



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE MONTHS ENDED JULY 31, 2011**

**INTRODUCTION**

The information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations for the three month period ended July 31, 2011 ("MD&A") has been prepared as of October 7, 2011. It should be read in conjunction with the unaudited condensed interim consolidated financial statements of Redzone Resources Corp. (the "Company") for the three months ended July 31, 2011 (the "July 2011 Interim Financial Statements") together with the Company's audited consolidated financial statements for the year ended April 30, 2011, and the accompanying management's discussion and analysis for the fiscal year then ended ("the Annual MD&A"). The audited consolidated financial statements for the year ended April 30, 2011 were prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The Company has adopted IFRS effective May 1, 2011, with a transition date of May 1, 2010. Accordingly, the July 2011 Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements.

All amounts are expressed in Canadian dollars unless otherwise indicated.

Subject to certain transition elections disclosed in Note 2 to the July 2011 Interim Financial Statements, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at May 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Discussion provided elsewhere herein and in note 2 of the July 2011 Interim Financial Statements discloses the impact of the transition to IFRS on the Company's reported assets, liabilities and shareholders' equity, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended April 30, 2011.

Additional information relevant to the Company's activities, including the Company's Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company's principle business activities include the acquisition and exploration of mineral properties, with its head office located in Vancouver, British Columbia, Canada. It is a reporting issuer in British Columbia, Alberta and Ontario. On June 22, 2010, Redzone commenced trading its common shares on the Toronto Stock Exchange ("TSX"), under the symbol REZ.

## HIGHLIGHTS

### Results of Operations

The net loss for the three months ended July 31, 2011 was \$429,679 compared to \$366,799 for the comparative period in 2010. At July 31, 2011, the Company had working capital of \$3,309,515 compared to \$3,535,830 at April 30, 2011. The Company had cash of \$3,405,877 at July 31, 2011, compared to \$3,552,751 at April 30, 2011.

### Las Palmas Property

The Company has not been able to successfully enter into a land access agreement with local communities. As of July 7, 2011, a termination agreement was signed with Minera Teck S.A. de C.V. to release the Company from any further obligations regarding Las Palmas.

### Lara and Tingo Este Properties

In July 2010, an updated NI 43-101 technical report was filed on SEDAR for the Lara Property. The updated technical report on the Lara Porphyry Copper-Molybdenum Deposit, Peru, was authored by Simon J. Meldrum, Consulting Geologist and dated March 1, 2010. In preparation of the new technical report, Mr. Meldrum re-logged all of the diamond drill core, re-compiled and re-coded the RC drill logs and collated the geological database including 251 drill hole log records and 61 field samples. He concluded that the overall mineralizing system is larger than the current mineral resource estimate indicates, with the secondarily enriched portion of the deposit open to the east and west and the primary mineralization open in all directions. Most notably, a large portion of the core of the deposit and the Socos copper target remain untested by drilling.

A 1,997 metre diamond drill program commenced on November 15, 2010 and concluded on January 18, 2011. A total of 11 diamond drill holes were completed over a 600 by 300 metre area.

A second phase of exploration comprising a geophysical survey followed by additional drilling is planned. The permitting process for an expanded drill program and the geophysical survey is underway. Redzone is diligently dealing with the local community and government authorities to address any potential environmental or archaeological impact. Because the Lara Project is located within an archaeological reserve as declared by the Peruvian government, Redzone retains a government archaeologist to ensure the preservation of any discovered artifact. To date, there are no signs of archaeological sites on the property. However, if archaeological ruins of historical value are uncovered, this could lead to delays in the exploration and development of the Lara Project.

### Tingo Este Property

On April 26, 2011 Redzone released the results from a reconnaissance mapping and rock sampling program completed over the Tingo Este property, which comprises four concessions totaling 3,700 hectares, located 295 kilometres south of Lima. The Tingo East project is located within a belt of occurrences called "porphyry-copper Cretaceous strip of southern Peru" -- Puquio sector. This belt also hosts the Lara copper-molybdenum property, the Anita de Tibillos property of Tinka Resources Ltd., the north Pucacorrall, south Pucacorrall and Puquio projects of Teck Resources Ltd., as well as the Los Pinos porphyry-copper deposit. A total of 18 rock samples collected over the Suitojasa alteration system within the Tingo Este 2 block returned from 0.15 to 0.94 per cent copper, four to 120 parts per million molybdenum and 0.6 to 2.3 grams silver per tonne. The mineralization consists of veinlets, disseminations of pyrite and chalcopyrite over a 200-by-600-metre area.

