



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2010**

**INTRODUCTION**

The following discussion and analysis of financial position and results of operations is prepared as at December 10, 2010 and should be read in conjunction with Redzone Resources Ltd.'s ("Redzone" or the "Company") interim unaudited financial statements for the three and six months ended October 31, 2010, and the audited annual consolidated financial statements for the year ended April 30, 2010 and the related notes attached thereto. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All dollar figures included therein and in the following Management Discussion and Analysis ("MD&A") are expressed in Canadian dollars, unless otherwise stated.

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. The common shares of the Company were delisted from the Canadian National Stock Exchange ("CNSX") at the close of market on June 22, 2010.

The following discussion, analysis and financial review are comprised of the following sections:

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## **1 HIGHLIGHTS**

### **Overall Performance**

The net loss for the three and six months ended October 31, 2010 was \$227,457 and \$594,255 respectively, compared to \$112,958 and \$225,094 for the comparative periods in 2009. The increase in expenses in comparative periods represents an increase in activities relating to the Company's listing on the TSX, business investigation, investor relations, and administration. Additionally, the issuance of stock options in the three and six months ended October 31, 2010 resulted in the recognition of stock-based compensation expense.

At October 31, 2010, the Company had working capital of \$4,657,052, compared to \$5,260,395 at April 30, 2010. The Company had cash and cash equivalents of \$4,632,345 at October 31, 2010, compared to \$5,353,944 at April 30, 2010.

### **Las Palmas Property**

As of October 31, 2010, the Las Palmas project is on hold, as the Company has not been able to successfully enter into a land access agreement with local communities. At this time, there are no assurances that the Company will be able to successfully enter into commercially reasonable land access agreements for the Property. Management is currently assessing how this development will impact the Las Palmas project over the long-term.

No expenditures were expensed relating to the Las Palmas property for the three and six months ended October 31, 2010. There are no expenses for the comparative periods.

### **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<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.

In preparation for the upcoming drill campaign, geological mapping and rock sampling of the three mining concessions (LARA 4, LARA 2A, and LARA 5) of the Lara Project has recently been completed. The area of Lara 4 was mapped at 1:2,000 scale and the areas of Lara 2A and Lara 5 at 1:5,000 scale. A total of 138 rock chip samples (including 7 duplicates) were collected from the Oxide zones mainly in the access roads to the drill platforms. Results from the samples are pending.

A planned 2,000 metre diamond drill program commenced on November 15, 2010. To date, no work has been completed on the Tingo Este property by Redzone.

### **Appointment of Director**

On August 12, 2010, Mr. Steven Cook was appointed to the Board of Directors. Mr. Cook brings approximately 30 years of corporate finance, structuring, and tax planning experience to the role. He is currently a partner at Thorsteinssons LLP and is a Director of Skeena Resources Ltd., a mineral exploration company.

## **2 MINERAL PROPERTIES**

### **Las Palmas Property**

In October 2009, the Company entered into an agreement (the "Agreement") with Minera Teck, S.A. de C.V., a wholly owned subsidiary of Teck Resources Limited to acquire an initial 50% interest in the Las Palmas property ("Las Palmas" or the "Property") located in Mexico's Oaxaca and Veracruz states.

Las Palmas is largely pediment covered, 26,400 hectare in area, and lies in a structural belt in southern Mexico that has the potential to host intrusive-related, epithermal gold mineralization possibly associated to alkaline magmatism. Las Palmas was staked by Teck in 2005/2006 on the back of regional work completed by the Mexican Geological Survey ("MGS") and has never been drill tested.

Under the terms of the Agreement, the Company's wholly owned subsidiary, Compania Minera Oyamel, S.A. de C.V. ("RZ Mexico") entered into an option agreement with Teck whereby RZ Mexico can initially acquire a 50% interest in the Property by making US\$1,000,000 in property expenditures by August 31, 2010 and thereafter an additional US\$2,000,000 in optional expenditures by August 31, 2012 ("Qualifying Expenditures").

