



AUGUSTINE VENTURES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FOR THE SIX MONTHS ENDED MAY 31, 2011

Dated: July 29, 2011

## INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") of Augustine Ventures Inc. ("Augustine" or the "Company") is dated July 29, 2011, and provides an analysis of the Company's performance and financial condition for the six months ended May 31, 2011 as well as an analysis of future prospects. The Board of Directors carries out its responsibility for review of this disclosure principally through its audit committee, comprised of independent directors. The audit committee reviews this disclosure and recommends its approval by the Board of Directors. This MD&A should be read in conjunction with the Company's audited financial statements for the year ended November 30, 2010, including the related note disclosure, both of which are prepared in accordance with generally accepted accounting principles in Canada. All amounts are in Canadian dollars unless otherwise specified. The financial statements and additional information, including the Company's Certifications of Annual and Interim Filings and press releases, are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

This MD&A may contain forward-looking statements that are based on the Company's expectations, estimates and projections regarding its business and the economic environment in which it operates. These statements speak only as of the date on which they are made, are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Examples of some of the specific risks associated with the operations of the Company are set out below under "Risk Factors". Actual outcomes and results may differ materially from those expressed in these forward-looking statements and readers should not place undue reliance on such statements.

## OVERALL PERFORMANCE

Augustine is a Canadian junior gold exploration company engaged in the acquisition, evaluation and exploration of mineral properties in Canada. The Company was established in 1997 as Black Mountain Minerals Inc. by statutory amalgamation of Triangle Capital Energy Corp. and Per-X Minerals Inc. pursuant to the provisions of the Business Corporations Act (Ontario). The Company's name was changed from Black Mountain Minerals Inc. to Augustine Ventures Inc. on November 30, 2006. The Company is listed on the Canadian National Stock Exchange ("CNSX") and commenced trading under the symbol "WAW" on June 14, 2011.

Augustine acquired an option on the Surluga Property near Wawa, Ontario pursuant to the terms of an option agreement dated September 22, 2010 (the "Option Agreement"), as amended by an amending agreement dated November 25, 2010, entered into between the Company, Delta Uranium Inc. ("Delta") and Delta Precious Metals (Ontario) Inc. ("DPMI") and also pursuant to the terms of an assignment agreement dated September 15, 2010 (the "Assignment Agreement") entered into between the Company, Delta, DPMI, Citadel Gold Mines Inc. ("Citadel") and Citabar Limited Partnership ("Citabar").

The Surluga Property (which includes the Surluga-Jubilee Project) encompasses 2,345 hectares in McMurray Township, southeast of the town of Wawa. Over 95 percent of the property consists of leases and/or patents for both mineral and surface rights that are easily accessible. The property has a known depth extension to 600 meters, a history of past production from the known deposits and a large number of untested but documented gold occurrences on the property.

## RESULTS OF OPERATIONS - FINANCING REVIEW

On December 22, 2010, Augustine closed a first tranche of financing for 2,150,000 Flow Through

Units and 4,000,000 Non Flow Through Units at the price of \$0.20 per Unit for gross proceeds of \$1,230,000. Each Flow Through Unit consists of one common share and one half common share purchase warrant, and each Non Flow Through Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.40 expiring on December 22, 2012. The Company paid a cash commission of \$98,400 and 492,000 Compensation Options.

On February 8, 2011, Augustine closed a second tranche of financing for 775,000 Flow Through Units and 3,125,000 Non Flow Through Units at the price of \$0.20 per Unit for gross proceeds of \$780,000. Each Flow Through Unit consists of one common share and one half common share purchase warrant, and each Non Flow Through Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.40 expiring on February 8, 2013. The Company paid a cash commission of \$62,400 and 312,000 Compensation Options.

On March 23, 2011, Augustine closed a third tranche of financing for 800,000 Flow Through Units and 1,900,000 Non Flow Through Units at the price of \$0.20 per Unit for gross proceeds of \$540,000. Each Flow Through Unit consists of one common share and one half common share purchase warrant, and each Non Flow Through Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.40 expiring on March 23, 2013. The Company paid a cash commission of \$43,200 and 216,000 Compensation Options.

## RESULTS OF OPERATIONS - PROJECTS REVIEW

### Jubilee-Surluga Project, Wawa, Ontario

#### *Project Description and Location*

The Surluga property is located about two kilometres east of the town of Wawa, Ontario. The town of Wawa is located at 84°45' W and 47°58' N. The property lies entirely within McMurray Township. Highway 101 crosses the northern part of the property, and access to the former mine areas may be gained along a gravel road that turns off Highway 101. The gravel road is maintained to allow access to the property.

The Surluga property is comprised of a group of 50 Crown leases (aggregating 758.28 hectares), 95 patented mineral claims (aggregating 1,091.21 hectares) and one unpatented mineral claim (of 12.14 hectares), which are located in two separate claim groups. The aggregate area of the property, including the unpatented mineral claim, is 2,022.73 ha. These totals include the 15 patented Van Sickle Claims (161.10 hectares) which are held under option from the estate of Ollie Van Sickle.

#### *Accessibility, Climate, Local Resources, Infrastructure and Physiography*

The town of Wawa, situated at the junction of Highways 17 (Trans-Canada Highway) and 101, has a population of about 3,400 and is a centre for forestry and tourism. Historically, Wawa was the site of housing for people employed in the iron ore mining and sintering operation based at the nearby Helen Mine. This operation is now closed and the population of the town has been reduced. Access to the Surluga property is gained along Highway 101 to the former mine gate and then by good gravel road to the main mining area.

The weather in the area is affected by its proximity to Lake Superior. Weather statistics for the last thirty years show that July is the warmest month with an average maximum of 26°C and an

average minimum of 12°C, while January is the coldest month with an average maximum of -7°C and an average minimum of -19°C. Over the last thirty years, Wawa has received an annual average of 696 mm of rain and 238 cm of snow. July tends to be the wettest month.

The town of Wawa is comparatively well serviced by the Trans-Canada Highway which passes through the town. There is an airstrip in the town, but no regular commercial air service is currently available. The city of Sault Ste. Marie is located about 220 km to the south. Power is available on the site via Great Lakes Power transmission lines.

Since mining ceased at the Surluga Mine, the management of Citadel has arranged for the clean-up of the property. There are no other buildings on the property at this time.

Wawa is located within the peneplain of the Canadian Shield. Elevation at the town of Wawa is about 152 MASL. Hills may be locally steep but rarely rise more than about 30 m about the average elevation of the peneplain. The property is currently forested with tree species typical of northern Ontario.

