311 West 1st Street North Vancouver, BC V7M 1B5
p: (604) 998-1250 f: (604) 998-1253 e: info@xtalminerals.com

# Management's Discussion and Analysis

# For the Three Months Ended November 30, 2010

**As at January 28, 2011**

**(Dollar amounts expressed in Canadian dollars)**

# Introduction

## Basis of Discussion and Analysis

Management's Discussion and Analysis ("MD&A") discusses the significant factors affecting the results of operations and financial position of X-Tal Minerals Corp. (the "Company" or "X-Tal") for the three months ended November 30, 2011 and includes material information up to January 28, 2011. Financial data provided has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar references, unless otherwise stated, are in Canadian dollars.

This MD&A should be read in conjunction with the Company's audited financial statements for the year ended August 31, 2010.

## Non-GAAP Measures

The Company uses non-GAAP measures which do not have any standardized meaning prescribed by GAAP. These non-GAAP definitions are used in this MD&A because management believes that they provide useful information regarding the Company's business. Readers are cautioned that the definitions are not recognized measures under Canadian GAAP, do not have standardized meaning prescribed by GAAP and should not be construed as indicators of performance, liquidity or cash flows. The Company's method of calculating these measures may differ from the method used by other entities and accordingly the Company's measures may not be comparable to similar titled measures used by other entities or in other jurisdictions

## Forward-Looking Statements

This MD&A contains forward-looking statements and information within the meaning of applicable securities legislation. These forward-looking statements reflect management's current expectations, estimates, projections, beliefs and assumptions that were made using information currently available to management. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "expect," "plan," "anticipate," "believe," "intend," "estimate," "predict," "forecast," "outlook," "potential," "continue," "should," "likely," or the negative of these terms or other comparable terminology. Although management believes that the anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve assumptions, known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those set forth in the forward-looking statements and information include, but are not limited to, general economic conditions; availability of

equity and debt financing; financial market volatility; the impact of newly adopted accounting principles on the Company's accounting policies; and other risks and factors described from time to time in the documents filed by the Company with the security regulars in Canada. The Company undertakes no obligation to publicly revise or update any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements contained herein is made as of the date hereof and is expressly qualified in its entirety by the cautionary statements in this MD&A.

# Objectives and Financial Highlights

## Overview of the Business

The Company is a publicly traded company, incorporated under the laws of British Columbia. Companies listed on the TSX Venture Exchange (TSX-V or the "Exchange") are required by Exchange policy to meet "Tier Maintenance Requirements" ("TMR"), which, in the case of a mining issuer such as X-Tal, include carrying out certain prescribed minimum levels of activity, including the expenditure of prescribed amounts on mineral properties. In recent years X-Tal has not retained a mineral property nor carried out such minimum expenditures. Accordingly, on June 6, 2006, the TSX Venture Exchange advised X-Tal that it had 90 days, until September 6, 2006, to demonstrate to the Exchange a plan to meet TMR. Failing this, the Company's listing would be transferred to NEX, a separate listing and trading board of the TSX Venture Exchange. On September 11, 2006, the Company's listing was transferred to NEX and the Company's common shares currently trade under the symbol XMT.H.

On November 1, 2010 the Company executed a definitive agreement to affect a reverse take-over with American Eagle Resources Inc. ("AME"). The definitive agreement formalized the terms of the non-binding letter of intent the Company entered into with American Eagle Resources Inc. ("AME") to acquire all the outstanding shares of AME. Pursuant the terms of the definitive agreement, all of the common shares of AME shall become exchangeable for common shares of the Company on a basis of one (1) common share of AME for one (1) common share of X-Tal. AME and X-Tal currently have 21,108,543 and 6,300,001 common shares outstanding, respectively. The transaction will constitute a reverse takeover for accounting purposes with AME being the acquirer. The Company will also complete a name change to Lion One Metals Limited. The principal asset of AME is the Tuvatu Gold Deposit located on the Fijian Island of Viti Levu. AME also holds mineral properties on Venua Levu, Fiji's second largest island. The Company has applied to list the common shares of the combined Company on the TSX-V (Tier 2). Unanimous shareholder approval was obtained at the Annual and Special Meeting of Shareholders held December 21, 2010. The TSX-V has conditionally approved the transaction on January 19, 2011.

