons at Neves Corvo, eventually leading to the discovery of the World-Class base metal deposit.

In 2010, the Company plans to proceed with the gravity modeling and pending further drilling results, proceed with down-hole electromagnetic surveys and deepening of PH09-01 and DP09-03 to further evaluate target areas 1 and 3 identified from a gravity survey the Company completed on the area. The magnetite-ilmenite potential of target area 2 will be evaluated in addition to drill testing the two principal remaining target areas 4 and 5.

The Company is investigating the Gullbridge-Powderhorn area by applying a similar strategy that led to Neves Corvo discoveries. The Company contracted Abitibi Geophysics of Val d'Or (Quebec) to complete a regional ground gravity survey over the eastern half of the Gullbridge Property and the NW portion of the adjoining Powderhorn ground. A total of 1,360 stations were surveyed on 200m centers covering 57.5 km<sup>2</sup> of both properties. Five high priority target areas (Target areas 1 to 5) were identified for follow-up investigation that may coincide with possible Volcanogenic Massive Sulphides style mineralization typical of the Buchans Mining Camp.

The Company has completed all the necessary option payments and common share issuances to Copper Hill pursuant to the Option Agreement for the Powderhorn Property. The Company is required to expend \$500,000 in exploration on or before June 11, 2011 in order to earn a 70% interest in the Powderhorn. To date the Company has made option payments totaling \$50,000, issued 600,000 common shares to Copper Hill and incurred over \$500,000 in exploration expenditures.

Pursuant to the Gullbridge Agreement the Company is required to make a final option payment of \$10,000 and complete a final share issuance of 75,000 common shares to Copper Hill, as well as incur \$200,000 in exploration expenditures on or before May 5, 2011 and a further \$400,000 in exploration expenditures on or before May 5, 2012. To date the Company has made option payments totaling \$20,000, issued 225,000 common shares to Copper Hill and incurred over \$200,000 in exploration expenditures.

It is the Company's intention to meet its ongoing requirements in order to complete its earn-in for the Powderhorn and Gullbridge Properties. The Company currently has the cash requirements needed in order to fulfill its exploration expenditure requirements pursuant to the Powderhorn and Gullbridge Agreements.

#### Financings and Appointments

On October 7, 2010, the Company completed a \$3.0 million private placement of units ("Units) priced at \$0.90 per Unit. Each Unit consisted of one common share and one common share purchase warrant, with each warrant entitling the holder to purchase one common share at a price of \$1.20 for the first 24 months and \$1.50 thereafter until 36 months after the closing date, when the warrants expire. Swiss-based MRI Advisory AG ("MRI") and associated entities invested \$2.0 million pursuant to the private placement.

The Company was pleased to announce on October 5, 2010 that MRI's CEO, Mr. Ashwath Mehra had been appointed to the Company's board of directors. Mr Mehra is an economist who has worked in the minerals industry for over 25 years, starting his career with Philipp Brothers after which he spent 10 year with Glencore International AG, where he was a senior partner and ran the Nickel and Cobalt Divisions. He is a co-founder and Non-Executive Director of Northern Iron Limited (ASX: NFE). The Company

also announced that Mr. Mick McMullen, a principal of MRI, joined the Company's newly created advisory board, to provide technical assistance and strategic advice. Mr. McMullen is a geologist with a BSc (Geology) from the University of Newcastle, Australia and in excess of 17 years' experience in exploration, financing, development and operation of mining projects. He most recently was the Managing Director and a co-founding shareholder of Northern Iron Limited.

On November 15, 2010, the Company completed a private placement of 480,769 common shares issued on a "flow-through" basis under the *Income Tax Act* (Canada) for proceeds of \$625,000.

The Company intends to use the proceeds of the financing to fund the exploration and development of the Company's Fermont Property, as well as for general corporate purposes.

### **Risks and Uncertainties**

The Company is exposed to financing risk as it is not in commercial production on any of its mineral resource properties, and accordingly, has no revenues. The Company finances its operations by raising capital in the equity markets. Although the Company has been successful in raising funds to date, there can be no assurance that additional funding will be available in the future, particularly in light of the current financial equity market conditions.