### *History*

The Wawa area was the site of one of the initial gold rushes in Ontario. Mining and exploration has been carried out intermittently for about 150 years. Starting in 1961, Citadel and its predecessor companies began to assemble the Surluga property. Significant amounts of diamond drilling and underground development were completed. Gold was produced for a few months in 1968 and 1969 before the operation was determined to be uneconomic. The mine was allowed to flood in 1970. The Surluga Mine was reopened in 1974-75 and further underground development was completed.

The Surluga Mine was dewatered again in 1986. The mill was refurbished to process mineralization from test mining and production. Although mineable material was limited at that time, some production was carried out from the Ramp Zone and from the upper part of the Old Tom's Zone. Production ceased again in 1989.

Including the work reported below, the aggregate exploration work completed to date on the Jubilee Shear includes 49,549 m of surface diamond drilling in 279 holes and 48,768 m of underground diamond drilling in 1,502 holes. A significant amount of earlier exploration was completed on targets outside the Jubilee Shear.

More recently, the property holdings in the Wawa area were extended with the acquisition of the Van Sickle Claims, which are contiguous with the main part of the Surluga property. The main benefits in the acquisition are that it protects the potential down-dip areas of the Jubilee Shear.

The Van Sickle Claims were explored for gold by Van Ollie Explorations Limited (Van Ollie) in the period 1988 to 1990. The main target of this work was quartz-vein hosted gold. A number of veins were stripped and sampled and some 65 shallow diamond drill holes were completed to test various veins. The best of these targets appeared to be the Mickelson Vein, which was 60 m long and averaged 0.99 m in width, yielding an average grade of 9.74 g/t Au.

The Surluga property lies within the Michipicoten Greenstone Belt, Archean age rocks of the Superior Province. Within the Michipicoten Belt, the rocks are grouped into a number of cycles that are thought to have a stratigraphic relationship to each other. The Surluga property lies within the Cycle 2 rocks. The property covers a volcanic sequence of intrusive and extrusive rocks. A major shear zone, the Jubilee Shear Zone, runs sub-parallel to the western margin of the property. This zone, and its likely continuation, the Darwin Shear Zone, are considered to contain the best targets for gold exploration at the present time.

Gold mineralization occurs in a number of environments within the Surluga property. The major target is mineralization associated with the Jubilee Shear Zone. In 2007, a diamond drill program comprised of 12 diamond drill holes and two wedges with an aggregate depth of 8,401.2 m was completed. These holes tested the down-plunge potential of mineralization in the Surluga Mine. Gold mineralization was intersected in all of the holes and several of the intersections are considered to be of economic interest.

*Historical Mineral Resource Estimate on Surluga Property*

There is no current Mineral Resource estimate on the Surluga property. A historical Mineral Resource estimate was prepared by Dr. Colin Bowdidge in 1996 for Goldbrook Explorations Inc. as shown below:

Cut off Grade (g/t Au)	Tonnes	Grade (g/t Au)	Contained ounces gold (added by management)
1.03	9,319,000	1.75	525,000
1.54	6,594,000	2.02	428,000

(note - the above historical Mineral Resource Estimate is not compliant within the meaning of NI 43-101 as a compliant resource)

*Geological Setting - The regional, local and property geology*

The property is located in the Michipicoten Greenstone Belt within the Wawa Subprovince of the Archean Superior Province. Regional mapping has shown that there are three volcanic assemblages, or cycles, in the Michipicoten Greenstone Belt, and the Surluga property predominantly covers rocks belonging to the second of these, the Wawa Assemblage. Within the property, the Wawa Assemblage consists of intermediate to felsic volcanic rocks and is intruded by rocks of similar composition and age. Along the eastern and western sides of the property, mafic volcanic rocks are more prevalent. The district is intruded by a number of dike swarms, with diabase and lamprophyre types predominating.

Outside of the Surluga property, close to the northeast boundary, there is a large carbonatite intrusive, the Firesand Lake Carbonatite Complex.

The following description of the local geology of the Wawa area is taken mainly from Williams et al. (1991). The Surluga property area lies within the upper part of the Wawa Assemblage. The intermediate to felsic rocks that form the upper part of the Wawa Assemblage consist of tuff, quartz-feldspar crystal tuff, lapilli tuff, oligomictic and polymictic 5ecloggi, and scarce spherulitic flows. The stratigraphic thickness of the intermediate to felsic rocks varies considerably. At Wawa, a 2 km thickness of intermediate to felsic volcanic rocks diminishes to 300 m over a distance of 10 km eastward. Stratigraphic thinning and fining eastward, from the thick stratigraphic thickness near Wawa, is suggestive of a more proximal facies there. Iron formation, which caps the Wawa Assemblage within the Michipicoten Greenstone Belt, is not present in the Surluga property.

The Jubilee Stock is located at the base of this thick section of felsic to intermediate rocks.

A northerly trending belt of intermediate to felsic rocks (typically tuffs, lapilli tuffs and feldspar crystal tuffs) dominate the property. Based on aeromagnetic patterns, these rocks are considered to be terrestrial. Except for local shearing, the rocks lack penetrative deformation fabrics, and bedding is rare. Metamorphic grade is middle greenschist facies. This belt is bounded on the east

by the Firesand River Fault and on the west by a group of faults and shears. East of the Firesand River Fault, mafic volcanic rocks with some interbedded felsic volcanic rocks and oxide iron formations up to 50 m thick are present. On the western side, mafic rocks of the Wawa Assemblage are present.

The Jubilee Stock, which intrudes the intermediate to felsic volcanic package, is composed of diorite, quartz diorite, and granodiorite. It contains abundant xenoliths and blocks of volcanic rocks. The contacts of the stock are sharp. Sage (1982) suggested that the Jubilee Stock represented a high-level, subvolcanic intrusive cutting its own volcanic pile within an older caldera structure. The Jubilee Stock has been dated at  $2.745 \pm 0.003$  Ga, and felsic rocks of the Wawa Assemblage have been dated at 2.744 and 2.749 Ga, which supports Sage's model. Two crude ring structures defined by quartz-feldspar intrusive rocks were recognized by Rupert (1975) and are considered to support the caldera model of Sage (1982).

There is a complex intrusion at Reed Lake on the southeastern side of the belt of supracrustal rocks. This intrusion is composed of gabbro, quartz gabbro, quartz diorite, and pyroxenite. Its relationship, if any, to the Jubilee Stock is not established.

Diabase dikes are common. Most trend northwest and are believed to be Late Precambrian in age. There are also abundant biotite-rich and olivine-rich lamprophyre dikes that are believed to be consanguineous with the Keeweenawan-age Firesand Lake Carbonatite Complex.