In conjunction with the Transaction, the Company has closed a concurrent private placement (the "Financing") of $11,500,000 on December 22, 2010. The Company engaged MGI Securities Inc. and PI Financial corp. as agents (the "Agents") in connection with the financing. Part of the financing was

concluded on a non-brokered basis. The financing consisted of 10,000,000 subscription receipts ("Subscription Receipts") priced at $1.00 per Subscription Receipt for gross proceeds of $10,000,000 In addition the Agents fully exercised the option granted to the by the Company to sell an additional 1,500,000 Subscription receipts at the same issue price for additional proceeds of $1,500,000. Upon completion of the transaction each subscription receipt will automatically be exercised into one unit of the Company, each unit consisting of one common share of the company and one half of one share purchase warrant, each whole warrant entitling the holder to purchase one common share of the Company at a price of $2.00 for 12 months following closure. The Subscription Receipts and the underlying common shares and warrants will be subject to a four month hold period expiring April 22, 2011. The gross proceeds less certain costs and expenses have been held in escrow until completion of the transaction. The Company has agreed to pay cash commissions of up to 6% of the gross proceeds raised, and issue agent's warrants of up to 6% of the number of shares sold.

The Company has received the technical report titled "Technical Report and Resource Estimate on the Tuvatu Gold Property, Viti Levu, Fiji" dated October 1, 2010 by P&E Mining Consultants Inc. The Executive Summary of the Report states:

> *...The main asset of AER is the Tuvatu mine tenements located on the island of Viti Levu, Fiji. The Tuvatu tenements are held by AER through its 100% owned Fijian subsidiary, Lion One Resources Inc. ("Lion One"), which owns the Tuvatu Gold Mining Company ("TGM"). TGM was a subsidiary of Emperor. Lion One holds 3 Special Prospecting Licences (SPL) located near Nadi, Fiji.*
>
> *At the request of Mr. Walter Berukoff, Chairman of X-Tal, P&E Mining Consulting Inc. (P&E) was commissioned to prepare an Independent Technical Report on the Tuvatu Gold Project compliant with standards of NI 43-101F1. Tuvatu encompasses the concessions SPL 1283, SPL 1296 and SPLA 1465 which are located 24 kilometres northeast of the town of Nadi, in the western part of Viti Levu, Fiji. The tenements total an area of 105.65 square kilometres. The tenements are located in the upper reaches of the Sabeto Valley within a NNE trending zone of shoshonitic volcanic rocks and minor associated intrusions defined by a series of gravity lows and mineralization occurrences. The Tuvatu Mine is situated approximately 1 kilometre southwest of the historic Kingston copper-gold mine. The area contains steep, rugged country accessed via the Sabeto Road. In wet weather, four wheel drive vehicles are required to access the tenements. Creeks and adjacent areas are generally thickly vegetated while the spurs and ridges are dominated by open grasslands with deep soils.*
>
> *The local geology is dominated by a sequence of volcaniclastic units intruded by a monzonite intrusive stock. Gold mineralization in the Tuvatu area is dominantly hosted in monzonite units but also occurs in the volcanic units. The mineralization is structurally-controlled and is considered to have a close association with the emplacement of the monzonite intrusive body. It occurs as sets and networks of narrow veins and cracks, with individual veins generally ranging from 1 to 200 mm wide. Zones of veining which comprise the lodes may be up to 5 m wide. A number of different lode structures were identified in the resource area including eleven lodes in the Upper Ridges area, two lodes in the Murau area, three lodes in the West area, two lodes in the Tuvatu area and the flatmakes in the SKL area. In addition a number of other lodes have been identified in the local area but remain untested.*
>
> *Historical activities began with prospecting during the early part of the last century, followed by some pitting and limited underground work from 1945 to 1952. Modern exploration began with Aquitane Fiji*

*exploring the area from 1977 to 1979. In 1987, Geopacific Ltd. ("Geopacific") pegged out SPL1283 and SPL1296 in the area and investigated a soil anomaly previously identified by Aquitane Fiji. Geopacific discovered the outcrop of what is now called the Tuvatu Mine in the vicinity of this anomaly.*

*Emperor Mines Limited ("Emperor") entered into an option agreement with Geopacific in December 1995 and subsequently exercised its option to purchase 100 % of SPL1283 and SPL1296 in June 1997. Emperor then incorporated TGM to operate the property.*

*From 1995 to 2001, TGM conducted several phases of exploration including significant underground development and exploration and completed an in-house mining study (scoping study). Overall, TGM completed 51,484 m of diamond core and 9,265 m of reverse circulation surface drilling, as well as 13,407 m of underground drilling. A total of 1,341 m of decline, strike and rise development were also completed in the mine area including a 600 m long access decline from the valley floor that intersects the Upper Ridges lodes 240 m below surface.*