In addition to the Suitojasa area, the reconnaissance program identified two other targets on the Tingo East 2 block that yielded values worthy of additional follow-up.

### Azuljaja area

The Azuljaja area is located on the east side of the Quebrada Azuljaja and contains some underground informal workings. A 1.2-metre wide structure returned 2.55 per cent copper and 119 parts per million molybdenum. Tailings samples from the informal workings returned up to 3.68 per cent copper and 153 parts per million molybdenum.

### Agua Salada (west side)

The Agua Salada area is located to the west of the main alteration and is characterized by a granodiorite cut by hyaline to milky quartz veins up to 0.4 metre thick with hyaline quartz vugs, fractures with jarosite and some boxworks. A sample from this material returned values of 1.5 parts per million silver, 133 parts per million lead, 804 parts per million copper and 295 parts per million molybdenum. Samples collected from two informal excavations returned 0.45 per cent copper and 64 parts per million molybdenum over 1.5 metres and 2.86 per cent copper and 19 parts per million molybdenum over three metres.

### **Management Changes**

As of July 31, 2011, Ms. Pauline Pasetka resigned as Chief Financial Officer and Rebecca Moriarty was appointed. On August 26, 2011 Neil Halldorson resigned as Chief Operating Officer. The CEO, Michael Murphy, has assumed the duties of the COO and there are no current plans to replace Mr. Halldorson.

### **MINERAL PROPERTIES**

#### **Lara and Tingo Este Properties**

The Company has acquired the right to earn up to 75% interest in two copper properties (“Lara” and “Tingo Este”) from Lara Exploration Ltd. (“Lara Exploration”) via earning into Minas Dixon BVI (“Minas”), a wholly owned subsidiary of Lara Exploration.

The first option to earn 55% of all the securities of Minas requires the Company to:

Allot and issue to Lara Exploration:

- 100,000 common shares within seven days after the acceptance of the agreement by the Toronto Stock Exchange; (issued on June 2, 2010, valued at \$65,000)
- a further 250,000 common shares on or before February 12, 2011 (issued on February 9, 2011, valued at \$142,500);
- a further 250,000 common shares on or before February 12, 2012;
- a further 250,000 common shares on or before February 12, 2013;

and funding Minas:

- US\$500,000 on or before the first anniversary of the date upon which all drilling permits required to conduct the proposed exploration on Lara and Tingo Este are obtained ;
- A further US\$1,000,000 on or before the second anniversary of the Permit Date;
- A further US\$1,000,000 on or before the third anniversary of the Permit Date.

Initial permits were obtained on October 26, 2010 (the “Permit Date”) and the Company is in compliance with its payment obligations as at July 31, 2011. US\$1,066,603 has been paid (US\$1,066,603 as of April 30, 2011) and subsequent to July 31 2011 a further US \$320,000 was paid. All funds are advanced to Minas through cash calls, where each funding request is determined by Lara Exploration and is based on estimated exploration expenditures for a future defined period

If the first option is exercised, the Company may elect within 60 days of exercising to elect to exercise a second option to earn a further 20% of all the securities of Minas by funding a bankable feasibility study to

completion and paying US\$1,500,000 to Lara Exploration on or before December 31, 2014. Additionally, Tinka Resources retains a 1% net smelter royalty on all production on the Tingo Este property.

A summary of deferred acquisition costs incurred during the three months ended July 31<sup>st</sup> includes the following:

	2011	2010
	\$	\$
Deferred acquisition costs, April 30,	1,280,868	85,214
Exploration costs incurred during period	-	39,664
Fair value of common shares issued during period	-	65,000
Deferred acquisition costs, July 31,	1,280,868	189,878

\$17,575 of geological consulting was expensed relating to the Lara properties for the three months ended July 31, 2011 (2010 - \$ nil) and \$8,149 (2010 - \$nil) in associated travel costs.

### **Lara Property**

Peruvian Gold Ltd. discovered porphyry style copper and molybdenum mineralization at Lara in the mid-1990's. Two porphyry centers known Lara and Socos have been delineated with a corridor of hydrothermal alteration extending over several kilometers. Preliminary metallurgical test work completed in the late 1990's indicates that the enriched zone of the Lara deposit is amenable to low cost solvent extraction and electro-winning processing.