The Company is exposed to the inherent risks associated with mineral exploration and development, including the uncertainty of mineral resources and their development into mineable reserves; the uncertainty as to potential project delays from circumstances beyond the Company's control; and the timing of production; as well as title risks, risks associated with joint venture agreements and the possible failure to obtain mining licenses.

The Company is exposed to commodity price risk with respect to iron ore prices. A significant decline in metal commodity prices may affect the Company's ability to obtain capital for the exploration and development of its mineral resource properties.

### **Results of Operations**

#### ***6 months ended September 30***

|                                       | <b>2010</b>        | <b>2009</b>      |
|---------------------------------------|--------------------|------------------|
|                                       | <b>\$</b>          | <b>\$</b>        |
| <b>Expenses</b>                       |                    |                  |
| Professional fees                     | 106,101            | 37,498           |
| Consulting fees                       | 273,000            | 86,500           |
| Stock-based compensation              | 1,745,000          | 387,189          |
| General and administrative            | 204,607            | 129,158          |
| Investor relations                    | 516,129            | 126,935          |
| Travel                                | 172,567            | 114,401          |
|                                       | <b>3,017,403</b>   | <b>881,681</b>   |
| <b>Loss before the following item</b> | <b>(3,017,403)</b> | <b>(881,681)</b> |
| Management fees                       | -                  | 42,000           |
| Interest                              | 5,849              | -                |
| <b>Loss for the period</b>            | <b>(3,011,554)</b> | <b>(839,681)</b> |

The increase in professional fees, consulting fees and general and administrative expenses reflects the increased exploration and financing activities of the Company. The increase in stock-based compensation represents the fair value of stock options granted. The increase in investor relations and travel reflect the costs of the Company's efforts to expand its shareholder base both domestically and internationally in Europe.

**3 months ended September 30**

|                            | <b>2010</b>        | <b>2009</b>      |
|----------------------------|--------------------|------------------|
|                            | \$                 | \$               |
| <b>Expenses</b>            |                    |                  |
| Professional fees          | 36,023             | 24,892           |
| Consulting fees            | 185,500            | 51,500           |
| Stock-based compensation   | 1,745,000          | 387,189          |
| General and administrative | 128,613            | 84,697           |
| Investor relations         | 323,352            | 35,436           |
| Travel                     | 69,085             | 72,467           |
|                            | <u>2,487,572</u>   | <u>656,182</u>   |
| <b>Loss for the period</b> | <b>(2,487,572)</b> | <b>(656,182)</b> |

The increase in professional fees, consulting fees and general and administrative expenses reflects the increased exploration and financing activities of the Company. The increase in stock-based compensation represents the fair value of stock options granted. The increase in investor relations and travel reflect the costs of the Company's efforts to expand its shareholder base both domestically and internationally in Europe.

**Summary of Quarterly Results**

|             | <b>Q3</b>   | <b>Q4</b>   | <b>Q1</b>   | <b>Q2</b>         | <b>Q3</b>          | <b>Q4</b>   | <b>Q1</b>   | <b>Q2</b>         |
|-------------|-------------|-------------|-------------|-------------------|--------------------|-------------|-------------|-------------------|
|             | <b>2009</b> | <b>2009</b> | <b>2010</b> | <b>2010</b>       | <b>2010</b>        | <b>2010</b> | <b>2011</b> | <b>2011</b>       |
|             | \$          | \$          | \$          | \$                | \$                 | \$          | \$          | \$                |
| Revenue     | Nil         | Nil         | 42,000      | Nil               | Nil                | 18,794      | 5,849       | Nil               |
| Loss        |             |             |             |                   |                    |             |             |                   |
| - Total     | 274,512     | 68,043      | 183,499     | 656,182           | 316,622            | 405,061     | 523,981     | 2,487,572         |
| - Per share | 0.02        | 0.00        | 0.00        | 0.03 <sup>1</sup> | 0.013 <sup>2</sup> | 0.011       | 0.01        | 0.04 <sup>3</sup> |

**Notes**

1. Includes stock-based compensation of \$387,189.
2. Includes stock-based compensation of \$116,047.
3. Includes stock-based compensation of \$1,745,000.

**Liquidity and Capital Resources**

The Company is not in commercial production on any of its mineral resource properties, and accordingly, the Company has no revenues. The Company finances its operations by raising capital in the equity markets.