*Work on the project by TGM was suspended in late 2000 as part of a general cost-cutting exercise related to low gold prices and subsequent work was limited to regional exploration. Emperor, including the TGM subsidiary, was sold to Westech Gold Pty Ltd. ("Westech") on March 27, 2007 which transferred the assets to Lion One.*

*During 2008, Lion One conducted exploration on a number of highly prospective mineralized zones which had been discovered in 2002-2003 and re-established in 2008.Work included mapping and geochemical sampling and the drilling of two diamond drill holes. A number of new mineralized structures were also discovered. A total of 826 samples were collected for geochemical analysis. The two surface diamond drill holes were drilled to test the Nubunidike / Hornet Creek / 290 Vein system with inconclusive results.*

*The Tuvatu Project was visited by Mr. F. H. Brown M.Sc. (Eng.), CPG, Pr.Sci.Nat. of P&E in July 2010, Mr. Brown selected drill core from a constrained sample database for data verification purposes.*

*The P&E 2010 Resource Estimate has an effective date of August 1, 2010.*

*Gold assay and data entry were checked and the use of the historic data was validated. A NI 43-101 compliant resource estimate using these data and a 2.0 g/t Au cut-off established Indicated and Inferred Resources as follows:*

*Mineral Resource estimate at a 2.0 g/t Au cutoff[1,2] as of August 1, 2010*

| | *Indicated* | | | *Inferred* | | |
|---|---|---|---|---|---|---|
| | *Tonnes x 1000* | *Grade g/t* | *Au ozs x 1000* | *Tonnes x 1000* | *Grade g/t* | *Au ozs x 1000* |
| *Sulphides* | *760* | *7.05* | *172* | *2,502* | *5.78* | *465* |
| *Oxides* | *0* | *0* | *0* | *116* | *4.15* | *15* |
| *TOTAL* | *760* | *7.05* | *172* | *2,618* | *5.71* | *480* |

*(1) Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability. The estimate of Mineral Resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing, or other relevant issues.*

*(2) The quantity and grade of reported inferred resources in this estimation are conceptual in nature. There is no guarantee that all or any part of the Mineral Resource will be converted into Mineral Reserve.*

*P&E have not established a mineral reserve estimate for the Tuvatu deposit. The mineral reserve estimate used by Emperor for their in-house 2000 feasibility study is historical in nature and should not be relied upon. P&E have not verified or approved the reserve estimate. It should be further noted that the historical resource estimate used by Emperor as the basis of the pre-feasibility study has been superseded by the NI 43-101 compliant resource estimate that is the subject of this report. A revision of the historic Emperor in-house feasibility study based on the current P&E 2010 mineral resource estimate is recommended.*

*Recommendations have been made to both increase the confidence levels (and hence resource categories) and for the targeting of areas of possible extension of the mineralized system beyond the current resources. The prospects that surround the Tuvatu deposit contain numerous mineralized veins and are considered especially permissive for potentially hosting epithermal style mineralization. Further detailed exploration is warranted and strongly recommended. Further recommendations include:*

- *The resource models suggest that gold mineralization occurs as plunging structures in the plane of the lodes; therefore these structures are likely relatively continuous and should support selective mining. P&E recommends that a program of confirmation drilling be conducted to verify the location and extent (especially at depth) of these structures.*
- *Additional underground drilling should be initiated once the existing decline is re-commissioned, in order to upgrade large sections of Inferred resources to the Indicated level of confidence.*
- *P&E noted high levels of silver in core sections selected as confirmatory check samples, and recommends that a larger number of core samples be assayed to confirm the silver content.*
- *The geometry of mineralization will require grade control spacing of at least 10 m intercepts within the plane of the lodes in order to facilitate selective mining. There is little current evidence that significant mineralization occurs outside of the quartz veins, though this should be demonstrated conclusively by confirmatory drilling.*
- *The Nubunidike, Ura Creek, Korobebe, and Sawasawa EastProspects have been investigated by recent exploration activity but remain underexplored. Systematic follow-up exporation activity is recommended*
- *P&E is of the opinion that recent and historical exploration has demonstrated that the mineralized system within SPL1283 and SPL1296 is an extension of the main Tuvatu epithermal system and as such is prospective for the discovery of additional gold lodes of a similar nature to that at the current Tuvatu Mine development. It is recommended that an aggressive exploration be undertaken.*