There are three major structures on the property: the Firesand River Fault, the Parkhill Fault, and the Jubilee Shear Zone and its presumed southern extension, the Darwin Shear Zone.

### *Exploration*

In January 2011, Geotech Ltd. carried out a helicopter-borne magnetic and EM survey of the Surluga property using the VTEM® system. A total of 412 line kilometres was flown, with east-west lines at 100 m intervals, and north-south tie lines at 1,000 m intervals. Data were processed for interpretation purposes by Condor Consulting Inc. of Lakewood, Colorado. Maps with conductor picks were provided by Mr. Colin Bowdidge of Hilldale Geoscience Inc.

The VTEM® system is a time-domain EM system that uses coincident-coplanar horizontal transmitter (25.5 m diameter) and receiver (1.2 m diameter) coils, as well as a 0.32 m diameter receiver coil whose axis is parallel to flight direction (X-component; the horizontal coils measure the vertical or Z component). The system reads 50 time channels whose mid-points extend from 0 to 12,250 microseconds ( $\mu$ s) from the time the transmitter pulse is switched off. Time channels with midpoints from 96  $\mu$ s to 7,036  $\mu$ s are delivered with the standard survey package. Standard parameters for delivery are the Z-component of the secondary field (B-field) and the rate of decay of the Zcomponent of the B-field (dB/dt). Electromagnetic readings are taken at a frequency of 10 per second.

Mean terrain clearance for the VTEM® coils is approximately 39 m. The system also includes a cesium magnetometer with a 61 m mean terrain clearance, reading 10 times per second. Navigation devices include a digital GPS and radar altimeter, both reading 5 times per second, which allows a digital elevation model (DEM) to be generated from the difference between the two sets of elevation data.

The magnetic survey data are dominated by mafic dykes. There are two sets, trending northeasterly and northwesterly. The northeasterly dykes tend to be somewhat more magnetic and are also twice as numerous, with an average frequency of almost 3 per kilometre. The northeasterly-trending dykes also dominate the topography, probably because they are sub-parallel to the ice direction of the last glaciation.

At the northern edge of the survey area, the magnetic intensity increases dramatically due to the proximity of magnetite-rich iron formations further to the north. Also, at the eastern edge of the survey, the edge of a strong magnetic anomaly caused by the Firesand River carbonatite intrusion appears.

Once the grain of the closely spaced mafic dykes is removed, the northern part of the Jubilee Stock shows up as a positive anomaly with an amplitude of between 50 nT and 100 nT above the local background. The southern part of the Jubilee Stock is not magnetically anomalous.

The other prominent magnetic feature is a more or less linear, 2,400 m long magnetic anomaly in the south part of the survey area. It has an amplitude of between 100 nT and 250 nT above local background. It is associated with a series of conductors labeled A to D on the airborne survey map. This magnetic-conductive feature coincides with the Parkhill Fault at its southern end and gradually diverges from the fault as it is followed to the north. Conductors A, B, and C are strong and have decay characteristics consistent with a graphitic schist unit or a massive to locally semi-massive sulphide zone. This series of conductors is an exploration target that should be tested for its gold potential. Conductor D is weak, and might be caused by a disseminated to streaky sulphide zone.

Conductor E is a one-line conductor with a very weak response on a second flight line. It coincides with the triple intersection of the Parkhill Fault, the Jubilee Shear, and the western margin of the Jubilee Stock. As such, it should also be considered an exploration target.

Conductor F is a cluster of conductive responses that are centred on the Surluga shaft area and former mill site. It is likely that the conductive responses are caused by cultural features such as buried pipes, cables, and scrap metal.

Conductor G is a 700 m long, moderately strong conductor. It has a weak magnetic association, and is parallel to the northwest-trending diabase dyke set. It coincides closely with a mafic dyke mapped by Sage (1982) but should be investigated as part of a comprehensive exploration program.

### *Mineralization*

Previous underground testing concentrated on mineralization hosted within the Jubilee Shear Zone. Individual lenses are ellipsoidal in shape. They have an azimuth of 160° and plunge at about 30°, parallel to the mineral lineation in the schists within the Jubilee Shear Zone (Helmstaedt, 1988). Individual lenses are typically up to 80 m along plunge, 35 m across plunge and have a thickness of about two metres. Lenses may be stacked so that more than one lens has been mined in a single stope in the past.

The underground testing program completed in 1989 demonstrated that, while there were bodies of low grade mineralization within the Jubilee Shear Zone, it was not possible to upgrade any of the material to a Mineral Resource or Mineral Reserve category. Both Citadel personnel and others have prepared estimates of tonnage and grade using different economic parameters.

### *Drilling*

Drilling in 2007 was designed to test the down-plunge continuation of known mineralization. This area was highlighted in a model developed by Mr. Peter Irwin prior to the 2007 drilling. Results of the drilling need further assessment that will require relogging of the core from the 2007 drilling. Essentially, the Jubilee Shear Zone appears to continue to dip east on the southern sections tested, but in the north, the structure is more diffuse and appears to dip more steeply



than previously thought. Based on widely spaced drilling, the results from several of these holes suggest the potential for mineralization subparallel to the Jubilee Shear Zone in the northern, more diffuse area. Once relogging and resampling have been complete, this down-plunge area should be considered for further testing.

On June 15, 2011, Augustine completed its initial program of confirmation drilling on the property. Eighteen diamond holes totaling 2,926 metres were completed in 46 days. Twelve of those holes were exact twins of historical holes, while six were shifted slightly from their "target" holes to avoid the possibility of drilling into underground workings. The purpose of the program was to confirm and validate historical drilling data and ranges of assay values, in order to prepare a new mineral resource estimate. Historical drill data will be combined with the new information to derive a mineral resource estimate. The Company is in the process of re-evaluating the Jubilee Shear, an extensive gold-bearing zone on the property, as a large-tonnage, low-grade gold deposit that may potentially be amenable to open pit mining.

#### SUMMARY OF SELECTED ANNUAL FINANCIAL INFORMATION

The following is selected financial information from the company's three most recently completed fiscal years:

ANNUAL INFORMATION	Year Ended November 30, 2010 (\$)	Year Ended November 30, 2009 (\$)	Year Ended November 30, 2008 (\$)
Total Revenue	-	-	-
Net Loss	(169,028)	(111,984)	(90,514)
Basic and diluted loss per share	(0.03)	(0.17)	(0.21)
Total Assets	196,601	2,347	2,592
Total Liabilities	112,046	79,418	211,429
Shareholders' Equity (Deficiency)	84,555	(77,071)	(208,837)

#### RESULT OF OPERATIONS - FINANCIAL PERFORMANCE

The Company has no revenue or operating cash flow and relies on external financings to generate capital. As a result of its activities, the Company continues to incur net losses. For the six months ended May 31, 2011, the Company's net loss was \$1,261,474 versus a net loss of \$73,365 for the six months ended May 31, 2010.

