



LATIN AMERICAN  
MINERALS INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For The Quarter Ended**

**March 31, 2011**

## **INTRODUCTION**

This Management's discussion and Analysis ("MD&A") provides a review of the financial condition and results of operations of Latin American Minerals Inc. (the "Company" or "Corporation"). The review is provided to enable a reader to assess the significant changes in the financial condition of the Company as at and for the Three Months Ended March 31, 2011 and 2010. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto of the Company for the three months ended March 31, 2011 and 2010.

The Company's unaudited Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards "IFRS". The Company's reporting currency is Canadian dollars. The date of this Management's Discussion and Analysis is June 29, 2011.

## **DESCRIPTION OF BUSINESS**

The Company is listed on the TSX Venture Exchange (the "Exchange" or "TSX-V") and trades under the symbol "LAT".

## **CAUTION REGARDING FORWARD LOOKING STATEMENTS**

Except for historical information contained in this discussion and analysis, disclosure statements contained herein are forward-looking. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those in such forward-looking statements. Forward-looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change except as required by applicable securities laws. Factors that could cause actual results to vary materially from results anticipated by such forward-looking statements include changes in market conditions and other risk factors discussed or referred to in this MD&A, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Investors are cautioned against attributing undue certainty to forward-looking statements.

The results described herein are exploratory in nature and there can be no assurance that they are indicative of Mineral Resources as defined in accordance with National Instrument 43-101.

## **RISKS AND UNCERTAINTIES**

The Company is in the mineral exploration and development business and as such is exposed to a number of risks and uncertainties that are not uncommon to other companies in the same business.

Some of the possible risks include the following:

- (a) The industry is capital intensive and subject to fluctuations in metal prices, market sentiment, foreign exchange and interest rates. Currently, the Company's portfolio of exploration properties has exposure to predominantly gold, copper, zinc, silver, diamond and lead. The prices of these commodities greatly affect the value of the Company and the potential value of its properties and investments.

This, in turn, greatly affects its ability to form joint ventures and the structure of any joint ventures formed. This is due, at least in part, to the underlying value of the Company's assets at different metals prices.

- (b) The only source of future funds for further exploration programs, or if such exploration programs are successful for the development of economic ore bodies and commencement of commercial production thereon, which are presently available to the Company are the sale of equity capital or the offering by the Company of an interest in its properties to be earned by another party carrying out further exploration or development. Management has been successful in accessing the equity markets in the past, but there is no assurance that such sources will be available on acceptable terms in the future.
- (c) Any future equity financings by the Company for the purpose of raising additional capital may result in substantial dilution to the holdings of existing shareholders.
- (d) The Company must comply with environmental regulations governing air and water quality and land disturbance and provide for mine reclamation and closure costs. The Company seeks to operate within environmental protection standards that meet or exceed existing requirements in the countries in which the Company operates. Present or future laws and regulations, however, may affect the Company's operations. Future environmental costs may increase due to changing requirements or costs associated with exploration and the developing, operating and closing of mines. Programs may also be delayed or prohibited in some areas. Although minimal at this time, site restoration costs are a component of exploration expenses.
- (e) The operations of the Company will require various licenses and permits from various governmental authorities. There is no assurance that the Company will be successful in obtaining the necessary licenses and permits to undertake its exploration and development activities in the future.
- (f) Exploration and development is considerably riskier and ownership interests are less secure in developing countries where the Company operates. Exploration is presently carried out in several countries, including Argentina, and Paraguay. Each of these countries exposes the Company to risks that may not otherwise be experienced if all

operations were domestic. Political risks may adversely affect the Company's existing assets and operations. Real and perceived political risk in some countries may also affect the Company's ability to finance exploration programs and attract joint venture partners, and future mine development opportunities.