*Based on the conclusions reached by P&E a multi-phased, results driven work program is recommended to move the project forward to possible production. The Phase 1 work program will commence in early 2011 and together with the Phase II program will possibly be extend over three calendar years and involve the following work items*

*Phase I Program*

*The Phase I exploration program will involve initiation of de-watering activities for the Tuvatu decline in advance of a detailed Scoping Study. The Scoping Study will consist of a resource drilling program, environmental and social baseline studies, initial mine design and mine development studies, a trial stoping program, a geotechnical engineering program, preliminary mine facility and infrastructure layout designs, initial metallurgical and processing test work, tailings storage facility engineering, materials handling assessment, power and utilities study, equipment selection and approvals and license procurement activities.*

*If results of the scoping study warrant, underground pre-development work, of the Tuvatu resource area will be initiated: Work will consist of underground rehabilitation activities including scaling and rock bolting, mapping of underground workings, resource drilling, additional underground development, trial stoping, and geotechnical assessment.*

*If results of the scoping study are positive it is recommended that consideration be given to conducting a full feasibility study.*

*A proposed budget of US$ 5,145,000 is required to complete this Phase I work program as continuing results dictate.*

*Phase II Program*

*This phase of work will consist of surface exploration activities covering the entire concession area. In detail this will include reconnaissance mapping, prospecting, sampling, heavy mineral geochemical surveying, high energy stream sediment survey and geophysical surveying and modelling. As results warrant the exploration work will be extended to the remaining Tuvatu concessions where reconnaissance mapping, prospecting, sampling, heavy mineral geochemical surveying, high energy stream sediment survey and geophysical surveying and modelling. This will be followed by a continuing program of advanced surface exploration work covering the entire concession area. Surface diamond drilling, trenching and sampling, reconnaissance mapping, prospecting, heavy mineral geochemical surveying, high energy stream sediment survey and geophysical surveying and modelling will be conducted*

*A proposed budget of US$ 1,165,000 is estimated as needed to complete this Phase II work program.*

## Strategic Priorities

The Company is focused on the following strategic priorities:

- Exploration and development of the Tuvatu Gold Deposit including expansion of the existing mineral resource both along strike and down dip;
- Exploration of the other mineral properties acquired through the business combination with AME;
- Acquiring, financing and exploring other mineral properties, with the objective of attaining mining production; and
- Prudent capital management including sourcing future financing for exploring and developing mining properties.

## Key Performance Drivers

Management considers the expansion of the existing mineral resource at the Tuvatu Gold Deposit, both along strike and down dip, and the ultimate development of the gold deposit to be its principle objective. The receipt of encouraging results from exploration programs conducted on its other, earlier stage mineral properties in the Fijian Islands is also considered a key performance driver. Sourcing and acquisition of other suitable mineral properties and the arrangement of related financing are also primary drivers to the Company's future success.

## Financial Statement Analysis

*Net Loss*

The Company's net loss for the three months ended November 30, 2010 was $0.07 (per diluted share), compared with $0.00 (per diluted share) during the same period in 2009. There was significant change, period over period, in the financial results of the Company. A summary of the results follow:

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Expenses** | | |
| Office and miscellaneous | 30,071 | 1,976 |
| Professional fees | 91,650 | 1,247 |
| Project development costs | 132,190 | |
| Salaries and benefits | 92,565 | |
| Stock-based compensation expense | 6,852 | 17,454 |
| Transfer and filing fees | 12,813 | 2,359 |
| Travel | 59,352 | |
| Operating loss | 425,493 | 23,036 |
| Other expenses (income) | | |
| Interest income | (1,730) | (1,653) |
| | (1,730) | (1,653) |
| Net Loss and other comprehensive loss for the year | 423,763 | 21,383 |
| Deficit, beginning of period | 1,556,743 | 1,319,420 |
| Deficit, end of period | 1,980,506 | 1,340,803 |
| Loss per share - basic and diluted | 0.07 | 0.00 |
| Weighted average number of common shares outstanding - basic and diluted | 6,300,001 | 6,300,001 |

*Quarterly results*

| **Fiscal quarter ended** | Total interest income | Loss from continuing operations – total | Loss from continuing operations – per share [1] | Net loss - total | Net loss - per share [1] |
|---|---|---|---|---|---|
| November 30, 2010 | 1,730 | 423,763 | 0.07 | 423,763 | 0.07 |
| August 31, 2010 | 1,827 | 163,083 | 0.03 | 163,083 | 0.03 |
| May 31, 2010 | 907 | 24,278 | 0.00 | 24,278 | 0.00 |
| February 28, 2010 | 434 | 28,579 | 0.00 | 28,579 | 0.00 |
| November 30, 2009 | 1,653 | 21,383 | 0.00 | 21383 | 0.00 |
| August 31, 2009 | 504 | 35,040 | 0.01 | 35,040 | 0.01 |
| May 31, 2009 | 827 | 120,459 | 0.02 | 120,459 | 0.02 |
| February 28, 2009 | 2,222 | 87,173 | 0.01 | 87,173 | 0.01 |