The Company monthly burn rate (excluding discretionary investor relation and travel expenses) is approximately \$100,000 and the Company is committed to make the following payments during the next year to retain its interests in its mineral resource properties:

| <b>Property</b> | <b>Nature of payment</b> | <b>Amount</b> | <b>Due date</b> |
|-----------------|--------------------------|---------------|-----------------|
|                 |                          | \$            |                 |
| Gullbridge      | Option payment           | 10,000        | May 5, 2011     |
|                 | Exploration expenditures | 200,000       | May 5, 2011     |
| Powderhorn      | Exploration expenditures | 500,000       | June 11, 2011   |
| Fermont         | Note payment             | 500,000       | July 12, 2011   |

As at September 30, 2010, the Company had a working capital of \$9,569,100, which included cash of \$9,590,513. While the Company has sufficient funds to meet its current commitments, the Company will require additional funding to fund its operations and the exploration of its mineral resource properties. Without additional funding, there is substantial doubt as to the Company's ability to continue as a going concern. The Company is actively seeking to raise the necessary capital to meet its funding requirements. Although the Company has been successful in raising funds to date, there can be no assurance that additional funding will be available.

### Financings

On April 30, 2010, the Company completed a \$12,190,000 bought-deal financing consisting of the private placement of 10,600,000 units at \$1.15 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share for \$1.50 until April 30, 2012. The financing was completed by a syndicate of underwriters led by Canaccord Financial Ltd.

On October 7, 2010, the Company completed a \$3.0 million private placement of units ("Units) priced at \$0.90 per Unit. Each Unit consisted of one common share and one common share purchase warrant, with each warrant entitling the holder to purchase one common share at a price of \$1.20 for the first 24 months and \$1.50 thereafter until 36 months after the closing date, when the warrants expire.

On November 15, 2010, the Company completed a private placement of 480,769 common shares issued on a "flow-through" basis under the Income Tax Act (Canada) for proceeds of \$625,000.

The Company intends to use the proceeds of the financings to fund the exploration and development of the Company's Fermont Property, as well as for general corporate purposes.

### Exercise of Warrants

The Company announced on June 8, 2010 that 1,787,500 common shares were issued by the Company pursuant to the exercise of a series of \$0.70 warrants with a June 5, 2010 expiry date, of which 1,627,500 common shares were issued subsequent to the year ended March 31, 2010. The Company received aggregate proceeds of \$1,251,250 in connection with the warrant exercise.

**Related Party Transactions**

|  | <b>6 months ended<br/>September 30,<br/>2010<br/>\$</b> | <b>Outstanding<br/>as at<br/>September 30,<br/>2010<br/>\$</b> |
|--|---|--|
| <b>Mineral resource properties, geological consulting services</b>   |   |  |
| Alex Horvath, a director of the Company  | 27,441  | -  |
| Jean Lafleur, a director of the Company  | 27,164  | -  |
| MRB & Associates, a company controlled by Martin Bourgoin,<br>Executive Vice President, Exploration/Operations                                   | 1,245,063   | 172,429  |
| Jeff Hussey & Associates Inc., a company controlled by Jeff<br>Hussey, Vice President, Exploration   | 76,688  | -  |
| <b>Share issue costs</b>   |   |  |
| Sheldon Huxtable Professional Corporation, a law firm<br>controlled by Donald A. Sheldon, a director of the Company                              | 105,065   | -  |
| <b>Consulting fees</b>   |   |  |
| 847785 Ontario Ltd., a company controlled by Thomas G.<br>Larsen, for his services as President and Chief Executive<br>Officer of the Company    | 64,000  | -  |
| Marlborough Management Limited, a company controlled by<br>Miles Nagamatsu, for his services as Chief Financial Officer of<br>the Company.       | 36,000  | -  |
| J. Estepa Consulting Inc., a company controlled by Jorge<br>Estepa, for his services as Vice President and Corporate<br>Secretary of the Company | 42,000  | -  |
| <b>Legal fees</b>  |   |  |
| Sheldon Huxtable Professional Corporation, a law firm<br>controlled by Donald A. Sheldon, a director of the Company                              | 98,078  | -  |

These transactions were in the normal course of business and are recorded at an exchange value established and agreed upon by the related parties.