Once RZ Mexico has earned its 50% interest, Teck will have 60 days to elect one of the following:

- Make expenditures of US\$3,000,000 over two years thereby increasing its interest to 60% and reducing RZ Mexico to 40%.
- Elect RZ Mexico to solely fund an additional US\$3,000,000 in Property expenditures at which time RZ Mexico will have earned a 100% interest in the Property subject to a 2% NSR payable to Teck. If Teck makes this election, Teck will have the right to earn back a 51% interest exercisable at any time up to 60 days after RZ Mexico earns its 100% interest by making Property expenditures 1.5 times RZ Mexico's total expenditures up to a maximum of \$9 million within four years. If Teck earns back 51%, it can earn an additional 9% by making an additional US \$6,000,000 in Property expenditures over two years.

After all the Teck elections have been exercised or expired, Teck and RZ Mexico will form a corporate joint venture and contribute to expenditures on the Property in proportion to their

respective interests in the Property. In the event that the interest of either RZ Mexico or Teck in the Property is reduced below 10% at any time, such interest shall be converted to a 5% net profits royalty.

The NI 43-101 compliant technical report on the Property has been put on hold indefinitely, pending approvals from the local community to complete a site visit. Due to the uncertainty in obtaining land access agreements, the Company and Teck modified the October 30, 2009 agreement to include two new clauses that extend the time frame for the initial US\$1,000,000 property expenditure by August 31, 2010 to August 31, 2010 plus that number of days from January 30, 2010 to when the access agreements are officially entered into. All subsequent property expenditure timelines are also moved forward to reflect the extension granted. As of October 31, 2010, the Company remains unsuccessful in entering into a commercially reasonable land access agreement.

The foregoing property disclosures are based on exploration data and geological reports supplied by Teck that have been reviewed and compiled by Richard A. Graham, P. Geol. Mr. Graham is a director of Redzone and a qualified person as defined by National Instrument 43-101 of the Canadian Securities Administrators, and has reviewed the contents of this document. The data disclosed has not been verified by Mr. Graham, as such data was prepared and provided to Redzone by a third party (Teck).

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

In February 2010, the Company 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, and valued at \$65,000)
- a further 250,000 common shares on or before February 12, 2011;
- 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 (US\$391,500 paid as of October 31, 2010) (US\$82,000 paid as of April 30, 2010) 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 (“Permit Date”). The Permit Date shall be on or before February 12, 2011, failing which Lara Exploration may terminate the agreement;
- 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.

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 and six months ended October 31, 2010 includes the following:

	Three months ended October 31		Six months ended October 31	
	2010	2009	2010	2009
Deferred acquisition costs, beginning of period	\$ 189,878	\$ -	\$ 85,214	\$ -
Exploration costs incurred during period	280,638	-	320,302	-
Fair value of common shares issued during period	-	-	65,000	-
Deferred acquisition costs, end of period	470,516	-	470,516	-

For the three months ended October 31, 2010, \$36,652 of total exploration costs relates to the drilling permit process and \$243,986 was allocated to the commencement of the Lara Property drilling program. For the six months ended October 31, 2010, an additional \$39,664 of exploration costs was spent on the drilling permit process.

#### *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.

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.

### *Tingo Este Property*

The second property is the 3,700 hectare Tingo Este property located in Coastal Peru, east of the city of Ica. According to Tinka Resources Ltd., press release dated January 24, 2007, mapping and prospecting has outlined a 1,000 by 800 metre area hosted by granodiorite and quartz monzonite of the Coastal Batholith with intruded Jurassic and Cretaceous sediments and volcanic. The early staged property has never been drill tested and surface values ranged from 0.012% to 0.9% copper. The Company plans on initiating a site evaluation of the property prior to implementing a detailed exploration program. Potential quantity and grade is conceptual in nature. There has been insufficient exploration to define a mineral resource on the Tingo Este property and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

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.

### 3 RESULTS OF OPERATIONS

The following table sets forth selected data for the periods indicated:

	Three months ended		Six months ended	
	October 31		October 31	
	2010	2009	2010	2009
	\$	\$		
Expenses				
Amortization	293	-	587	-
Audit, legal and other professional fees	20,884	10,787	82,275	12,584
Business investigation costs <sup>(1)</sup>	-	44,797	60,803	121,351
Investor relations	23,604	5,575	71,173	5,575
Management and consulting fees	-	7,500	-	15,000
Management salaries and benefits	57,473	21,301	89,262	21,301
Office facilities and administration	43,498	19,910	85,804	34,109
Stock-based compensation	72,353	-	137,589	-
Transfer agent, listing and filing fees and shareholders information	20,157	3,729	82,223	15,815
Loss before other items	238,262	113,599	609,716	225,735
Other items				
Interest income	11,095	641	15,751	641
Foreign exchange loss	(290)	-	(290)	-
	10,805	641	15,461	641
Net Loss	227,457	112,958	594,255	225,094

<sup>(1)</sup> Business investigation costs relate to expenses incurred, primarily for geological consulting fees, to investigate potential investments in various mineral properties.