The increase in loss in the current year was due to increased amounts incurred for administrative expenses, occupancy costs, stock based compensation costs, expenses related to refinancing, the acquisition of the option on the Jubilee-Surluga property and all agreements related thereto. In addition, the net loss includes the amount of \$831,891 of exploration expenses incurred on the Wawa property and \$78,061 in stock option compensation expense.

During the current fiscal year, the Company was successful in raising \$2,550,000 (\$2,346,000 after commissions) which will enable it to perform its next phase of a recommended exploration program budgeted at \$1,074,445, of which the Company has spent \$831,891 up to May 31, 2011.



## SUMMARY OF SELECTED QUARTERLY FINANCIAL INFORMATION

The following is selected financial information from the Company's eight most recently completed quarters:

Three Months Ended	Total Revenues (\$)	Net Gain (loss)		Total Assets (\$)	Total Long Term Liabilities (\$)
		Total (\$)	Per Share (\$)		
May 31, 2011	Nil	(865,350)	(0.04)	1,749,091	Nil
February 28, 2011	Nil	(376,388)	(0.03)	2,057,096	Nil
November 30, 2010	Nil	(72,808)	(0.01)	196,601	Nil
August 31, 2010	Nil	(22,855)	(0.00)	2,347	Nil
May 31, 2010	Nil	(45,331)	(0.01)	2,347	Nil
February 28, 2010	Nil	(28,034)	(0.01)	2,347	Nil
November 30, 2009	Nil	(40,135)	(0.01)	2,347	Nil
August 31, 2009	Nil	(22,474)	(0.05)	2,592	Nil

## LIQUIDITY AND CAPITAL RESOURCES

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

As at May 31, 2011, the Company had working capital of \$930,402 (as compared to negative working capital of \$84,881 as at November 30, 2010) which included cash of \$929,810 (November 30, 2010 - \$26,169). The working capital will be used to satisfy the Company's requirements under its option on the Jubilee-Surluga Project (see "Commitments and Contingencies" below) and for routine administrative expenses.

Upon completion of the first phase of its work program on the Surluga project, the Company anticipates that it will need to raise additional capital to fund ongoing operations and exploration activities. Uncertainty exists as to the ability of the Company to raise additional capital as required. Future cash requirements will depend primarily on the extent of future expenditures on the Company's exploration programs. The cost and duration of future exploration programs will depend on the results of current exploration programs and therefore, the Company is not able to forecast future cash requirements at this time.

## COMMITMENTS AND CONTINGENCIES

To earn 60% interest on the Surluga property		Cash payments (\$)	Issuance of common shares <sup>(1)</sup>	Exploration expenditures (\$)
December 22, 2010	Paid/Issued	100,000	4,060,000	-
November 16, 2011		-	250,000	500,000
November 16, 2012		-	250,000	1,500,000
November 16, 2013		-	250,000	2,000,000
November 16, 2014		-	-	4,000,000
<b>Total</b>		<b>100,000</b>	<b>4,810,000</b>	<b>8,000,000</b>

Pursuant to the terms of an Assignment Agreement, Citabar and Citadel consented to Delta and DPML assigning their rights under an option agreement dated April 16, 2009, as amended, (the "Delta Option Agreement") whereby Delta and DPML granted DPML the exclusive right to earn an undivided 60% interest in the Surluga Property. In consideration for Citabar's consent, the Company has agreed to issue an aggregate of 1,000,000 common shares to Citabar as follows:

- (1) 250,000 common shares on the date that the Ontario Ministry of Northern Development, Mines and Forestry consents to the transfer of the Surluga Property from Citadel to Citabar (the "Consent Date"), of which the 250,000 common shares have been issued on December 22, 2010; and
- (2) an additional 250,000 common shares on each of the first, second and third year anniversary of the Consent Date.

Pursuant to the Option Agreement, the Company has agreed to pay Delta an aggregate of \$100,000 and issue an aggregate of 3,810,000 common shares of which the \$100,000 has been paid and the common shares have been issued. This Transaction is considered a related party transaction because Delta and the Company have common officer, directors, and Delta is a significant shareholder of the Company after they received shares from the option agreement.

#### GOING CONCERN

At present, the Company's operations do not generate cash flow and its financial success is dependent on management's ability to discover economically viable mineral deposits. The mineral exploration process can take many years and is subject to factors that are beyond the Company's control. In order to continue as a going concern and to meet its corporate objectives, which primarily consist of exploration work on its mineral properties, the Company will require additional financing through debt or equity issuances or other available means. Although the Company has been successful in obtaining financing in recent months, there is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. Management believes it will be able to raise equity capital as required in the long term, but recognizes there will be risks involved that may be beyond their control. The annual and interim financial statements do not include any adjustments to the recoverability and classification of reduced asset amounts and classification of liabilities that might be necessary should the Company be unable to continue operations. These adjustments could be material. The Company is not subject to material externally-imposed capital constraints.

#### SHARE CAPITAL

As at July 29, 2011, the Company had the following outstanding share capital:

Common Shares Issued and Outstanding	26,961,790
Stock Options	1,480,000
Warrants	15,159,915
Compensation Options	1,020,000

Common shares summary:

Date		Number of Common Shares	Amount \$
November 30, 2009	Balances	4,719,149	1,354,899
December 15, 2009	Issued to retire debts	780,851	59,504
November 1, 2010	Private placement	2,639,290	263,929
	Warrant valuation		(158,357)
November 30, 2010	Balances	8,139,290	1,519,975
December 22, 2010	Issued for mineral property	4,060,000	406,000
December 22, 2010	Private placement <sup>(1)</sup>	6,150,000	1,230,000
February 8, 2011	Private placement <sup>(2)</sup>	3,900,000	780,000
March 23, 2011	Private placement <sup>(3)</sup>	2,700,000	540,000
	Warrant valuation		(1,325,561)
	Costs of issue		(390,409)
March 24, 2011	Exercised of options	100,000	10,000
April 27, 2011	Private placement <sup>(4)</sup>	922,500	
May 31, 2011	Balances	25,971,790	2,770,005
June 13, 2011	Private placement <sup>(5)</sup>	585,000	
July 28, 2011	Private placement <sup>(6)</sup>	405,000	
July 29, 2011	Balances	26,961,790	2,770,005