In 2007, two holes were drilled into the core of the Lara deposit and returned 20 metres of 1.2% copper and 13.7 metres of 0.93% copper in the enriched zone, followed by 13.7 metres grading 0.33% copper and 220.4 metres grading 0.25% copper, respectively, in the sulphide zone. Both holes ended in mineralization. The Socos target has never been drill tested.

Between 1997 and 2007, in total, 27 drill holes representing 3,290 metres have tested a roughly 500 metre by 500 metre portion of the Lara copper-molybdenum porphyry centre. In 2005, an estimated inferred mineral resource of 18.6 million tonnes grading 0.53% copper using a 0.2% copper cut-off and a simple polygonal resource model for the Lara deposit was documented in the independent National Instrument 43-101 ("NI 43-101") technical report on the property entitled "Summary of Exploration, Metallurgy and Scoping Studies on the Lara Porphyry Copper Property and Proposed 2005 Exploration Program, Rio Viscus, Palpa, Peru" authored by John Nebocat, P. Eng. Dated February 9, 2004 and revised March 31, 2005. Within this inventory are higher-grade blocks estimated at 6.5 million tonnes grading 0.91% copper using a 0.5% cut-off and 4.8 million tonnes grading 1.04% copper using a 0.6% copper cut off. The technical report is available for viewing under the corporate profile of Lara Exploration Ltd. on SEDAR.

In July 2010, an updated NI 43-101 technical report was filed on SEDAR for the Lara Property. The updated technical report was authored by Simon J. Meldrum, Consulting Geologist, and dated March 1<sup>st</sup>, 2010. In preparation of the new technical report, Mr. Meldrum re-logged all of the diamond drill core, re-compiled and re-coded the RC drill logs and collated the geological database including 251 drill hole log records and 61 field samples. He concluded that the overall mineralizing system is larger than the current mineral resource estimate indicates, with the secondarily enriched portion of the deposit open to the east and west and the primary mineralization open in all directions. Most notably, a large portion of the core of the deposit and the Socos copper target remain untested by drilling.

Redzone completed an 11 hole diamond drill program totaling 1,997 metres in late 2010 and early 2011. The goal of the program was to build on the 1990s reverse circulation/diamond drill holes to determine the potential for higher copper grades and increased tonnage. The 2010-2011 drill program successfully expanded both the supergene and hypogene mineral potential of the property.

### 2010 Lara Copper-Molybdenum Drill Results

Drill Hole #	From (m)	To (m)	Length (m)	Copper (%)	Molybdenum (%)	CuEq	Comments
LA10-28	33.40	90.20*	56.80	0.27	NSV	0.27	0.14% Cu cut-off End in Mineralization
including	38.85	43.85	5.00	0.56	NSV	0.56	0.26% Cu
LA10-29	4.00	47.4	43.40	0.22	NSV	0.22	Mineralization (last sample 0.44% Cu over 1.6 metres) terminated by aplite dyke
including	35.50	39.25	3.75	0.41	NSV	0.41	
LA10-30	46.00	223.00*	177.00	0.28	0.013	0.36	No Cu cut-off
Including	46.00	172.00	126.00	0.32	0.015	0.41	
including	46.00	76.00	30.00	0.69	0.015	0.78	0.14% Cu cut-off
LA10-31	44.00	170	126.00	0.43	0.009	0.48	0.15% Cu cut-off
Including	44.00	74.00	30.00	0.77	0.011	0.86	
LA10-32	54.00	162.00	108.00	0.81	0.015	0.90	0.2% Cu Cut-off
Including	58.00	98.00	40.00	1.39	0.012	1.46	
LA10-33	0.00	90.60*	90.60	0.33	NSV	0.33	0.14% Cu cut-off, End in Mineralization
Including	2.00	50.00	48.00	0.39	NSV	0.39	0.26% Cu
LA10-34	52.00	90.00	38.00	0.61	NSV	0.61	0.2% Cu cut-off
Including	56.00	86.00	30.00	0.71	NSV	0.71	0.3% Cu cut-off
LA10-35	30.00	248.00	218.00	0.57	0.042	0.81	No Cu cut-off
Including	30.00	60.00	30.00	0.88	0.051	1.19	0.4% Cu cut-off
Including	206.00	234.00	28.00	0.74	0.017	0.84	0.2% Cu cut-off
LA10-36	24.00	30.00	6.00	2.14	NSV	2.14	0.2% Cu cut-off
Including	26.00	28.00	2.00	5.88	NSV	5.88	
And	36.00	130.00*	94.00	0.38	0.016	0.48	0.2% Cu cut-off
LA10-37	48.00	362.00	314.00	0.21	0.012	0.28	No Cu cut-off
Including	222.00	344.00	122.00	0.23	0.017	0.33	
Including	280.00	344.00	64.00	0.25	0.021	0.38	
LA10-38	30.00	220.00	190.00	0.28	0.011	0.35	0.14% Cu cut-off
Including	118.00	178.00	60.00	0.33	0.016	0.43	
Including	150.00	178.00	28.00	0.39	0.018	0.50	