Note 1: Basic and diluted – share dilution is not recognized as it would be anti-dilutive

The Company's expenditures were fairly consistent from quarter to quarter after removing stock based compensation (a non-cash item) and interest earned until the fourth quarter of fiscal 2010. During the fourth quarter 2010 the Company identified AME and its Tuvatu Gold Deposit as a property of merit and since this time has concentrated its efforts on completing due diligence associated with the proposed acquisition. X-Tal's quarterly operating costs for the three months ended November 30, 2010 were $425,493 which is $402,457 higher compared to the three months ended November 30, 2009. The significant increase in expenditures was due to professional fees, travel, filing fees, and exploration expenses related to the proposed acquisition with AME. Upon signing the non-binding letter of intent on August 24, 2010, the Company agreed to reimburse AME for costs paid for the technical report and to pay ongoing project costs to a maximum of $40,000 per month. The exploration expenses have been expensed during the quarter as the Company does not yet own the property.

*Share Capital*

At November 30, 2010, the Company had 6,300,001 common shares issued and outstanding. There were no share capital transactions during the period.

*Disclosure of Outstanding Share Capital as at January 28, 2011*

The common shares outstanding are 6,300,001.

The Company issued $11,500,00 in Subscription Receips on December 22, 2010. Each subscription receipt will automatically be exercised into one unit of the Company, each unit consisting of one common share of the company and one half of one share purchase warrant, each whole warrant entitling the holder to purchase one common share of the Company at a price of $2.00 for 12 months following closure.

The stock options outstanding are as follows:

| Number of Options | Exercise Price | | Expiry Date |
|---|---|---|---|
| 220,000 | $ 0.50 | | February 6, 2013 |
| 375,000 | $0.35 | | February 9, 2014 |

*Liquidity*

The Company had cash and short term investments totalling $318,266 at November 30, 2010 as compared to $829,150 at August 31, 2010. The working capital surplus of $741,608 at August 31, 2010 decrease to a surplus of $122,575 as at November 30, 2010. Funds used for operating activities during the period ended November 30, 2010 and 2009 were $308,762 and $25,534 respectively, the increase is attributable to an increase in professional fees, travel and exploration expenses related to the proposed acquisition of AME.

The financial statements for the period ended November 30, 2010, have been prepared on the basis of accounting principles applicable to a going concern. This assumes that the Company will operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has incurred operating losses since inception, has limited financial resources, no source of operating cash flow, and no assurances that sufficient funding, including adequate financing, will always be available to further explore its mineral property projects and to cover the general and administrative expenses necessary to maintain a public company. The ability of the Company to arrange additional financing in the future depends, in part, on the prevailing capital market conditions and exploration and development success.

The Company's principal liquidity needs for the next twelve months are to:

- fund the reverse takeover transaction with AME;
- fund the proposed exploration program on those mineral properties to be acquired pursuant to the proposed RTO and;
- fund recurring (including general and administrative) costs.

*Capital Resources*

The Company will have to rely upon equity financings to satisfy its capital requirements after the proposed acquisition. There can be no assurance the Company will be able to obtain the financing required in the future on acceptable terms.

Upon completion of the proposed acquisition, the Company is agreed to pay $80,000 bonus to a director of the Company.

*Results of Operations - Three months ended November 30, 2010, compared with three months ended November 30, 2009*

During the three months ended November 30, 2010, the Company reported a net loss of $423,763 ($0.07 per share) compared to a net loss of $21,383 ($0.00 per share) for the period ended November 30, 2009.

The significant items for the three month period ended November 30, 2010, compared to November 30, 2009, were:

a. Professional fees of $91,650 (2009: $1,247) relate to the preparation of the Company's November 26, 2010 information circular.

b. Project development costs of $131,190 (2009: $Nil) were incurred pursuant to the non-binging LOI, in which the Company agreed to reimburse AME for costs related to preparing the Technical Report and to fund up to $40,000 per month in project costs. Of the $131,190, $11,290 was incurred to prepare the technical report. These expenses have been expenses as the Company does not own the property as at November 30, 2010.

c. Salaries and benefits of $92,565 (2009: $Nil) due to the hiring of a new CFO and being allocated a portion of salaries in shared office costs from a management company (see related party transactions).

d. Travel of $59,352 (2009: $Nil) incurred in conjunction with the financing and proposed acquisition.