- (1) On December 22, 2010, Augustine closed a first tranche of financing for 2,150,000 Flow Through Units and 4,000,000 Non Flow Through Units at the price of \$0.20 per Unit for gross proceeds of \$1,230,000. Each Flow Through Unit consists of one common share and one half common share purchase warrant, and each Non Flow Through Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.40 expiring on December 22, 2012. The Company paid a cash commission of \$98,400 and 492,000 Compensation Options.
- (2) On February 8, 2011, Augustine closed a second tranche of financing for 775,000 Flow Through Units and 3,125,000 Non Flow Through Units at the price of \$0.20 per Unit for gross proceeds of \$780,000. Each Flow Through Unit consists of one common share and one half common share purchase warrant, and each Non Flow Through Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.40 expiring on February 8, 2013. The Company paid a cash commission of \$62,400 and 312,000 Compensation Options.
- (3) On March 23, 2011, Augustine closed a third tranche of financing for 800,000 Flow Through Units and 1,900,000 Non Flow Through Units at the price of \$0.20 per Unit for gross proceeds of \$540,000. Each Flow Through Unit consists of one common share and one half common share purchase warrant, and each Non Flow Through Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.40 expiring on March 23, 2013. The Company paid a cash commission of \$43,200 and 216,000 Compensation Options.
- (4) The Company issued a total of 922,500 units equal to 15% of the total units to the subscribers of a private placement that closed on December 22, 2010 due to the delay of listing on the TSX or TSX Venture Exchanges, which include 60,000 Non Flow Through Units and 322,500 Flow Through Units. Each Non Flow Through Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.40 expiring on April 27, 2013.
- (5) The Company issued a total of 585,000 units equal to 15% of the total units to the subscribers of a private placement that closed on February 8, 2011 due to the delay of listing on the TSX or TSX

Venture Exchanges, which include 468,750 Non Flow Through Units and 116,250 Flow Through Units. Each Non Flow Through Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.40 expiring on June 13, 2013.

- (6) The Company issued a total of 405,000 units equal to 15% of the total units to the subscribers of a private placement that closed on March 23, 2011 due to the delay of listing on the TSX or TSX Venture Exchanges, which include 285,000 Non Flow Through Units and 120,000 Flow Through Units. Each Non Flow Through Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.40 expiring July 28, 2013.

Stock options summary:

	Number of options	Weighted-average exercise price \$
Balance, November 30, 2009	367,196	0.10
Granted	491,402	0.10
Exercised	-	-
Expired/cancelled	-	-
Balance, November 30, 2010	858,598	0.10
Granted	865,000	0.20
Exercised	(100,000)	0.10
Expired/cancelled	(143,598)	0.10
Balances, May 31 and July 29, 2011	1,480,000	0.16

The Company applies the fair value method of accounting for stock-based compensation awards to employees and non-employees. For valuation purposes, the fair values of options granted were estimated on their dates of grant using the Black-Scholes option pricing model as follows:

Grant Date	Expiry Date	Options Granted	Exercisable Options	Exercise Price	Market Price	Risk Free Interest Rate	Expected Volatility	Average Expected Life	Expected Dividend Yield	Fair Values
Nov. 24, 2009	Nov. 24, 2014	367,196	173,598	\$0.10	\$0.054	2.54%	100%	5 years	0%	\$13,219
Nov. 10, 2010	Nov. 11, 2012	491,402	441,402	\$0.10	\$0.04	1.57%	114%	2 years	0%	\$7,221
Apr. 25, 2011	Apr. 1, 2013	865,000	410,000	\$0.20	\$0.20	1.74%	150%	2 years	0%	\$58,725
		1,723,598	1,025,000							\$79,165

Warrants summary:

The Company issued warrants in connection with private placements and is disclosed as a separate component of shareholders' equity. The fair values of the associated warrants were estimated on their dates of issue using the Black-Scholes option pricing model as follows:

Issue Date	Expiry Date	Number of Warrants	Remaining Warrants	Exercise Price	Market Price	Risk Free Interest Rate	Expected Volatility	Average Expected Life	Expected Dividend Yield	Fair Values
Nov. 1, 2010	Nov. 1, 2012	2,639,290	2,639,290	\$0.20	\$0.10	1.41%	147%	2 years	0%	\$158,357
Dec. 22, 2010	Dec. 22, 2012	5,075,000	5,075,000	\$0.40	\$0.20	1.66%	150%	2 years	0%	\$617,788
Feb. 8, 2011	Feb. 8, 2013	3,512,500	3,512,500	\$0.40	\$0.20	1.77%	150%	2 years	0%	\$427,836
Mar. 23, 2011	Mar. 23, 2013	2,300,000	2,300,000	\$0.40	\$0.20	1.63%	150%	2 years	0%	\$279,937
Apr. 27, 2011	Apr. 27, 2013	761,250	761,250	\$0.40						(1)
Balance, May 31, 2011		14,288,040	14,288,040							\$1,483,918
June 13, 2011		526,875	526,875	\$0.40						(1)
July 28, 2011		345,000	345,000	\$0.40						(1)
Balances, July 29, 2011		15,159,915	15,159,915							\$1,483,918

(1) No value assigned to date as these warrants were issued pursuant a penalty clause as described in sub-note 4 in "Common Shares" above.

#### Compensation options summary:

Issue Date	Expiry Date	Options Issued	Remaining Options	Exercise Price	Market Price	Risk Free Interest Rate	Expected Volatility	Average Expected Life	Expected Dividend Yield	Fair Values
Dec. 22, 2010	Dec. 22, 2012	492,000	492,000	\$0.20	\$0.20	1.66%	150%	2 years	0%	\$70,448
Feb. 8, 2011	Feb. 8, 2013	312,000	312,000	\$0.20	\$0.20	1.77%	150%	2 years	0%	\$44,694
Mar. 23, 2011	Mar. 23, 2013	216,000	216,000	\$0.20	\$0.20	1.63%	150%	2 years	0%	\$30,924
		1,020,000	1,020,000							\$146,066

#### Contributed surplus summary:

Balance, November 30, 2009	\$ 13,219
Stock option compensation	7,221
Balance, November 30, 2010	20,440
Stock option compensation	58,725
Fair value of compensation options	146,066
Balance, May 31 and July 29, 2011	\$ 225,231

#### OFF-BALANCE SHEET ARRANGEMENTS

The Company currently has no off-balance sheet arrangements or obligations other than mineral property option payments and exploration expenditures commitments.