Table notes:

1. All holes drilled vertically and all intervals are core lengths; Cu equivalent in per cent calculated using \$2.50 (U.S.) per pound copper and \$15 (U.S.) per pound molybdenum, and the following formula: ((percentage Cu times 22 times price Cu per pound) plus (percentage Mo times 22 times price Mo per pound)) divided by (price Cu per pound times 22).
2. (\*) end of hole
3. Metallurgical recoveries and net smelter returns are not considered.

A second phase of exploration comprising a geophysical survey followed by additional drilling is planned. The permitting process for an expanded drill program and the geophysical survey are underway.

### **Tingo Este Property**

On April 26, 2011 Redzone released the results from a reconnaissance mapping and rock sampling program completed over the Tingo Este property, which comprises four concessions totalling 3,700 hectares, located 295 kilometres south of Lima. The Tingo East project is located within a belt of occurrences called "porphyry-copper Cretaceous strip of southern Peru" -- Puquio sector. This belt also hosts the Lara copper-molybdenum property, the Anita de Tibillos property of Tinka Resources Ltd., the north Pucacorrall, south Pucacorrall and Puquio projects of Teck Resources Ltd., as well as the Los Pinos porphyry-copper deposit. A total of 18 rock samples collected over the Suitojasa alteration system within the Tingo Este 2 block returned from 0.15 to 0.94 per cent copper, four to 120 parts per million molybdenum and 0.6 to 2.3 grams silver per tonne. The mineralization consists of veinlets, disseminations of pyrite and chalcopyrite over a 200-by-600-metre area.

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Richard Graham P. Geol., a director of Redzone and a Qualified Person as defined by National Instrument 43-101 Standards of Disclosure for Mineral Projects, is responsible for the preparation and verification of the technical information on Lara and Tingo Este.

## QUARTERLY INFORMATION

The following is selected financial data from the Company's unaudited quarterly financial statements for the last eight quarters ending with the most recently completed quarter, being the three months ended July 31, 2011.

Three months ended	July 31 2011	April 30 2011	January 31 2011	October 31 2010
Revenues	-	-	-	-
Net loss and comprehensive loss	(429,677)	(225,321)	(313,767)	(227,457)
Net Loss per share (basic and diluted)	(0.01)	(0.00)	(0.01)	(0.01)
Deferred acquisition costs	-	587,615	222,737	280,638

Three months ended	July 31 2010	April 30 2010	January 31 2010	October 31 2009
Revenues	-	-	-	-
Net loss and comprehensive loss	(366,799)	(393,280)	(587,431)	(112,958)
Net Loss per share (basic and diluted)	(0.01)	(0.01)	(0.02)	(0.00)
Deferred acquisition costs	104,664	85,214	-	-

<sup>(1)</sup> Information for the quarter ended July 31, 2011 and the quarters within the fiscal year ended April 30, 2011 have been prepared in accordance with IFRS, while the information for the quarters within the fiscal year ended April 30, 2010 have been prepared in accordance with Canadian GAAP.

The loss for the quarter ended January 31, 2010 is significantly higher than previous quarters due to share-based compensation of \$500,264 from the granting of 1,925,000 options to officers and directors.

The deferred acquisition costs for the quarter ended April 30, 2011 include the required issuance of 250,000 shares that were valued at \$142,500.

There were no deferred acquisition costs incurred in the quarter ended July 31, 2011 due to timing of the drilling programs. Subsequently US \$320,000 has been advanced.