#### Three months ended October 31, 2010, compared with three months ended October 31, 2009

No mineral property explorations costs were expensed during the three months ended July 31, 2010 and 2009.

Operational expenses increased by approximately \$125,000 for the three months ended October 31, 2010, compared to the three months ended October 31, 2009. Increases in the comparative quarters include:

- Legal expenses of approximately \$21,000 were incurred in the three months ended October 31, 2010 due to the preparation and review of various property and corporate documents, and providing assistance with materials relating to the Company's November 2010 annual general meeting. For the comparative quarter, legal expenses pertained to the establishment of the Company's Mexican subsidiary, correspondence relating to the Las Palmas Property, and the commencement of the Company's TSX listing application.

- No business investigation expenses were incurred during the quarter ended October 31, 2010. For the comparative quarter in 2009, business investigation expenses totaled \$45,000, consisting of approximately \$8,000 in consulting services and \$37,000 in legal counsel fees.
- For the three months ended October 31, 2010, investor relations expenses comprised \$15,000 in corporate communication services, and \$8,500 in advertising and website support. There were \$5,500 in investor relations expenses for the comparative quarter in 2009, relating to news distribution services.
- Management salaries and benefits represent compensation for the CEO and CFO, the only two employees of the Company. In the comparative period in 2009, salaries and benefits consist of a bonus paid as executive compensation.
- Office and administration expenses have increased when comparing the quarter ended October 31, 2010 to the same period last year due to an overall increase in business operations.

Of the \$43,000 in office and administrative expenses for the quarter ended October 31, 2010, \$13,000 represents office rent, \$14,000 relates to administrative services, \$3,400 represents telephone expenses, \$5,000 was incurred in meals and entertainment, with the remaining expenditures consisting of various office supplies and sundry charges.

In the comparative quarter, office and administrative expenses consist of \$6,000 in office rent, \$12,000 in administrative services, \$1,000 in meals and entertainment, with the remaining expenses in office supplies and miscellaneous items.

- Stock options were issued to a Director during the quarter ended October 31, 2010, resulting in the recognition of \$72,000 in stock-based compensation expense. Stock-based compensation expense represents the fair value of options granted and is a non-cash expense. There were no stock options granted in the comparative period in 2009.
- Transfer agent, listing and filing fees incurred during the quarter ended October 31, 2010, relate to various regulatory filing fees. For the comparative quarter, transfer agent, listing and filing fees comprise various general maintenance and administrative expenses.
- Interest income is earned at a rate of 1% per annum on cash held in the Company's operating bank account.

### **Six months ended October 31, 2010, compared with six months ended October 31, 2009**

No mineral property explorations costs were expensed during the six months ended July 31, 2010 and 2009.

Operational expenses increased by approximately \$384,000 for the six months ended October 31, 2010, compared to the six months ended October 31, 2009. Increases in the comparative quarters include:

- \$8,400 in audit fees were recorded for the six months ended October 31, 2010 due to an under accrual of audit fees at year-end.

- Legal expenses of \$74,000 were incurred in the six months ended October 31, 2010 due to the Company's application process to list on the TSX, and other various commercial matters as described for the three months October 31, 2010.

For the comparative period ended October 31, 2009, legal expenses pertained to the establishment of the Company's Mexican subsidiary, correspondence relating to the Las Palmas Property, and the commencement of the Company's TSX listing application.

- Business investigation expenses of \$61,000 for the six months ended October 31, 2010 consist of \$52,000 in geological consulting services, relating to the review various mineral properties, and \$9,000 in associated travel expenses.

For the comparative period in 2009, business investigation expenses totaled \$121,000, consisting of \$32,000 in consulting services, \$57,000 in legal counsel fees, and \$32,000 in travel expenses.