- (g) Business is transacted by the Company in a number of currencies. Fluctuations in exchange rates may have a significant effect on the cash flows of the Company. A significant portion of the Company's cash and cash equivalents has been held in U.S. dollars. Future changes in exchange rates could materially affect the Company's results in either a positive or negative direction.
- (h) The Company's business and operations are dependent on retaining the services of a small number of key employees. The success of the Company is, and will continue to be, to a significant extent, dependent on the expertise and experience of these employees. The loss of one or more of these employees could have a materially adverse effect on the Company. The Company does not maintain insurance on any of its key employees.
- (i) Acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral properties may be disputed or impugned. Although the Company has investigated its title to the mineral properties for which it holds concessions or mineral leases or licenses, there can be no assurance that the Company has valid title to such mineral properties or that its title thereto will not be challenged or impugned. For example, mineral properties sometimes contain claims or transfer histories that examiners cannot verify. The Company does not carry title insurance with respect to its mineral properties. A successful claim that the Company does not have title to a mineral property could cause the Company to lose its rights to mine that property, perhaps without compensation for its prior expenditures relating to the property.
- (j) Mineral exploration and exploitation involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, explosions, tailings impoundment failures, cave-ins, landslides and the inability to obtain adequate machinery, equipment or labour are some of the risks involved in mineral exploration and exploitation activities. The Company has relied on and may continue to rely on consultants and others for mineral exploration and exploitation expertise. Substantial expenditures are required to establish mineral reserves and resources through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of some properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining, or to upgrade existing infrastructure. There can be no assurance that the funds required to exploit any mineral reserves and resources discovered by the Company will be obtained on a timely basis or at all. The economics of exploiting mineral reserves and resources discovered by the Company are affected by many factors, many outside the control of the Company, including the cost of operations, variations in the grade of ore mined and metals recovered, price fluctuations in the metal markets, costs of

processing equipment, and other factors such as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. There can be no assurance that the Company's mineral exploration and exploitation activities will be successful.

- (k) The Company's activities are subject to a wide variety of laws and regulations governing health and worker safety, employment standards, waste disposal, protection of the environment, protection of historic and archaeological sites, mine development and protection of endangered and protected species and other matters. The Company is required to have a wide variety of permits from governmental and regulatory authorities to carry out its activities.

These permits relate to virtually every aspect of the Company's exploration and exploitation activities. Changes in these laws and regulations or changes in their enforcement or interpretation could result in changes in legal requirements or in the terms of the Company's permits that could have a significant adverse impact on the Company's existing or future operations or projects. Obtaining permits can be a complex, time-consuming process. There can be no assurance that the Company will be able to obtain the necessary permits on acceptable terms, in a timely manner or at all. The costs and delays associated with obtaining permits and complying with these permits and applicable laws and regulations could stop or materially delay or restrict the Company from continuing or proceeding with existing or future operations or projects. Any failure to comply with permits and applicable laws and regulations, even if inadvertent, could result in the interruption or closure of operations or material fines, penalties or other liabilities.

- (l) Informal miners have been and continue to operate illegally on parts of the Paso Yobai property. From time to time it is not uncommon that there are some clashes between the informal miners, security staff and law enforcement personnel. Given the nature of the current and future operations, the presence of the informal miners may create a safety issue for both the illegal miners and Company personnel and may cause disruptions to operations from the risk of the informal miners encroaching or attempting to encroach onto other areas of Company's concessions. The Company has followed and continues to follow a strategy of containment. The Company does not directly confront currently operating small illegal miners on its concession, but in accordance with the laws of Paraguay, and in support of the local police, the Company does not allow encroachment onto new areas of its property. There is always a risk that from time to time confrontations from attempted encroachments may arise, resulting in violence and/or damage to the property. The Company monitors and documents the activities of the informal miners. The environmental liabilities attached to the property as a result of these informal miners are unknown.

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, then actual results may vary materially from those described in forward-looking statements.

## **MINERAL PROPERTIES**

### *Description*

#### **General:**

The Company is a mineral exploration company focused on the discovery, acquisition and development of potential mineral deposits in Latin America. Currently, the Company has active exploration projects in Paraguay and Argentina. The Paso Yobai gold project, the Itapoty diamond project and the Chiriguelo niobium / rare earth element project are located in Paraguay, and are undergoing phased exploration steps. The Tendal lead-zinc-copper-silver project, located in Argentina, is being explored by Votorantim-Metals Argentina S. A. through a three-year option agreement signed in August 2010.

#### **Paso Yobai Gold Project**

##### Paso Yobai Properties

The Paso Yobai Project is located south of the town of Paso Yobai in eastern Paraguay, approximately 150km east of the capital city of Asuncion. The project comprises two areas: the Minera Guairá concession (6700 hectares) and the two LAMPA (defined below) concessions (8965 hectares). A third concession held by Minas Paraguay S.A. (500 hectares), optioned by LAMPA in 2007, was terminated by the Company in October 2010 after consideration of property payments and disappointing exploration results.