## RESULTS OF OPERATIONS

### Three months ended July 31, 2011 and 2010

Significant changes to operational expenses in the comparative quarters include:

i) Professional fees \$10,462 (2010 - \$61,391) and transfer agent, listing and filing fees \$13,209 (2010 - \$62,066)

Professional expenses of \$nil (2010 - \$52,391) and transfer agent, listing and filing fees of \$nil (2010 - \$57,906) were incurred due to the Company's application process to list on the TSX exchange.

ii) Business investigation costs \$38,388 (2010 - \$60,803)

Geological consulting services of \$31,863 (2010 - \$52,440) were incurred relating to the review of various mineral properties and \$6,525 (2010 - \$8,363) in associated travel expenses.

iii) Investor relations \$2,807 (2010 - \$47,569)

Investor relations consulting expenses of \$nil (2010 - \$15,000) were incurred under a contract that expired in January 2011. Travel costs of \$9,621 (2010 - \$29,255) were incurred by management for investor relations purposes.

iv) Management salaries and benefits \$68,135 (2010 - \$31,789)

Management salaries and benefits represent compensation for the CEO and CFO, the only two employees of the Company during the quarter. The prior period only included one pay period for the CFO as she had commenced employment in mid July 2010 and the CEO received a pay raise in January 2011.

v) Office facilities and administration \$71,050 (2010 - \$38,817)

The office and administration expenses have increased when comparing the quarter ended July 31, 2011 to the same period last year. The main factor is the \$23,974 (2010 - \$nil) in travel costs incurred by management to secure business relationships. The Company also donated \$5,000 (2010 - \$nil) to a registered charity in the quarter.

vi) Stock-based compensation \$199,321 (2010 - \$65,237)

1,000,000 stock options were issued to directors during the quarter ended July 31, 2011 (2010 - 675,000). The Company obtained TSX approval and issued 800,000 outside of the stock options plan. Stock-based compensation expense represents the fair value of options granted and is a non-cash expense.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at July 31, 2011, the Company had cash of \$3,405,877 compared to \$3,552,751 as at April 30, 2011. The net decrease of cash of \$146,874, for the three month period ended July 31, 2011, is due to operating expenditures.

### **Capital Expenditures**

During the three months ended July 31, 2011, the Company incurred deferred acquisition costs totaling \$nil (2010 - \$39,664).

### **Financing Activities**

During the three months ended July 31, 2011 and in the period through to October 4, 2011, the Company did not engage in any significant financing activities. The exercise of outstanding options and warrants resulted in the issuance of 25,000 (2010 - 290,000) common shares in consideration for cash proceeds totaling \$3,750 (2010 - \$174,000).

### **Liquidity and Capital Resources**

As at July 31, 2011 the Company had working capital of \$3,309,515 (April 30, 2011 - \$3,535,830). The change in working capital since April 30, 2011 is attributable to operational activities. The Company believes that it has sufficient working capital to meet its currently planned exploration activities and fund 12 months of operating requirements. Additional financing will be required to fund long-term work commitments on its projects and the acquisition of any additional properties.

Management intends to monitor spending and assess results on an ongoing basis and will make appropriate changes as required and in response to results from financing effects.

## COMMITMENTS AND CONTINGENCIES

### Lease Commitment

The Company entered a sublease on office space for the period of February 1, 2010 to November 29, 2011. The estimated liability for rent and expenses from August 1, 2011 to November 29, 2011 is \$20,000.

### Contingencies

On May 17, 2010, the Company entered into an agreement for business advisory services with a third party. Pursuant to the terms of the agreement, part of the payment for services rendered include the issuance of 500,000 stock options, entitling the service provider to acquire one common share of the Company at a price of \$0.66 per common share for a period of five years from the date of grant. The options granted vest and become exercisable on the day following the successful completion of specific milestones and deliverables, as set out in the agreement. Subsequent to July 31, 2011 the agreement has been terminated and the options forfeited.

On March 1, 2011, the Company entered into an agreement for advisory services with a third party. Pursuant to the terms of the agreement, payment for services rendered includes the grant of 500,000 stock options at the exercise price of \$0.72 per common share for a period of five years from the date of grant. The options vest and become exercisable on the day following the successful completion of specific deliverables, as set out in the agreement.

The Company has approved compensation packages to related parties. On the completion of a new acquisition, with a minimum value of \$250,000,000, bonuses of up to a maximum of \$4,000,000 cash, 1,000,000 restricted share units and 8,000,000 options could be paid.

## FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

Financial instruments must be classified at one of three levels within a fair value hierarchy according to the relative reliability of the inputs used to estimate their values. The three levels of hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 Inputs that are not based on observable market data.

The Company does not have any financial instruments measured at fair value under level 2 or level 3. The Company's cash balance is measured at fair value under level 1.

### Risk Exposures

The Company's financial instruments consist of cash, receivables, prepaids and advances and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit risk*

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and receivables. The Company's receivables are primarily from government agencies and are subject to certain risks that would be considered normal in this environment. The Company limits its exposure to credit loss by placing its cash with major financial institutions.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at July 31, 2011, the Company had a cash balance of \$3,405,877 to settle current liabilities of \$130,308. All of the Company's normal financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

The Company entered into an agreement to acquire interests in two copper properties which requires it to spend US\$2,500,000 over three years. As of the end of July 2011, the Company has incurred property expenditures in excess of US\$1,000,000 and continues to operate under the agreement's terms.

As at July 31, 2011, the Company has adequate capital to meet its anticipated operating expenditures for the next 12 months. The Company will need additional financing to acquire its interests in these properties and to bring the assets into production.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

*Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company's cash is in a chequing account with a major Canadian bank and therefore there is currently minimal interest rate risk.

*Foreign currency risk*

As at July 31, 2011, the Company has approximately US\$1,500,000 of option expense obligations relating to the acquisition of interests in mineral properties and therefore is exposed to foreign currency risk. An increase or decrease of \$0.01 in exchange rates will increase or decrease the purchase price by approximately \$15,000.

Upon the acquisition of the Company's interests in the mineral properties, the Company will have exposure to foreign currency risk since the properties are located in Peru.

*Price risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

## RELATED PARTY TRANSACTIONS

During the three months ended July 31, 2011 and 2010, the Company incurred the following expenditures charged by directors and a company with a director in common:

	2011	2010
	\$	\$
Administrative fees	12,000	12,000
Property investigation services	-	761
	<b>12,000</b>	<b>12,761</b>

Included in accounts payable and accrued liabilities at July 31, 2011 is \$51,519 (April 30, 2011 - \$13,518) due to related parties.

Key management includes the Chief Executive Officer, Chief Operating Officer and the Chief Financial Officer. Compensation paid or payable to key management for services provided during the three months ended July 31, 2011 and 2010 was as follows:

	2011	2010
	\$	\$
Management salaries and benefits	67,500	31,789
Share-based payments	-	54,347
	<b>67,500</b>	<b>86,136</b>

## CRITICAL ACCOUNTING ESTIMATES

### Income taxes

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values using substantively enacted income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

### Fair value of share-based payments

The fair value of share based payments are subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

## FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Effective January 1, 2011 Canadian publicly listed entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date is May 1, 2010. The three months ended July 31, 2011 is the Company's first reporting period under IFRS.

The Company identified three phases to the Company's conversion: scoping and planning, detailed assessment and evaluation and implementation and post implementation. The Company has now completed its IFRS conversion project through to the implementation phase. A post-implementation phase will continue in future periods, as outlined below.

Note 2 of the accompanying condensed interim consolidated financial statements provide details of the Company's accounting policy decisions. The Company adopted IFRS on May 1, 2011 with a transition date of May 1, 2010 (the "Transition Date"). Under IFRS 1 '*First-time Adoption of International Financial Reporting Standards*', the IFRS are applied retrospectively at the Transition Date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to deficit unless certain mandatory and optional exemptions are applied. The Company has elected not to take any of the IFRS 1 optional exemptions.

Additionally, in accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous Canadian GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of May 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

The reconciliation between the Canadian GAAP and IFRS equity as at May 1, 2010, July 31, 2010 and April 30, 2011 is provided below:

	May 1, 2010	July 31, 2010	April 30, 2011
	\$	\$	\$
<b>Equity under Canadian GAAP</b>	5,348,723	5,286,161	4,819,600
Adjustment	-	-	-
<b>Equity under IFRS</b>	5,348,723	5,286,161	4,819,600

The reconciliation between the Canadian GAAP and IFRS total comprehensive loss for the periods ended July 31, 2010 and April 30, 2011 is provided below:

	Three Month Period ended July 31, 2011	Year Ended April 30, 2011
	\$	\$
<b>Comprehensive loss under Canadian GAAP</b>	366,799	1,133,343
Adjustment	-	-
<b>Comprehensive loss under IFRS</b>	366,799	1,133,343

The conversion to IFRS has had a low impact on the financial record keeping, internal controls and financial disclosures of the Company due to the nature of the Company's exploration business. Accounting systems have been assessed and re-configured as necessary to ensure accurate financial reporting under IFRS, for both internal and external purposes.