- Investor relations expenses of \$71,000 for the six months ended October 31, 2010, are comprised of as follows: \$30,000 in corporate communication services, \$11,000 in advertising and website support, and \$30,000 in executive travel.

There were \$6,000 investor relations expenses incurred during the comparative period in 2009, relating to news distribution services.

- Management salaries and benefits represent compensation for the CEO and CFO. In the comparative period in 2009, a bonus was paid as executive compensation.
- Office and administration expenses have increased by approximately \$52,000 when comparing the six month period ended October 31, 2010 to the same period last year. This increase is due to an overall increase in business operations.

Of the \$86,000 in office and administrative expenses for the six months ended July 31, 2010, approximately \$30,000 represents office rent, \$30,000 relates to administrative and office support services, \$11,000 represents telephone expenses, \$9,000 was incurred in meals and entertainment, with the remaining expenditures consisting of various office supplies and sundry charges.

In the comparative quarter, office and administrative expenses consist of \$24,000 in administrative services, \$6,000 in office rent, and \$2,000 in meals and entertainment, with the remaining amount in office supplies and miscellaneous expenses.

- Stock options were issued to a consultant, an officer and a director of the Company during the six months ended October 31, 2010, resulting in the recognition of \$137,589 in stock-based compensation expense. Stock-based compensation expense represents the fair value of options granted and is a non-cash expense. There were no stock options granted in the comparative period in 2009.
- Of the transfer agent, listing and filing fees incurred during the six months ended October 31, 2010, \$65,000 pertains to the Company's original TSX listing and sustaining fees, with the remaining expenses relating to maintenance and filing fees.
- Interest income is earned at a rate from 0.5% to 1% per annum on cash held in the Company's operating bank account.

## 4 QUARTERLY INFORMATION

A summary of selected information for each of the eight most recent quarters is as follows:

	Interest Income (1)	Operating Costs	Exploration Expenditures (Recovery)	Stock-Based Compensation	Net Income (Loss)	Basic & diluted loss per share
	\$	\$	\$	\$	\$	\$
Q2 – Oct. 31, 2010 <sup>(7)</sup>	11,095	165,909	-	72,353	(227,457)	(0.01)
Q1 – July 31, 2010 <sup>(6)</sup>	4,656	306,218	-	65,236	(366,798)	(0.01)
Q4 – April 30, 2010 <sup>(5)</sup>	-	277,276	116,004	-	(393,280)	(0.01)
Q3 – January 31, 2010	-	72,980	14,187	500,264	(587,431)	(0.02)
Q2 – Oct. 31, 2009 <sup>(2)</sup>	641	105,599	8,000	-	(112,958)	-
Q1 – July 31, 2009 <sup>(3)</sup>	-	112,136	-	-	(112,136)	-
Q4 – April 30, 2009 <sup>(4)</sup>	32	30,706	(44,475)	-	(13,801)	-
Q3 – January 31, 2009	235	36,142	-	-	(35,906)	-

- (1) The Company is a mineral exploration company and has no operating revenue. The Company receives interest income from funds on deposit.
- (2) The Company incurred \$44,797 of costs to investigate potential investments, classified as business investigation costs.
- (3) The Company incurred \$76,554 of costs to investigate potential investments, classified as business investigation costs.
- (4) The Company accrued year-end audit fees during the period and applied for a mining exploration tax credit.
- (5) The Company incurred \$80,351 of costs in investor relations activities, and \$68,164 in total legal fees.
- (6) The Company incurred \$60,803 of costs to investigate potential investments, classified as business investigation costs; \$47,569 of costs in investor relations activities; and a total of \$110,297 in legal and filing fees relating primarily to the Company's initial listing on the TSX.
- (7) The Company incurred \$23,604 of expenses in investor relations activities, and \$20,884 in legal fees relating to various property and corporate matters. The remaining \$121,241 of operational costs pertain to office rent and maintenance, administration, and salaries.

## 5 LIQUIDITY AND CAPITAL RESOURCES

### Statement of Cash Flow Information

As at October 31, 2010, the Company had cash of \$4,632,345 compared to \$5,353,944 as at April 30, 2010. The net decrease of cash of \$721,599, for the six month period ended October 31, 2010, is due to primarily to various operating expenditures and deferred acquisition costs.