On October 14, 2010, the Company formally advised that it would exercise its option to acquire a 70% interest in the mining license held by Minera Guairá S.A. (Guairá). Approval for the property transfer was received from the Paraguayan government in December 2010. The transfer to the Company of the 70% interest in the Guairá Concession was signed on January 5, 2011.

Contiguous with Guairá, and located to the north and east, the LAMPA area (two concessions totalling 8965 ha) is 100% owned by the Company through its subsidiary Latin American Minerals Paraguay S.A. ("LAMPA"). These concessions received technical approval from the Paraguayan Vice-Ministry of Mines and Energy. The first concession (approximately 6165 ha) received formal authorization as a Prospecting Concession in January, 2011; the second (2800 ha) received formal approval in May, 2011.

At the close of Q1-2011, the total project area for the Paso Yobai properties totalled 15,665 hectares.

The Paso Yobai Project is the Company's most advanced exploration project, with the following work completed: 3,700 km airborne electromagnetic and magnetometer surveys; approximately 16,000 soil samples; 812 line-km ground magnetometer surveys; 22 extensive mechanical trenches with approximately 1000 rock/rock-chip samples, and 9,028 metres of diamond drilling including 4,179 core samples, including the following work primarily executed in the first quarter of 2011: 17 diamond drill holes totalling 232 metres of drilling and 879 core samples.

Exploration highlights of the Paso Yobai project are presented in the following summary:

Paso Yobai - Discovery Trend Summary

The term Discovery Trend refers to an 8 km long geologic lineament traceable in geophysical and geological data. Of this extent, approximately 4.5 kilometers appears to exhibit continuous geological and geophysical expression, consistent with the mineralized bodies encountered to date. This highly prospective 4.5 km zone is almost completely situated within the Guaira Concession. Most of the Company's exploration work to date has concentrated in a 1200m length of this zone, which has been termed the Discovery Zone.

Due to financial constraints, the intensity of the work programs was reduced in 2010, and much of the Paso Yobai field work focused on the adjacent Valientes Trend (discussed below). However, the Company purchased and installed a laboratory-scale scrubber, rod mill and Falcon L40 centrifugal concentrator at the Guairá site to assist in the economic evaluation of the property, and to evaluate the optimal processing methods for the gold resource. As an initial phase, a program of small bulk sampling (50kg samples) was being conducted through the existing trenches of the Discovery Zone to verify and improve the assessment provided by the initial trench sampling program, and to re-test potential mineralized zones with hydrothermal alteration, which may have proved negative or negligible for gold mineralization in the initial sampling program. This program is progressing in the current trenching on the Discovery Trend.

Through 2010, the Company commissioned and analyzed alternative plant designs with SEPRO Systems of British Columbia. A 5 tonne per hour design was finalized at the end of the year. This small scale gold plant is intended to provide valuable technical and metallurgical information that would complement existing and future drill program data in the preparation of a 43-101 compliant resource study.

Based on the encouraging drill and trench results and the continuity of a 4.5 km trend of gold soil anomalies coincident with the prominent, continuous magnetic lineament produced by the diabase-dike host formation, management believes the Discovery Trend has excellent mineral potential and has quantified this potential by defining a potential mineral deposit at Paso Yobai:

The Company estimates the 1,200 metre long Discovery Zone, where exploration work has focused, may contain a Potential Mineral Deposit ranging from 450,000 to 900,000 tonnes with grades ranging from 4.0 to 7.0 gpt gold. By extension, the high grade soil trend and coincident magnetic target traced continuously over approximately 4.5 km length, and located predominantly within the Minera Guairá concession, could host a potential gold deposit ranging between 1,687,500 and 3,375,000 tonnes with similar grades. Evaluations of the continuity of mineralization below 100m depth, and along the outer reaches of the extended 8 km-long structural lineament, are required to determine a maximum limit on resource potential for this structure.

This assessment of the quantity and grade of the potential mineral deposit is conceptual in nature as the exploration and resource definition work is ongoing, and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

#### Paso Yobai - Valientes Trend Summary

On November 3, 2009 the Company reported finding a significant new gold soil-anomaly trend. On February 17, 2010 the Company announced that this trend had been delineated over 11 km, mainly located in the aforementioned LAMPA concessions. It features multiple large cluster targets with significant gold values.