#### RELATED PARTY TRANSACTIONS

During the period ended May 31, 2011, the Company entered into the following transactions with related parties:

- (a) The Company paid or accrued management fees totaling \$72,917 (2010 - \$26,500) to an officer and a director of the Company.
- (b) The Company paid or accrued accounting and corporate services fees totaling \$35,000 (2010 - NIL) to a current officer of the Company.

- (c) The Company paid or accrued accounting and corporate services fees totaling \$NIL (2010 - \$16,500) to a former officer and director of the Company.
- (d) The Company accrued directors fees totaling \$23,500 (2010 - \$NIL) to directors of the Company for their services as directors.
- (e) During the year ended November 30, 2010, the Company entered into an Assignment Agreement with Delta Uranium Inc. ("Delta") whereby the Company would acquire and assume Delta's interests and obligations in the Surluga Property (see "Results of Operations - Project Review" above). Also during that year, the Company entered into an agreement with Delta (the "Delta Augustine Agreement") whereby Augustine would pay to Delta an amount of cash and common shares.

Under the terms of the Delta Augustine Agreement, the Company agreed to pay the following consideration to Delta:

I - \$100,000 cash on execution of the Delta Augustine Agreement (which amount was paid in December 2010); and

II - 3,810,000 common shares in the capital of the Company valued at an estimated fair value of \$381,000, which shares were issued to Delta in December 2010.

The Company and Delta are related due to common officers, directors, shareholders and that Delta currently holds greater than 10% of the issued and outstanding common shares of the Company.

The Company has also made a demand loan to Delta during the period and the amount of \$159,006 (2010 - nil) was due and receivable to the Company at period end. Included in the amount receivable are rent and occupancy costs totaling \$37,500 (paid at the rate of \$7,500 per month) being paid to Delta by the Company. The indebtedness is non-interest bearing and repayable on demand.

The above transactions were in the normal course of operations and were recorded at exchange values established, which is the consideration agreed upon by the related parties.

## PROPOSED TRANSACTIONS

The Company has no immediate intent to acquire any additional, or dispose of, any asset of the Company, however, from time to time, the Company may acquire or dispose of property assets as exploration results, opportunities, competitive nature of the business and management may determine.

## ACCOUNTING POLICIES ADOPTED AND RECENT ACCOUNTING PRONOUNCEMENTS

### Measurement uncertainty

The valuation of mineral interests is based on management's best estimate of the future recoverability of these assets. The amounts computed with respect to stock based compensation are based on estimates as to the expected lives of options and warrants granted and the volatility of the underlying stock during the period. Future income tax provisions and liabilities are estimated based on the differences between accounting and taxable carrying values and the estimated tax rate and treatment that will be applied when the differences are settled. By their

nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

### **Going concern disclosures**

The CICA has adopted Section 1400, "General Standard of Financial Statement Presentation" which is effective for annual and interim financial periods beginning on or after October 1, 2008 to include requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of this section has had no material impact on the Company's financial statements.

### **Fair value hierarchy and liquidity risk disclosure**

In June 2009, the Canadian Accounting Standards Board issued an amendment to CICA Section 3862, "Financial Instruments - Disclosures" in an effort to make Section 3862 consistent with International Financial Reporting Standards Section 7 - Disclosures ("IFRS 7"). The purpose was to establish a framework for measuring fair value in GAAP and expand disclosures about fair value measurements. To make the disclosures an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (Level 1) quoted prices (unadjusted) in active markets for identical assets or liabilities; (Level 2) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and (Level 3) inputs for the asset or liability that are not based on observable market data (unobservable inputs). These standards apply to interim and annual financial statements relating to fiscal years ending after September 30, 2009. The Company has included disclosures recommended by this Handbook section in Note 4 to the Company's audited financial statements for the year ended November 30, 2010.

### **Credit risk and the fair value of financial assets and financial liabilities**

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance 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 20, 2009. The adoption of this guidance has had no material impact on the Company's financial statements.

### **Capital disclosures and financial instruments - disclosures and presentation**

On January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3862, "Financial Instruments - Disclosure" of the CICA Handbook ("Section 3862") and Section 3863, "Financial Instrument - Presentation" ("Section 3863"). These standards replaced Section 3861, "Financial Instrument - Disclosure and Presentation". These sections establish standards for the comprehensive disclosure and presentation requirements for financial instruments. The standards include requirements to quantify certain risk exposures and to provide sensitivity analysis for certain risks. The adoption of this standard had no material impact on the Company's financial statements.

On December 1, 2007, the Company adopted CICA Handbook Section 1535, "Capital Disclosures" which establishes standards for disclosing information about an entity's capital and how it is managed. Reference is made to Note 6 of the Company's financial statements for the year ended November 30, 2010 for a discussion of the Company's capital management.



## Inventories

On January 1, 2008 the Company adopted Section 3031, "Inventories", which provides guidance on the determination of the cost of inventory and the subsequent recognition of inventory as an expense, as well as requiring additional associated disclosures. This new standard requires inventory to be measured at lower of cost and net realizable value. The adoption of this standard had no material impact on the Company's financial statements.

## Financial instruments

Under Section 3251, "Equity", Section 3855, "Financial Instruments - Recognition and Measurement", Section 3862 "Financial Instruments - Disclosures" and Section 3863, "Financial Instruments - Disclosure and Presentation", all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of the changes in the fair values of financial instruments depends on their initial classification. Available-for-sale financial instruments are measured at fair value and all unrealized gains and losses are measured at fair value and are included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, held to maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, de-recognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financial instruments will be expensed in the period incurred.

The Company has made the following classifications:

Cash	Held for trading
Sundry receivables	Loans and receivables
Advances to related party	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Due to related parties	Other financial liabilities

## Comprehensive income (loss) and deficit

The Company adopted the CICA Section 1530, "Comprehensive Income" during the fiscal year ended November 30, 2007. Under these standards, the Statement of Comprehensive Income (Loss), was introduced that will provide for certain gains and losses arising from changes in fair value, to be temporarily recorded outside the income statement. Upon adoption of Section 1530, the Company incorporated the Statement of Comprehensive Loss by creating a "Statement of Loss and Comprehensive Loss". The application of this standard did not result in comprehensive loss being different from net loss for the periods presented. Should the Company recognize any other comprehensive loss in the future, the cumulative changes in other comprehensive loss will be recognized in Accumulated Other Comprehensive Loss, which will be presented as a new category within Shareholders' Equity (Deficiency) on the balance sheets.

## Income taxes

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantially enacted tax rates expected to apply to taxable income

in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantial enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

### **Non-monetary transactions**

The Company enters into transactions in which goods or services are the consideration received for the issuance of equity instruments. The value of these transactions is measured and accounted for, based on the fair value of the equity instrument issued or the value of the services, whichever is more reliably measurable. The services are expensed in the periods during which the services are rendered.