**Critical Accounting Estimates***Mineral resource properties*

Costs relating to the acquisition, exploration and development of mineral resource properties are deferred until the properties are brought into commercial production, at which time, they are amortized over the estimated useful life of the related property on a unit-of-production basis. The cost of mineral resource properties includes the cash consideration and the fair value of shares issued on the date the property is acquired. The proceeds from options granted on properties are credited to the cost of the related property. When a property is determined to be non-commercial, non-productive or its value impaired, those costs in excess of estimated recoveries are charged to operations.

The recoverability of amounts shown for mineral resource properties is dependent upon the ability of the Company to obtain financing to complete the exploration and development of its mineral resource properties, the existence of economically recoverable reserves and future profitable production, or alternatively, upon the Company's ability to recover its costs through a disposition of its mineral resource properties.

The amount shown for mineral resource properties does not necessarily represent present or future value. Changes in future conditions could require a material change in the amount recorded for mineral resource properties.

#### *Stock-based compensation*

Stock-based compensation is determined using the Black-Scholes option pricing model, which requires the input of subjective assumptions, including the expected price volatility of the Company's common shares and the expected life of the options. Changes in these input assumptions can materially affect the estimate of fair value.

### **Changes in Accounting Policies including Initial Adoption**

#### *Future Changes in Accounting Policies*

On April 1, 2011, the Company will adopt CICA Handbook Section 1582, "Business Combinations", which will replace Section 1581, "Business Combinations". The new standard establishes standards for the recognition and measurement of identifiable assets acquired, liabilities assumed, non-controlling interest in the acquiree and goodwill acquired in a business combination.

On April 1, 2011, the Company will adopt CICA Handbook Sections 1601, "Consolidated Financial Statements" and Section 1602, "Non-controlling Interests", which together, will replace section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602, establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

The Company does not expect the adoption of these new standards to have an effect on the Company's financial statements.

#### *International Financial Reporting Standards ("IFRS"):*

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian generally accepted accounting principles for publicly accountable enterprises. The Company will report interim and annual financial statements, including comparative financial statements, in accordance with IFRS beginning with the interim financial statements for the 3 months ended June 30, 2011.

#### *IFRS Transition Plan*

The Company has established an IFRS transition plan for the implementation of its transition to IFRS. The following summarizes the Company's progress and expectations with respect to its IFRS transition plan:

|   |  |
|---|--|
| Initial scoping and analysis of key areas for which accounting policies may be impacted by the transition to IFRS.  | Complete.  |
| Detailed evaluation of potential changes required to accounting policies, information systems and business processes, including the application of IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> . | Complete.  |
| Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives.  | In progress, completion expected during Q4 2011. |
| Resolution of the accounting policy change implications on information technology, business processes and contractual arrangements.   | In progress, completion expected during Q4 2011. |

|   |  |
|---|--|
| Quantification of the financial Statement impact of changes in accounting policies. | In progress, completion expected during Q4 2011. |
| Management and employee education and training.                                     | Throughout the transition process.               |

#### *Impact of Adopting IFRS on the Company*

As part of its analysis of potential changes to significant accounting policies, the Company is assessing what changes may be required to its accounting systems and business processes. The Company believes that the changes identified to date are minimal and the systems and processes can accommodate the necessary changes. To date, the Company has not identified any contractual arrangements that may be affected by potential changes to significant accounting policies. The Company's Chief Financial Officer has and will continue to receive training on the relevant aspects of IFRS and the anticipated changes to accounting policies. The Board of Directors and Audit Committee have been regularly updated on the progress of the IFRS conversion plan, and made aware of the evaluation to date of the key aspects of IFRS affecting the Company.

#### *First-time adoption of IFRS*

IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS, generally requires retrospective application of IFRS. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment. The Company has identified the following optional exemptions that it expects apply in its preparation of an opening IFRS statement of financial position as at April 1, 2010, the Company's "Transition Date":

- To apply IFRS 2 *Share-based Payments* only to equity instruments which were issued after February 11, 2008 and had not vested by the Transition Date.
- To apply IFRS 3 *Business Combinations* prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.