The targets along this trend do not appear to be confined to linear-form mafic dikes, thus differing in configuration from the Discovery Trend. Airborne magnetic data suggests an abundance of mafic rock at depth though, which signifies that large formations of reactive host rock, receptive to high-grade gold deposition, are likely below these geochemical targets.

In 2010, the Company completed the following work on the Valientes Trend: two large trenches completed at its southern extent, exploration trenches on a sills targets adjacent to the northern extend of the trend, intensive soil sampling, ground magnetics, and deep auger-hole sampling grids.

Paso Yobai work plans for 2011 focus on the following:

- continue the development of the Discovery Trend by completing 16 new trenches along its little explored north-western extent;
- complete a 3D model compilation of Discovery Trend drill data;
- execute surface stripping, mapping and commercial scale bulk-sampling in the core of the Discovery Zone, with the assistance of a new 5 tonne/hour plant, expected to be completed at Guairá in August 2011;
- Extend and in-fill soil sampling and auger hole sampling on the Valientes trend to determine its limits and to locate priority follow-up areas;
- Extend and in in-fill ground magnetometer survey to detect and delineate structures that might control high-grade gold mineralization;
- Follow up these priority targets with trenches, and as warranted prepare these targets for drilling.

#### **Itapoty Diamond Project**

The Itapoty diamond property is located in Paraguay, approximately 120 km north of the Company's Paso Yobai Gold Project. Geologically, this area is part of the diamond rich Alto Paranaiba Igneous Province, extending south from Brazil. The property consists of a central, environmentally-permitted exploration concession and three outer exploration claims.

In 2008, the Company acquired an option on the central 5700 hectare Landsonne Concession. Taken to completion, this option permits the Company to acquire 100 % of the concession by 2013 paying in increments a total of USD 1,465,000. Landsonne will retain a 3% gross production return royalty, though this royalty can be reduced to 1% for an additional payment of USD 3M. The remaining three concessions claimed in 2009 total 220,000 hectares. These are held by the

Company either through Paraguayan subsidiaries or by contract with a third-party. These currently have technical approval from the Paraguayan Vice-Ministry of Mines and Energy, and are undergoing environmental permitting

In Q1-2011, processing of the Landsonne Concession data was completed. Negotiations to option this property began in mid-2010. In February 2011, a Letter of Intent was signed with Olivut Resources Ltd. in which the company agreed to limit substantive exploration work pending the acceptance of an option agreement for these properties. Limited ground work has been performed to maintain the legality of the Company's concessions.

### **Chiriguelo Niobium / Rare Earth Project, Paraguay**

On April 14, 2010, the Company announced that it was initiating a search for rare earth exploration properties. Through this program, the company acquired a 100% interest in the Chiriguelo Project, located in northeastern Paraguay, approximately 500 km northeast of Asuncion. The property consists of a 25,500 hectare prospecting concession.

The Chiriguelo Carbonatite Complex represents a prime exploration target for Niobium and Rare Earth Elements (REEs). The primary niobium ore 'pyrochlore' has been found in abundance at Chiriguelo, both at surface and in historic drilling. Worldwide production of niobium is limited, with the main production occurring in Brazil at deposits geologically similar to Chiriguelo.

The Company has conducted initial surface sampling that verifies high niobium concentrations in an area measuring 600m x 150m within the central carbonatite body.

Abundant concentrations of Rare Earth Oxides have also been located at surface and in trenches at the Chiriguelo deposit. The Corporation's initial sampling of Rare Earth Oxides (REO) has demonstrated relatively high proportions of Lanthanum (32.8% of total REO), Cerium (47.3%), Praseodymium (4.4%), and Neodymium (11.9%). Samarium (1.12% of total REO), Europium (0.27%), Gadolinium (1.33%), Dysprosium (0.44%) and Erbium (0.28%) have also been encountered in the REO samples tested to date.

Work proceeds in 2011 with an 8-month property-wide evaluation consisting of mapping, soil sampling, ground magnetometer surveys and radiometric surveys in order to evaluate the mineral potential of the concession.

### **Tendal Massive Sulphide (Zn-Cu-Pb-Ag) Property**

Latin American Minerals holds a 100% interest in the six Tendal mineral concessions, comprising two land parcels totalling 36,488 hectares. The Tendal zinc, copper, lead and silver property is located in the province of La Rioja in northwestern Argentina and is accessible by all-season gravel road.