### **Loss per share**

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share, according to the treasury stock method, assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share.

### **Stock-based compensation**

The CICA Handbook Section 3870, "Stock-based Compensation and Other Stock based Payments", requires that compensation for option awards to employees be recognized in the financial statements at fair value for options granted.

The company uses the fair value based method to measure stock-based compensation for all stock-based awards made to non-employees and for direct awards made to directors and employees of common shares, stock appreciation rights and awards that call for settlement for cash or other assets.

## **FUTURE ACCOUNTING CHANGES**

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

The CICA Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian GAAP for publicly accountable enterprises, including the Company, effective for fiscal years beginning on or after January 1, 2011.

Accordingly, the Company will report interim and annual financial statements in accordance with IFRS beginning with the quarter ended February 29, 2012. The Company's 2012 interim and annual financial statements will include comparative 2011 financial statements, adjusted to comply with IFRS.

### *IFRS transition plan*

The Company has established a comprehensive IFRS transition plan and may engage third-party advisers to assist with the planning and implementation of its transition to IFRS. The following summarizes the Company's progress and expectations with respect to its IFRS transition plan:

Initial scoping and analysis of key areas for which accounting policies may be impacted by the transition to IFRS	Complete
Detailed evaluation of potential changes required to accounting policies, information systems and business processes, including the application of IFRS 1 First-time Adoption of International Financial Reporting Standards	Complete
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives	In progress, completion expected during Q3 2011
Resolution of the accounting policy change implications on information technology, business processes and	In progress, completion expected during contractual arrangements Q3 2011
Quantification of the financial statement impact of changes in accounting policies	Throughout 2011
Management and employee education and training	Throughout the transition process

### *Impact of adopting IFRS on the Company's business*

As part of its analysis of potential changes to significant accounting policies, the Company is assessing what changes may be required to its accounting systems and business processes. The Company believes that the changes identified to date are minimal and the systems and processes can accommodate the necessary changes.

To date, the Company has not identified any contractual arrangements that may be affected by potential changes to significant accounting policies.

The Company's staff and advisers involved in the preparation of the financial statements are being trained on the relevant aspects of IFRS and the anticipated changes to accounting policies. Employees of the Company who will be affected by a change to business processes as a result of the conversion to IFRS will also be trained as necessary.

The Board of Directors and the Audit Committee have been regularly updated on the progress of the IFRS conversion plan, and made aware of the evaluation to date of the key aspects of IFRS affecting the Company.

### *First-time adoption of IFRS*

The adoption of IFRS requires the application of IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS, effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Company has identified the following optional exemptions that it expects apply in its preparation of an opening IFRS statement of financial position as at December 1, 2010, its

transition date:

- To apply IFRS 2 Share-based Payments only to equity instruments issued after November 7, 2002, and that had not vested by the transition date.
- To apply IFRS 3 Business Combinations prospectively from the transition date, therefore not restating business combinations that took place prior to the transition date.
- To apply the transition provisions of IFRIC 4 Determining whether an Arrangement Contains a Lease, therefore determining if arrangements existing at the transition date contain a lease based on the circumstances existing at that date.
- To apply IAS 23 Borrowing Costs prospectively from the transition date. IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, production or construction of certain assets.

Prior to reporting interim financial statements in accordance with IFRS for the quarter ending February 29, 2012, the Company may decide to apply other optional exemptions contained in IFRS 1.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at the transition date will be consistent with those made under current Canadian GAAP. If necessary, estimates will be adjusted to reflect any difference in accounting policy.

#### *Impact of adopting IFRS on the Company's financial statements*

The adoption of IFRS will result in some changes to the Company's accounting policies that are applied in the recognition, measurement and disclosure of balances and transactions in its financial statements.

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

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

IFRS requires a write-down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Current Canadian GAAP requires a write-down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value.

The Company's accounting policies related to impairment of non-financial assets will be changed to reflect these differences. However, the Company does not expect that this change will have an immediate impact on the carrying value of its assets. The Company will perform impairment assessments in accordance with IFRS at the transition date.

### *2) Share-based Payments*

In certain circumstances, IFRS requires a different measurement of stock-based compensation related to stock options than current Canadian GAAP.

The Company does not expect any changes to its accounting policies related to share-based payments that would result in a significant change to line items within its financial statements.

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

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while current Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions.

The Company's accounting policies related to decommissioning liabilities will be changed to reflect these differences. However, the Company does not expect this change will have an immediate impact on the carrying value of its assets.

### *4) Property and Equipment*

IFRS contains different guidance related to recognition and measurement of property and equipment than current Canadian GAAP.

The Company does not expect any changes to its accounting policies related to property and equipment that would result in a significant change to line items within its financial statements.

### *5) Income Taxes*

In certain circumstances, IFRS contains different requirements related to recognition and measurement of future (deferred) income taxes.

The Company does not expect any changes to its accounting policies related to income taxes that would result in a significant change to line items within its financial statements.

### *Subsequent disclosures*

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

The Company's MD&A for the 2011 interim periods and the year ended November 30, 2011 will include updates on the progress of the transition plan, and, to the extent known, further information regarding the impact of adopting IFRS on key line items in the annual financial statements.

The Company's first financial statements prepared in accordance with IFRS will be the interim financial statements for the three months ending February 29, 2012, which will include notes disclosing transitional information and disclosure of new accounting policies under IFRS. The interim financial statements for the three months ending February 29, 2012, will also include 2011 financial statements for the comparative period adjusted to comply with IFRS, and the Company's transition date IFRS statement of financial position (at December 1, 2010).

## **RISK FACTORS**

### *Natural resource sector*

Investments in natural resource companies involve a significant degree of risk. The degree of risk increases substantially where the Company's properties are in the exploration as opposed to the

development stage. The Company's property is in the exploration stage and is without a known body of commercial ore. The proposed exploration programs are for exploratory searches for ore.

#### *Exploration and development*

Mineral exploration and development involves a high degree of risk and few properties which are explored are ultimately developed into producing mines.

With respect to the Company's properties, should any ore reserves exist, substantial expenditures will be required to confirm ore reserves which are sufficient to commercially mine its current properties, and to obtain the required environmental approvals and permitting required to commence commercial operations. Should any resource be defined on such properties there can be no assurance that the mineral resources on such properties can be commercially mined or that the metallurgical processing will produce economically viable saleable products. The decision as to whether a property contains a commercial mineral deposit and should be brought into production will depend upon the results of exploration programs and/or feasibility studies, and the recommendations of duly qualified engineers and/or geologists, all of which involves significant expense. This decision will involve consideration and evaluation of several significant factors including, but not limited to: (1) costs of bringing a property into production, including exploration and development work, preparation of production feasibility studies and construction of production facilities; (2) availability and costs of financing; (3) ongoing costs of production; (4) market prices for the minerals to be produced; (5) environmental compliance regulations and restraints (including potential environmental liabilities associated with historical exploration activities); and (6) political climate and/or governmental regulation and control.