*Off-balance Sheet Arrangements*

The Company has no off-balance sheet arrangements.

*Transactions with Related Parties*

The Company pays management companies with one director in common for shared office and travel costs and on a cost pass-through basis. During the three month period ended November 30, 2010, $220,641 (2009 - $1,790) in such costs were incurred and recorded at the exchange amount. At November 30, 2010, accounts payable includes $121,712 (August 31, 2010 - $54,479) related to these costs. The transactions with related parties were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the parties.

During the three months ended November 30, 2010, the Company advanced $202,122 in funds to AME. The funds were used by AME for work done on the Tuvatu Gold Deposit as discussed above.

# Risks and Uncertainties

*Country Risk*

The Company's financial position and its future development projects may be affected by political or economic instability. These risks may include exposure to fluctuations in currency exchange rates and high rates of inflation.

Operations of future exploration properties may be affected by varying degrees by such factors as government regulations with respect to price controls, income taxes, expropriation of property, environment legislation, land use, water use and land claims. The effect of these factors will depend on the location of the mineral properties and cannot be accurately predicted.

# Critical Accounting Policies and Estimates

## Changes in Accounting Policies

On May 1, 2008, the Company adopted EIC-172, "Income Statement Presentation of a Tax Loss Carry Forward". On September 1, 2008, the Company adopted three new presentation and disclosure standards that were issued by the CICA, Handbook Section 1535, "Capital Disclosures", Handbook Section 3862, "Financial Instruments – Disclosures", Handbook Section 3863, "Financial Instruments – Presentation" and Handbook Section 1400, "General Standards of financial statements". On January 1, 2009, the Company adopted EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". On March 27, 2009, the Company adopted EIC-174, "Mining Exploration Costs".

*Income Statement Presentation of a Tax Loss Carry Forward*

Effective May 1, 2008, the Company adopted EIC-172, "Income Statement Presentation of a Tax Loss Carryforward Recognized Following an Unrealized Gain in Other Comprehensive Income". This abstract provides guidance on whether the tax benefit from the recognition of previously unrecognized tax loss carryforwards consequent to the recording of unrealized gains in other comprehensive income, such as unrealized gains on available-for-sale financial assets, should be recognized in net income or in other comprehensive income. The abstract should be applied retrospectively, with restatement of prior periods from January 1, 2007, the date of adoption of CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement". The adoption of this standard had no impact on the financial statements.

*Capital disclosures and financial instruments*

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with

any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has provided the required disclosures in the notes to the financial statements.

Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosure and Presentation", revising and enhancing its disclosure requirements. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has provided the required disclosures in the notes to the financial statements.

*Goodwill and Intangible assets*

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Effective for the Company on September 1, 2009, this section provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior-period financial statements will be required. The Company reviewed this standard and determined it had no impact on the current or prior year financial statements.

*General Standards of Financial Statements*

Section 1400 requires management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future which is at least, but not limited to, twelve months from the balance sheet date. The disclosure required by CICA 1400 is included in Note 1 to the financial statements.

*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

EIC 173 clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company has evaluated the impact of EIC-173 on adoption and determined that no adjustments were required.

*Mining Exploration Costs*

EIC-174 clarified that an entity that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. As the Company had not incurred any mining exploration costs prior to March 27, 2009, adoption of this requirement did not change the Company's financial position in prior periods.

*Business Combinations*

In December 2008, the CICA issued Section 1582, "Business Combinations", which will replace Section 1581, "Business Combinations". This section establishes revised standards for the accounting for a business combination which are aligned with International Financial Reporting Standards ("IFRS") on business combinations. Section 1582 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

In January 2009, the CICA issued Section 1601, "Consolidated Financial Statements". This section, together with Section 1602, replaces the former Section 1600, "Consolidated Financial Statements", and establishes standards for the preparation of consolidated financial statements. The Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. An entity adopting this Section for a fiscal year beginning before January 1, 2011 also adopts Section 1582, "Business Combinations", and Section 1602, "Non-controlling Interests".