At Tendal, massive sulphides outcrop on surface in the Espinal Formation on surface for over 2 km extent, and in the Rio Bonete Formation with a smaller footprint on surface, extending 400m in length along two zones of 8m width.

On August 31, 2010, the Company optioned this project to Votorantim-Metais Argentina S.A. for a three year period, extendable to six years. Details of the agreement stipulate a minimum exploration expenditure of USD 500,000 in the first year of the agreement and, in addition to the exploration expenditures, USD 50,000 annual cash payments to the Company during the JV period. The agreement also stipulates that Votorantim has an additional option to earn a 19% further interest in the property (thus 70% total) by solely funding development to the completion of the feasibility study during another period of three years. Votorantim has 60 days from the exercise date of the initial option to elect this additional interest.

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## FINANCIAL REVIEW

### Summary of Quarterly Results (\$000's):

(note-2010 data has been restated under IFRS; 2009 data is stated under Canadian GAAP).

	March 31	Dec 30	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	June 30
Financial results	2011	2010	2010	2010	2010	2009	2009	2009
Net income (loss) and comprehensive income (loss) for the period	10	6,839	(1,261)	(410)	(428)	1,363	(425)	504
Basic & diluted income/(loss) per share	(.01)	.09	(0.01)	(0.01)	(0.01)	0.01	(0.01)	(0.01)

### Significant Events During the First Quarter 2011

In January the Company announced it had ordered a bulk sampling plant for installation at Paso Yobai.

In February the Company announced its initial 2011 exploration program for Paso Yobai.

In February the Company announced a letter of intent signed with Olivut Resources outlining a potential joint venture and earn-in development agreement with respect to the Itapoty project.

### Consolidated Operating Results

This section should be read in conjunction with unaudited Interim Consolidated Financial Statements of Income and Comprehensive Income for the period ended March 31, 2011 and 2010

and the notes associated therewith. All references to 2011 and 2010 refer to those periods ended March 31 unless otherwise stated. Note, the Company does not have any material revenues as it is and exploration and development company.

The Company reported income and comprehensive income for 2011 of \$10,547 compared to a loss of \$958,846 for the comparable 2010 quarter.

Significant changes included no investment loss in 2011 as the shares held in 2010 that generated a loss of \$77,500 had been sold in later in the 2010 year. Interest income in 2011 was \$19,235 compared to nil in 2010. This increase was due to the interest on cash generated from the sale of the investment in the 4<sup>th</sup> quarter of 2010 with no comparable balance of cash in the previous year. Professional fees were \$107,616 in 2011 compared to \$65,691 in 2010, the difference arising from costs related to the implementation of IFRS. Share-based payment expense was \$113,960 in 2011 compared to \$72,152 in 2010, with the increase primarily related to the expense of options issued in the last quarter of 2010. Consulting fees in 2011 were \$129,683 compared to \$203 related to the costs of strategic advisors in 2011 with no such cost experienced in 2010. Shareholder's relations activities in 2011 created an expense of \$45,630 whereas diminished activities in 2010 resulted in an expense of \$6,280 and similarly increased trade show activities resulted in a 2011 expense of \$55,329 compared to \$19,622 in 2010, the difference due to less trade show activity. Travel costs in 2011 were \$23,034 as compared to \$2,515 in 2010. Other comprehensive income in the 2011 quarter reflected a gain in foreign exchange of \$608,463 compared to a loss in the comparable 2010 quarter of \$594,902. This large change reflects the considerable variation that has occurred in the Paraguayan and the American currencies. The overall increased activity reflected in expenses in 2011 is partially attributable to the influence in activity created by the presence of a full time CEO brought on in the third quarter of 2010.

### **Consolidated Financial Position**

This section should be read in conjunction with the unaudited Interim Consolidated Statement of Financial Position and unaudited Interim Statement of Shareholder's Equity as of March 31, 2011..

Note 2 of the unaudited Interim Consolidated Financial Statements for the Three Months Ended March 31, 2011 sets out the IFRS accounting principles applied in preparing the financial statements. The comparative information has been restated under IFRS for the statements of financial position as at December 31, 2010 and January 1, 2010, the date of transition.

Consolidated assets were \$20,797,431 at March 31, 2011 compared to a December 31, 2010 balance of \$20,265,957. Cash and equivalents declined to \$10,595,253 from \$13,863,251 with the acquisition of property rights and exploration costs increasing to \$8,706,307 in 2011 from a restated \$6,170,680 as at December 31, 2010 being the primary reason for the decline. Property Plant and Equipment was \$1,287,957 at March 31, 2011 increasing from a restated \$232,026 as at December 31, 2010 primarily as a result of establishing a bulk sampling plant.