The ability of the Company to sell, and profit from the sale of any eventual production from any of the Company's properties will be subject to the prevailing conditions in the marketplace at the time of sale. The global ore marketplace is unregulated and subject to changing attitudes of consumers and other end-users on the basis of economic conditions. Many of these factors are beyond the control of the Company therefore represent a market risk which could impact the long term viability of Company and its operations.

#### *Flow through shares of the Company*

Flow through shares are intended to provide to the holders who acquire such shares certain Canadian income tax benefits as described herein. In the event that the Company does not incur sufficient expenditures as eligible CEE within the time specified in the agreements between the Company and such holders, such holders will not receive all or a portion of such benefits at all or for a particular taxation year when they expected to use such benefits. The factors that could contribute to the Company not incurring sufficient CEE include the potential lack of drilling equipment and the shortage of labour.

#### *Capitalization and commercial viability*

The Company will require additional funds to further explore and, if successful, develop and mine the Surluga Property and any additional properties that may be acquired. The Company may not have sufficient funds to carry out the completion of its exploration program, and may have to obtain other financing or raise additional funds. The Company has limited financial resources, and there is no assurance that additional funding will be available to the Company to carry out the completion of all the activities of its exploration program, for additional exploration or for the substantial capital that is typically required in order to place a property into commercial production. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further

exploration and development of its properties.

#### *Title matters*

While the Company has performed its own due diligence with respect to title of the Surluga Property, this should not be construed as a guarantee of title. The Surluga Property may be subject to prior unregistered agreements of transfer or aboriginal land claims, and title may be affected by undetected defects.

#### *Competition*

Significant and increasing competition exists for mining opportunities internationally. There are a number of large established mining companies with substantial capabilities and far greater financial and technical resources than the Company. The Company may be unable to acquire additional attractive mining properties on terms it considers acceptable and there can be no assurance that the Company's exploration and acquisition programs will yield any new reserves or result in any commercial mining operation.

#### *Conflicts of interest*

Certain directors and officers of the Company are, and may continue to be, involved in the mining and mineral exploration industry through their direct and indirect participation in corporations, partnerships or joint ventures which are potential competitors of the Company. Situations may arise in connection with potential acquisitions in investments where the other interests of these directors and officers may conflict with the interests of the Company. Directors and officers of the Company with conflicts of interest will be subject to and will follow the procedures set out in applicable corporate and securities legislation, regulation, rules and policies.

#### *No history of earnings*

The Company has no history of earnings, and there is no assurance that the Surluga Property or any other mineral properties that it may acquire will generate earnings, operate profitably or provide a return on investment in the future. The Company has not paid dividends in the past and has no plans to pay dividends for the foreseeable future. The future dividend policy of the Company will be determined by its directors.

#### *Potential profitability depends upon factors beyond the control of the Company*

The potential profitability of mineral properties is dependent upon many factors beyond the Company's control. For instance, world prices of and markets for ore are unpredictable, highly volatile, potentially subject to governmental fixing, pegging and/or controls and respond to changes in domestic, international, political, social and economic environments. Another factor is that rates of recovery of ore may vary from the rate experienced in tests and a reduction in the recovery rate will adversely affect profitability and, possibly, the economic viability of a property. Profitability also depends on the costs of operations, including costs of labour, equipment, electricity, environmental compliance or other production inputs. Such costs will fluctuate in ways the Company cannot predict and are beyond the Company's control, and such fluctuations will impact on profitability and may eliminate profitability altogether. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for development and other costs have become increasingly difficult, if not impossible, to project. These changes and events may materially affect the financial performance of the Company.



### *Environmental risks and other regulatory requirements*

The current or future operations of the Company require permits from various federal and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with the applicable laws, regulations and permits. There can be no assurance that all permits which the Company may require for the construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in the development of new mining properties.

### *Operating hazards and uninsurable risks*

In the course of exploration, development and production of mineral properties, certain risks, including unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes, may occur. It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise they could reduce or eliminate any future profitability and result in an increase in costs and a decline in value of the securities of the Company.

The Company is not insured against most environmental risks. Insurance against environmental risks (including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production) has not been generally available to companies within the industry. The Company periodically evaluates the cost and coverage of the insurance against certain environmental risks that is available to determine if it would be appropriate to obtain such insurance. Without such insurance, and if the Company becomes subject to environmental liabilities, the payment of such liabilities would reduce or eliminate its available funds or could exceed the funds the Company has to pay such liabilities and result in bankruptcy. Should the Company be unable to fund fully the remedial cost of an environmental problem, it might be required to enter into interim compliance measures pending completion of the required remedy.

### *Foreign countries and regulatory requirements*

The Company may acquire properties located in other countries where mineral exploration activities may be affected by varying degrees of political instability and haphazard changes in government regulations such as tax laws, business laws and mining laws. Any changes in regulations or shifts in political conditions would be beyond the control of the Company and may adversely affect its business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income

taxes, expropriation of property, environmental legislation, and mine safety.

#### *Currency fluctuations*

The Company maintains its accounts in Canadian currency. If the Company acquires properties in other countries, its operations may be subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. The Company does not engage in currency hedging activities.

#### **DISCLOSURE OF INTERNAL CONTROLS AND PROCEDURES**

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the unaudited interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim financial statements, and (ii) the unaudited interim financial statements fairly present in all material respects the financial condition, results of operations and cash flow of the Company, as of the date of and for the years presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

- i. controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii. a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

#### **SUBSEQUENT EVENTS**

On June 13, 2011, the Company issued a total of 585,000 units equal to 15% of the total units of a private placement that closed on February 8, 2011 due to the delay of listing on the TSX or TSX Venture Exchanges, which include 468,750 Non Flow Through Units and 116,250 Flow Through Units. Each Non Flow Through Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.40 expiring on June 13, 2013.

On July 28, 2011, the Company issued a total of 405,000 units equal to 15% of the total units of a private placement that closed on March 23, 2011 due to the delay of listing on the TSX or TSX Venture Exchanges, which include 285,000 Non Flow Through Units and 120,000 Flow Through Units. Each Non Flow Through Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.40 expiring July 28, 2013.