In January 2009, the CICA issued Section 1602, "Non-controlling Interests". This new Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions on International Financial Reporting Standards IAS 27, "Consolidated and Separate Financial Statements". This Section applies to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. An entity adopting this Section for a fiscal year beginning before January 1, 2011 also adopts Section 1582, "Business Combinations" and Section 1601, "Consolidated Financial Statements".

The Company has not yet determined the impact of adopting these standards on the Company's consolidated financial statements.

*International Financial Reporting Standards*

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly accountable companies to use IFRS, replacing Canadian GAAP. Consequently, IFRS will be applicable for interim and annual financial statements relating to the fiscal periods beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts we report for the year ended August 31, 2011.

The Company's IFRS implementation plan addresses project management, accounting policy changes, reporting and disclosure changes, training, communication and business impacts. The following progress has been made in these areas:

*Project Management*

The Company has developed a timeline for key project milestones and deliverables. A detailed project plan with assigned responsibility is being followed to ensure IFRS readiness for 2011.

*Accounting Policy Changes*

The Company is completing its research and documentation of expected differences between its current accounting policies that are in accordance with Canadian GAAP and those to be adopted under IFRS. The Company has begun developing its future accounting policies that will be required under current IFRS standards. The areas with the most potential for future impact on the Company's financial statements are expected to be the recognition, measurement and disclosure of future exploration costs; consolidated financial statements; impairment of long-lived assets; and stock-based compensation.

Changes to IFRS are continually underway and these changes may impact the Company. The Company will assess any change as part of its continuous IFRS implementation plan.

*Reporting and Disclosure Changes*

The Company is considering the financial statement presentation and disclosure options available to it upon initial changeover to IFRS and is developing ongoing reporting mechanisms to capture future IFRS disclosure information. At the date of transition to IFRS, the Company has the option to adopt certain exemptions from the full retrospective application, presentation and disclosure requirements of certain IFRS.

*Training and Communication*

The Company's plans are to ensure that its key stakeholders are informed about the anticipated effects of the IFRS transition. IFRS training for relevant finance staff is ongoing, while targeted programs for operational staff are to be developed and deployed.

*Business Impact*

The Company is considering what effects the IFRS transition will have on its business policies and activities. The following key areas are likely to be affected:

- Internal controls over financial reporting;
- Dual reporting obligation for the year 2011 when statements are required under both Canadian GAAP and IFRS; and
- Budgeting and forecasting for the IFRS transition year of 2011.

The above reflects expectations based on information available at the time of reporting. Changes in circumstances may cause the Company to revise its IFRS project plans and policy choices before the changeover date.

## Use of Estimates

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The result of the Company's ongoing evaluation of these estimates forms the basis of making judgements about the carrying values of assets and liabilities and that reported amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions.

# Management Reporting

The Company's Board of Directors has approved the information contained in the audited financial statements and this MD&A. The Board of Directors fulfills its responsibility regarding the financial statements mainly through its Audit Committee, which has a written mandate which complies with the current requirements of Canadian securities legislation. The Audit Committee meets at least on a quarterly basis.

## Disclosure Controls and Procedures ("DC&P") and Internal Controls Over Financial Reporting ("ICFR")

The Company is a venture issuer and, as such, is not required to certify the design and evaluation of the issuer's DC&P and ICFR. While the Company has not completed such an evaluation, management has contracted an independent expert to review its DC&P and ICFR. Management expects this review to be completed during the Q3. The inherent limitations on the ability of the Chief Executive Officer and the Chief Financial Officer to design and implement, on a cost effective basis, DC&P and ICFR for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filing and other reports provided under securities legislation.

Certain matters regarding the Company's DC&P and ICFR and the limitations for a company of this size are discussed below

# DC&P

Our DC&P are the internal systems, controls and procedures we have established to provide reasonable assurance that material information used internally and disclosed externally is reliable and timely. However, a control system, no matter how well conceived or operated, can provide only reasonable and not absolute assurance that the objectives of the control system are met.

The principal forms of information and means of disclosure in the Company, which are governed by its DC&P, continuous disclosure obligations under securities regulations, periodic news releases, the Company's website, and its investor relations materials and presentations. These materials are prepared by management. All materials disclosed are reviewed and approved by a Director. This review and approval process is documented in written or electronic form.

# ICFR

*Overview*

The Company's ICFR is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable Canadian GAAP. ICFR should include those policies and procedures that establish the following:

- Maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of the Company's assets;
- Reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable Canadian GAAP;
- Receipts and expenditures are only being made in accordance with authorizations of management and the Board of Director;
- Reasonable assurance regarding prevention or timely detection of unauthorized collection, use or disposition of the Company's assets that could have a material effect on the financial statements.