### **Consolidated Liabilities**

Consolidated liabilities were \$611,492 as at March 31, 2011 as compared to \$305,997 at December 31, 2010. The increase in liabilities was in part caused by the increased activity level in travel, trade

shows, and IFRS related costs being significantly higher in the 2011 period resulting in increased payable levels.

### Shareholder's Equity

Shareholder's equity was \$20,185,939 at March 31, 2011 compared to a restated \$19,959,960 at December 31, 2010. The change was primarily driven by the loss for the quarter partially offset by equity of \$90,000 sourced from a conversion of warrants.

ISSUED CAPITAL	SHARES	\$
Balance December 31, 2009	74,500,751	18,587,227
Acquisition of mineral property-Paso Yobai	906,071	253,700
Exercise of options	1,097,182	398,990
Private placement	10,000,000	1,118,491
Share issue costs		(192,094)
Balance December 31, 2010	86,504,004	20,166,314
Exercise of warrants	<u>300,000</u>	<u>90,000</u>
Balance March 31, 2011	86,804,004	20,256,314
Options exercised June 2011	<u>31,250</u>	<u>13,125</u>
Balance June 29, 2011	86,835,254	<u>20,269,439</u>

The Company has warrants outstanding for 11,193,306 shares and options outstanding for 7,983,375 shares at April 29, 2011.

### LIQUIDITY AND CAPITAL RESOURCES

As at June 29, 2011 the Company has cash resources of approximately \$9,000,000. The Company anticipates that these resources will be sufficient to complete the development of the Company's projects plans over the next year. The priority project for the use of the funds is the continuation and expansion of the Paso Yobai Discovery and Valientes trends and exploring the potential of the Chirquelo project.

The Company manages capital based on project requirements being fundable from ongoing working capital and considering additional financings required to provide sufficient funds to maximise investment within exploration and development activities. Such additional financings are contemplated within the context of minimizing share dilution.

The current funding of the Company, provided in 2010, was largely comprised of the funds from monetizing the investment in LAC, a departure from past financing activities as that source of funds was not previously available to the Company and such sources have not been identified at this time relative to future needs.

The Company does not currently own or have an interest in any producing mineral properties and does not derive any revenues from operations. The Company's activities have been funded through equity financing and the Company expects that it will continue to be able to utilize this source of financing until it develops cash flow from operations. There can be no assurance, however, that the Company will be successful in its efforts. If such funds are not available or other sources of finance cannot be obtained, then the Company will be forced to curtail its activities to a level for which funding is available and can be obtained.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The company has no off-balance sheet arrangements.

#### **TRANSACTIONS WITH RELATED PARTIES**

During the quarter, the Company incurred the following related party transactions:

- (a) \$21,400 in director fees to directors of the Company.
- (b) \$33,087 in legal fees to a law firm, Gowling Lafleur Henderson LLP, of which a partner is a director of the Company. .
- (c) \$14,585 to a director of the Company pursuant to a service contract.
- (d) \$23,920) in contract fees pursuant to a service contract paid to the CFO of the Company.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

#### **COMMITMENTS**

The Company entered in to a contract to acquire equipment at a cost of \$675,000. As at March 31, 2011, \$506,250 was paid with the balance paid in June of 2011.

#### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in the preparation of the Financial Statements are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process.

Property acquisition costs and related direct exploration costs may be deferred until the properties are placed into production, sold, abandoned, or written down, where appropriate. The Company's

accounting policy is to capitalize exploration costs consistent with Canadian GAAP and applicable guidelines for exploration stage companies. The policy is consistent with other junior exploration companies which have not established mineral reserves objectively. An alternative policy would be to expense these costs until sufficient work has been done to determine that there is a probability a mineral reserve can be established; or alternatively, to expense such costs until a mineral reserve has been objectively established. Management is of the view that its current policy is appropriate for the Company at this time. Based on annual impairment reviews made by management, or earlier if circumstances warrant, in the event that the long-term expectation is that the net carrying amount of these capitalized exploration costs will not be recovered, then the carrying amount is written down accordingly and the write-down charged to operations. A write-down may be warranted in situations where a property is to be sold or abandoned; or exploration activity ceases on a property due to unsatisfactory results or insufficient available funding.