### Three months ended October 31, 2010

Cash used in operations, including changes in non-cash working capital, was \$156,819 for the quarter ended October 31, 2010. For the three months ended October 31, 2010, \$27,000 was paid in audit fees relating to the fiscal 2010 year-end audit, and approximately \$47,000 was paid in corporate legal and filing fees. All other cash payments for the quarter relate to operating matters – primarily investor relations, office facilities and administration, and salaries. Cash receipts for the quarter ended October 31, 2010 include a \$20,593 refund from a previous

prepayment made to a consultant, a HST refund of \$18,607, and \$11,088 in interest earned on the Company's cash balance held on deposit with a Canadian financial institution.

Additionally, cash used in investing activities for the quarter ended October 31, 2010 include \$280,638 in deferred acquisition costs relating to the Lara Property.

### **Six months ended October 31, 2010**

Cash used in operations, including changes in non-cash working capital, was \$574,336 for the six months ended October 31, 2010. For the six months ended October 31, 2010, approximately \$191,000 was spent on TSX original listing fees, related legal expenses and other filing fees. All other expenses for the period relate to operating matters including business investigation, investor relations, office facilities and administration. Cash receipts, in addition to those received for the quarter ended October 31, 2010, relate to interest earned on cash held on deposit.

For cash used in investing activities for the six months ended October 31, 2010, \$320,301 represents deferred acquisition costs relating to the Lara Property. Additionally, \$962 was spent on the purchase of office equipment.

Cash received from financing activities for the six months ended October 31, 2010 include \$174,000 from the exercise of warrants related to the July 2009 private placement financing.

### **Capital Resources**

At October 31, 2010, the Company had accumulated losses of \$2,195,179 (October 31, 2009 - \$620,213), had working capital of \$4,657,052 (April 30, 2010 - \$5,260,395) and expects to incur further losses in the development of its business. Having raised \$6,332,650 in gross proceeds during the 2010 fiscal year, the Company should have adequate resources to pay for its anticipated administrative costs and work commitments on its projects for the next twelve months, based on known current requirements. However, 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 a go-forward basis by introducing a budgeting process in the third quarter ending January 31, 2011.

### **Commitments**

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 are as follows:

November 1, 2010 to April 30, 2011	\$30,000
May 1, 2011 to November 29, 2011	\$35,000

## 6 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.

Financial instruments measured at fair value on the balance sheet are summarized under the three levels of fair value hierarchy as follows:

As at October 31, 2010:

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
Cash	4,632,345	-	-	4,632,345

As at April 30, 2010:

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
Cash	5,353,944	-	-	5,353,944

### Risk Exposures

The Company's financial instruments consist of cash, receivables, 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 October 31, 2010, the Company had a cash balance of \$4,632,345 to settle current liabilities of \$34,274. 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 (first year US\$500,000). After incurring property expenditures of US\$500,000, the Company has the option to continue or terminate the agreement, pursuant to the agreement's terms.

As at October 31, 2010, 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.

a) 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.

b) Foreign currency risk

As at October 31, 2010, the Company has approximate US\$5,100,000 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 \$51,000.

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 Mexico and Peru.

c) 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.

## **7 TRANSACTIONS WITH RELATED PARTIES**

During the three months ended October 31, 2010, the Company paid or accrued \$12,000 in administrative fees to a company with a Director in common (October 31, 2009 - \$12,000). No other related party consulting fees were incurred during the quarter ended October 31, 2010.

Comparatively, for the three months ended October 31, 2009, a company with a Director in common provided property investigation services for \$4,200 and private placement support services for \$15,000. Also, for the quarter ended October 31, 2009, a consulting fee of \$7,500 was paid to a corporation controlled by an officer of the Company.

During the six months ended October 31, 2010, administrative fees paid or accrued to the company with a Director in common were \$24,000 (October 31 2009 - \$24,000). Additionally, \$761 was paid to a Director of the Company for property investigation services (October 31, 2009 - \$Nil).

Comparatively, for the six months ended October 31, 2009, a company with a Director in common provided various consulting services for total fees of \$19,200, as described above for the three months ended October 31, 2009. Additionally, for the six months ended October 31, 2009, a consulting fee of \$15,000 was paid to a corporation controlled by an officer of the Company.