### Post-implementation

The post-implementation phase will involve continuous monitoring of changes in IFRS in future periods. We note that the standard setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that the Company has selected. We also note that the International Accounting Standards Board is currently working on an extractive industries project, which could significantly impact the Company's financial statements primarily in the areas of capitalization of exploration costs and disclosures. The Company has processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRSs and IFRIC interpretations will be evaluated as they are drafted and published.

## **ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED**

### **Amendments to IFRS 7 “Financial Instruments: Disclosures”**

This amendment increases the disclosure required regarding the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period. This amendment is effective for annual periods beginning on or after July 1, 2011.

### **New standard IFRS 9 “Financial Instruments”**

IFRS 9 as issued reflects the first phase of the IASB’s work on the replacement of IAS 39, “Financial Instruments: Recognition and Measurement”, and applies to the classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. The IASB is currently addressing hedge accounting and derecognition. The completion of the project is expected in 2011.

### **New standard IFRS 10 “Consolidated Financial Statements”**

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates in its subsidiaries. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

### **New standard IFRS 11 “Joint Arrangements”**

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

### **IFRS 13 - Fair Value Measurement**

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

The Company has not applied the new and revised IFRS that have been issued but are not yet effective. These accounting standards are not expected to have a significant effect on the Company’s accounting policies or financial statements.

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

## **OUTSTANDING SHARE DATA**

The Company has authorized share capital consisting of common shares without par value and preferred shares issuable in series. The number of shares authorized is unlimited. The Company has issued warrants for the purchase of common shares and also has a stock option plan.

As at October 7, 2011, the following securities were outstanding:

Common shares	42,868,137
Warrants	5,091,617
Stock options	5,075,000

## **RISKS AND UNCERTAINTIES**

In February 2010, the Company entered into an agreement to acquire up to 75% indirect interests in two properties in Peru. There is no certainty that the Company will acquire the properties interests which is conditional upon several items including the incurrence of the remaining US\$1,500,000 in property expenditures over three years.

The Company must overcome many risks associated with exploration properties. Outstanding items to be completed include, but are not limited to, further identification and quantification of a commercially viable ore body, confirmation of the Company's interest in the underlying claims and leases, completion of a feasibility study, funding of all costs related to a commercial operating venture, completion of the permitting process, detailed engineering and the procurement of a processing plant, and constructing a facility to support the property. Construction and operational risks including, but not limited to, equipment and plant performance, metallurgical, environmental, cost estimation accuracy, and workforce performance and dependability will all affect the profitability of an operating property.

External financing, primarily through the issuance of common shares will be required to fund its activities. Although the Company has been successful in raising the necessary funds in the past, there can be no assurance that it will be able to do so in the future.

For a more detailed list of risk factors, refer to the Company's Annual Information Form for the year ended April 30, 2011.

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

The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, engaged external consultants to evaluate the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting as at April 30, 2011. Based on this evaluation, management concluded that these disclosure and internal controls and procedures over financial reporting were effective.

As of the date of this report, management is not aware of any change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

It should be noted that all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

## **FORWARD LOOKING STATEMENTS**

Certain statements contained in this document constitute forward-looking statements. Such forward-looking information includes, but is not limited to, statements with respect to the potential of the Company's properties; the future price of copper, gold and other minerals; success of exploration activities; cost and timing of future exploration and development; the estimation of mineral resources; conclusions of economic evaluations; requirements for additional capital and other statements relating to the financial and business prospects of the Company. These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements, including, but not limited to risks related to: (i) the Company's goal of creating shareholder value by concentrating on the acquisition and development of properties that have the potential to contain economic mineral deposits; (ii) management's outlook regarding future trends; and (iii) government regulation and environmental liability.

The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these factors are interdependent, and management's future course of action would depend on its assessment of all information at that time. Readers are cautioned not to place undue reliance on these forward-looking statements, which are made as of the date hereof and, except as required by law, we undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward looking statements contained herein are expressly qualified by this cautionary statement.