Another significant estimate relates to accounting for stock-based compensation. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options granted/vested during the year.

#### **FINANCIAL AND OTHER INSTRUMENTS**

The Company's financial instruments and liabilities consist of receivables and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these instruments approximates their carrying value due to the short term nature of their maturity.

#### **CHANGES IN ACCOUNTING POLICIES**

Transition to IFRS.

The Company's unaudited Interim Consolidated Financial Statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including *International Accounting Standards 34: Interim Financial Reporting and IFRS 1: First-time Adoption of International Financial Reporting Standards, as adopted by the International Accounting Standard Board ("IASB")*. These are the first statements the Company prepared in accordance with IFRS.

The accounting policies applied are based on IFRSs issued and outstanding at June 29, 2011, the date the Board of Directors approved the unaudited interim consolidated financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in the restatement of these interim consolidated financial statements, including the transition adjustments recognized on the change-over to IFRS.

Note 13 to the unaudited interim consolidated financial statements discloses the IFRS adjustments made to the previously published Canadian GAAP consolidated financial statements in order to

ensure consistency in the application of the current policies to those previously published. These reconciliations include that of the consolidated statements of financial position as at January 1, 2010, March 31, 2010 and December 31, 2010 as well as reconciliations of the consolidated statements of total comprehensive income for the three months ended March 31, 2010 and the year ended December 31, 2010.

### **Significant accounting policies and exemptions elected**

The following exemptions were applied in the process of restating the financial position of the Company as previously prepared utilizing Canadian GAAP, as of the transition date, January 1, 31, 2010 and for the three months ended March 31, 2010 and the year ended December 31, 2010.

1. As is permitted under transition, IFRS 2 *Share-based payments* was not applied to options issued that were vested prior to the transition date of January 1, 2010. This election has no impact on the current financial performance and no impact on future performance.
2. IFRS 1 sets out a series of exemptions available. It allows the first time adopter to reset the foreign currency translation reserve that existed at the transition date to zero, which the Company elected to apply. This election resulted in no change in total equity but increased the deficit by \$60,014, increased field and office equipment by \$1,248 and property rights and evaluation and exploration assets by \$226,722.
3. The Company elected to defer property rights and exploration and evaluation costs. The option existed to expense all past and future exploration and evaluation costs until the preparation of an economic study. The decision was based on the view of management that enough mineral resources were believed to exist for the primary project to establish an opinion that the carrying values can be supported. Management assesses the tangible and intangible exploration and evaluation assets for impairment at least annually and whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The assessment is based on the development program, the nature of the mineral deposit, commodity prices and the Company's intentions and ability for development of the undeveloped property. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated recoverable amount. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, to the extent that that was previously carried net of depreciation or amortisation. This election had no impact on the financial statements compared to the policies previously in place.

### **Other policies applied**

1. Financial instruments are designated upon initial recognition at fair value through profit or loss with changes in value reported through profit and loss.
2. Warrants, broker warrants, and share-based payments arising as a result of the Company's

tranche of an option is valued over its term to vest. At the time of grant, the company makes judgements required to perform the valuation which include likely an estimate of the term the options will likely be held, the rate of forfeiture, the expected volatility, the expected dividend yield, the risk-free interest rate. Where applicable, the estimates are based on the Company's actual past experience. Note 7 of the unaudited Interim Consolidated Financial Statements sets out the judgements and assumptions applied. No significant impact resulted from the inclusion of the forfeiture rate assumption in the estimates, which assumption was not made in previous years.

### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The information provided in this report, including the interim financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying interim financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

### **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal control over financial reporting for the Company. Based on an evaluation performed by management of the Company's disclosure controls for the period covered by this MD&A, management believes such controls are effective in providing reasonable assurance that material items requiring disclosure are identified and reported in a timely manner. While the Chief Executive Officer and Chief Financial Officer have designed the controls over financial reporting or caused it to be designed under their supervision, to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, the Company does not employ sufficient staff to ensure complete segregation of duties. As a consequence, management relies heavily on the internal review of activities and transactions in summary by management to enhance the level of controls. The certifying officers have evaluated whether there were changes in controls over financial reporting that materially affected or were likely to materially affect the controls over financial reporting and have concluded there were none.

### **OTHER INFORMATION**

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