*Discussion of Deficiencies and Compensating Factors*

The Company is characterized, among other matters, by the Company's small size and number of employees. This is a common situation for companies at this stage of development as a business. The Company finds itself further characterized by a number of factors recognized in accounting literature as typical for many small businesses, which provide inherent limitations to the design of ICFR in such companies. These include:

- Limited staff and segregation of duties;
- Limited use of formal operating, accounting and authorization policies and procedures;

- A concentration of decision-making power and the potential for management override;
- Limitations on board and audit committee oversight.

In general terms, we have attempted to mitigate the risks posed to ICFR by these factors by employing or recognizing the following:

- Employment of experienced financial professionals with extensive accounting and financial reporting expertise;
- Imposition of supervision and review of accounting transactions to an extent considered reasonable within the limitations of staff size;
- Extensive and detailed analytical review of financial statement items, before statements are published, by both supervisory and executive financial personnel;
- Recognition that the same concentration of decision-making power and the associated potential for management override also arise from an intimate day-to-day knowledge of the Company's financial and other transactions and an intimate understanding of predicted financial accounting outcomes;
- Use of third party professional accounting expertise to assist with certain complex accounting standards;
- Notification to the Company's external auditors of the ICFR environment in which we operate to provide them with the opportunity to have the appropriate audit procedures.

The specific deficiencies in ICFR identified are:

*Limited Segregation of Duties*

Management recognizes that, as of November 30, 2010, a weakness existed in the design of ICFR caused by inadequate segregation of duties between the authorization, recording, review and reconciliation of (a) purchase expenditures and (b) of adjusting journal entries to the general ledger. This weakness has the potential to result in material misstatements in the Company's financial statements, and should also be considered a weakness in its DC&P.

- To help reduce the risks inherent in this weakness, the company has hired a new Chief Financial Officer, who is a Chartered accountant and subsequent to November 30, 2010 hired a controller who is also a Chartered accountant. The Company's transactions and journal entries are entered by the accounting staff with detailed review and approval required by either the CFO, Chief Operating Officer or other authorized senior management with oversight from the directors of the company. The Company has also engaged an independent expert in the assessment, testing and implementation of Internal Controls over Financial Reporting to ensure the requirements of National Instrument 52-109 have been complied with. The Company

anticipates receiving a report from the independent expert early in the second quarter of Fiscal 2011.

*Limited Use of Formal Operating, Accounting and Authorization Policies and Procedures*

Management recognizes that as of November 30, 2010, a weakness existed in the design of ICFR caused by the absence of comprehensive written accounting policies and procedures. This weakness has the potential to result in material misstatements in the Company's financial statements, and should be considered a weakness in its DC&P.

- To help reduce the risks inherent in this weakness, the Company's CFO will conduct extensive analytical review of financial statement items and an integral part of the procedure is the detailed review and approval by the Audit Committee. Management is currently formalizing accounting policies and procedures and will be completed prior to the completion of the second quarter of Fiscal 2011. The Company has also engaged an independent expert in the assessment, testing and implementation of Internal Controls over Financial Reporting to ensure the requirements of National Instrument 52-109 have been complied with. The Company anticipates receiving a report from the independent expert early in the second quarter of Fiscal 2011.

*Limitations on Board and Audit Committee Oversight*

Management has recognized a weakness in the design of ICFR caused by the absence of a written Code of Conduct. As disclosed above the Company has engaged an independent expert in the assessment, testing and implementation of Internal Controls over Financial Reporting to ensure the requirements of National Instrument 52-109 have been complied with. The report from the independent expert, expected early in the second quarter of Fiscal 2011 will address this weakness and provide recommendations for improvements.

The Company has an Audit Committee Charter in place and a Whistler Blower policy.

The Company will adopt a Charter for Corporate Governance and Nominating Committee of the Board of Directors on a Code of Conduct upon graduating to the TSX-V.

*Relationship to DC&P*

Under the above Section "DC&P," management acknowledges its responsibility to establish internal systems, controls and procedures sufficient to provide reasonable assurance that material information used internally and disclosed externally is reliable and timely. This information includes financial disclosure documents, which are themselves subject to ICFR. Certain deficiencies in ICFR suggest a probability of being deficiencies in DC&P and where applicable, this has been noted above in "Specific Deficiencies Identified."

## Additional Information and Continuous Disclosure

Additional information on the Company is available through regular filings of press releases and financial statements on SEDAR at www.sedar.com.