Prior to reporting interim financial statements in accordance with IFRS for the 3 months ended June 30, 2011, the Company may decide to apply other optional exemptions contained in IFRS 1. IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at the Transition Date will be consistent with those made under current Canadian GAAP. If necessary, estimates will be adjusted to reflect any difference in accounting policy.

#### *Impact of Adopting IFRS on the Company's Financial Statements*

The adoption of IFRS will result in some changes to the Company's accounting policies that are applied in the recognition, measurement and disclosure of balances and transactions in its financial statements. The following provides a summary of the Company's evaluation to date of potential changes to accounting policies in key areas based on the current standards and guidance within IFRS. This is not intended to be a complete list of areas where the adoption of IFRS will require a change in accounting policies, but to highlight the areas that the Company has identified as having the most potential for a significant change. The International Accounting Standards Board has a number of ongoing projects, the outcome of which may have an effect on the changes required to the Company's accounting policies on adoption of IFRS. At the present time, however, the Company is not aware of any significant expected changes prior to its adoption of IFRS that would affect the summary provided below.

#### *Exploration and Evaluation Expenditures*

IFRS currently allows an entity to retain its existing accounting policies related to the exploration for and evaluation of mineral properties, subject to some restrictions. The Company expects to retain its current policy of deferring exploration and evaluation expenditures until such time as the properties are either put into commercial production, sold, determined not to be economically viable or abandoned. Therefore, the

Company does not expect that the adoption of IFRS will result in any significant change to the related line items within its financial statements.

#### *Impairment of (Non-financial) Assets*

IFRS, like Canadian GAAP, requires an assessment at each reporting date as to whether there are indicators of impairment of deferred exploration and evaluation costs. The factors considered under IFRS are quite similar to Canadian GAAP, but there are some differences. IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Current Canadian GAAP requires a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value.

The Company's accounting policies related to impairment of deferred exploration costs will be changed to reflect these differences; however, the Company does not expect this change will have an immediate impact to the carrying value of its assets. The Company will perform impairment assessments as at the Transition Date in accordance with IFRS.

#### *Share-based Payments*

In certain circumstances, IFRS requires a different measurement of stock-based compensation related to stock options than current Canadian GAAP. The Company does not expect any changes to its accounting policies related to share-based payments that would result in a significant change to line items within its financial statements.

#### *Asset Retirement Obligations (Decommissioning Liabilities)*

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while current Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions. The Company's accounting policies related to decommissioning liabilities will be changed to reflect these differences, however, the Company does not expect this change will have an immediate impact to the carrying value of its assets.

#### *Property and Equipment*

IFRS contains different guidance related to recognition and measurement of property and equipment than current Canadian GAAP. The Company does not expect any changes to its accounting policies related to property and equipment that would result in a significant change to line items within its financial statements.

#### *Income Taxes*

In certain circumstances, IFRS contains different requirements related to recognition and measurement of future (deferred) income taxes. The Company does not expect any changes to its accounting policies related to income taxes that would result in a significant change to line items within its financial statements.

As the review of accounting policies is completed, appropriate changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures will be made. For example, any changes in accounting policies could result in additional controls or procedures being required to address reporting of first time adoption as well as ongoing IFRS reporting requirements. The Company has identified resource requirements to establish appropriate IFRS financial reporting expertise at all levels of the business.

The Company will hold an IFRS information session with members of the Board of Directors (including Audit Committee members) in the second quarter of 2011. During this session, management and external consultants will provide the Board with a review of the timeline for implementation, the implications of IFRS standards to the business and an overview of the impact to the financial statements (as experienced

in Europe by comparable companies). As a result of the information session, the Audit Committee members will review the Audit Committee Charter and make the necessary changes to reflect the requirements for IFRS financial expertise. The Audit Committee will continue to receive quarterly presentations and project status updates from management.

### ***Subsequent Disclosures***

Further disclosures of the IFRS transition process are expected as follows:

- The Company's Management Discussion and Analysis for the 2011 interim periods and the year ended March 31, 2011 will include updates on the progress of the transition plan, and, to the extent known, further information regarding the impact of adopting IFRS on key line items in the annual financial statements.
- The Company's first financial statements prepared in accordance with IFRS will be the interim financial statements for the three months ending June 30, 2011, which will include notes disclosing transitional information and disclosure of new accounting policies under IFRS. The interim financial statements for the three months ending June 30, 2011 will also include 2010 financial statements for the comparative period, adjusted to comply with IFRS, and the Company's transition date IFRS statement of financial position (as at April 1, 2010).

### **Shares Outstanding at November 15, 2010**

#### ***Shares***

Authorized:

Unlimited number of common shares.

Outstanding:

64,630,099 common shares.

#### ***Warrants***

Outstanding:

| <b>Exercise price</b> | <b>Warrants<br/>outstanding</b> | <b>Expiry date</b> |
|-----------------------|---------------------------------|--------------------|
| Common share warrants |                                 |                    |
| \$0.85                | 2,302,223                       | June 30, 2011      |
| \$0.75                | 1,616,000                       | July 11, 2011      |
| \$0.60                | 350,000                         | July 13, 2011      |
| \$0.90                | 900,000                         | August 22, 2011    |
| \$1.50                | 5,300,000                       | April 30, 2012     |
| \$1.15                | 636,000                         | April 30, 2012     |
| \$1.20                | 3,333,333                       | October 7, 2013    |
|                       | <b>14,437,556</b>               |                    |
| Unit warrants         |                                 |                    |
| \$0.55                | 263,360                         | June 30, 2011      |
| \$0.50                | 70,000                          | July 11, 2011      |
|                       | <b>333,360</b>                  |                    |

#### ***Stock options***

Authorized:

The Company has a fixed stock option plan, under which, the Company may grant up to 12,000,000 stock options.

Outstanding:

| <b>Exercise price</b> | <b>Options<br/>outstanding</b> | <b>Options<br/>exercisable</b> | <b>Expiry date</b> |
|-----------------------|--------------------------------|--------------------------------|--------------------|
| \$0.45                | 1,000,000                      | 1,000,000                      | January 10, 2013   |
| \$0.70                | 310,000                        | 310,000                        | May 16, 2013       |
| \$0.30                | 1,420,000                      | 1,420,000                      | September 16, 2014 |
| \$0.33                | 152,500                        | 152,500                        | September 24, 2014 |
| \$0.405               | 230,000                        | 230,000                        | November 9, 2014   |
| \$0.80                | 2,100,000                      | 2,100,000                      | January 14, 2015   |
| \$0.85                | 300,000                        | 300,000                        | February 2, 2015   |
| \$1.00                | 550,000                        | 550,000                        | March 2, 2015      |
| \$1.15                | 100,000                        | 100,000                        | October 1, 2015    |
| \$1.00                | 3,500,000                      | 3,500,000                      | October 3, 2015    |
| \$1.00                | 500,000                        | 500,000                        | October 4, 2015    |
| \$1.50                | 500,000                        | 500,000                        | October 4, 2015    |
| \$1.00                | 100,000                        | 100,000                        | October 24, 2015   |
| \$1.10                | 50,000                         | 50,000                         | November 5, 2015   |
|                       | 10,812,500                     | 10,812,500                     |                    |

### **Forward-Looking Statements**

All statements made in this MD&A, other than statements of historical fact, are forward-looking statements. The words “anticipate”, “believe”, “estimate”, “expect”, “intend”, “may”, “plan”, “will”, “would”, “should”, “guidance”, “potential”, “continue”, “project”, “forecast”, “confident”, “prospects”, and similar expressions typically are used to identify forward-looking statements. Forward-looking statements are based on the then-current expectations, beliefs, assumptions, estimates and forecasts about the Company’s business and the industry and markets in which it operates. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or implied by these forward-looking statements due to a number of factors, including but not limited to the Company’s access to additional capital to fund future activities, the loss of mineral properties or the inability to obtain mining licences, the inherently risky nature of the Company’s activities and its lack of experience in bringing an exploration property into production, foreign exchange fluctuations, the political stability and economic uncertainty of those areas in which the Company carries on operations and the lack of infrastructure in those areas, title risks, the risks and uncertainties associated with joint ventures and the Company’s reliance on third parties, statutory and regulatory compliance, the adequacy and availability of insurance coverage, the Company’s dependence upon employees and consultants and fluctuations in mineral prices. These risks, as well as others, could cause actual results and events to vary significantly.

### **Additional Information**

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