Included in accounts payable and accrued liabilities at October 31, 2010 is \$7,151 (April 30, 2010 - \$36,725) due to related parties.

The above transactions were in the normal course of business and were measured at the exchange amount which is the amount agreed to by the related parties.

## **8 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 stock-based compensation and warrants issued**

The fair value of stock-based compensation and warrants issued 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.

## **9 NEW ACCOUNTING POLICIES**

### **Business Combinations**

In October 2008, the CICA issued Handbook Section 1582, “Business Combinations”, which establishes new standards for accounting for business combinations. This is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Should the Company engage in a future business combination, it would consider early adoption to coincide with the adoption of International Financial Reporting Standards.

### **Consolidated Financial Statements and Non-controlling Interests**

Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests, together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS27 (revised), Consolidated and Separate Financial Statements. The sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after October 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of these new Sections.

## **10 INTERNATIONAL FINANCIAL REPORTING STANDARDS CONVERSION PLAN**

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosures. The Company plans to implement a comprehensive IFRS conversion framework, which takes into account matters such as changes in accounting policies, restatement of comparative periods, organizational and internal controls and any required changes to business processes.

The key dates for the Company’s IFRS conversion process include the following:

- May 1, 2010 (transition date): An opening statement of financial position according to IFRS will be prepared as at this date to facilitate the changeover to IFRS in 2011. The Company will continue to report its fiscal 2011, 2010 and comparative 2009 results according to Canadian GAAP.
- May 1, 2011 (changeover date): This is the date after which the Company will prepare and report interim and annual 2012 financial statements with 2011 comparatives according to IFRS. The date of the Company’s first interim financial statements in accordance with IFRS will be for the three months ended July 31, 2011 and the first annual financial statements under IFRS will be for the year ended April 30, 2012.

The Company's conversion plan will involve the following phases: 1- scoping and planning, 2- detailed assessment and evaluation, and 3- implementation.

### Scoping and Planning

In the scoping and planning phase, the Company has commenced its review of accounting policies and the changes that may be required on conversion to IFRS. The following discussion highlights some of the initial findings of this exercise:

IFRS 1, "First Time Adoption of International Financial Reporting Standards", provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions in certain areas, relating to the general requirement for full retrospective application of IFRS. The various accounting policy choices available are being assessed and those determined to be most appropriate will be implemented.

The Company has also identified, in broad terms, certain key areas of financial reporting which may be significantly affected by the adoption of IFRS. These initial findings are discussed in the table below:

Standard	Difference from Canadian GAAP	Potential Impact
Presentation and disclosure	IFRS requires significantly more disclosure than Canadian GAAP for certain standards.	The increased disclosure requirements will cause the Company to change financial reporting processes to ensure the appropriate data is collected.
Stock-based compensation	Under Canadian GAAP, vesting of employee stock options can be recognized on a straight-line basis whereas IFRS requires that each tranche of stock option vesting is treated as having a separate fair value.	The amount of the expense recognized under IFRS may be different to that under Canadian GAAP and is recognized more upfront. There is an exemption under IFRS 1 "First time Adoption of International Financial Reporting Standards" relating to share-based payments. The Company is considering the application of this exemption whereby there will be no GAAP difference recognized on transition to IFRS if stock options are completely vested by May 1, 2010.

Standard	Difference from Canadian GAAP	Potential Impact
Exploration and Evaluation Expenditures	Subject to certain conditions, IFRS currently allows an entity to determine an accounting policy that specifies the treatment of costs related to the exploration for and the evaluation of mineral properties. Costs that are capitalized are subject to impairment tests on an on-going basis.	The Company's current policy is to capitalize the costs directly relating to mineral property acquisitions, and to expense, as incurred, all costs relating to exploration and evaluation until such time as it has determined that a property has economically recoverable reserves. Capitalized costs will be subject to impairment tests in accordance with IFRS 6, which is comparable to current GAAP standards. Therefore, there may be no impact on IFRS transition.

### Detailed Assessment and Evaluation

Phase 2, the detailed assessment phase, will involve further technical analysis of the potential impacts, quantification of alternatives where there are accounting policy choices, detailed analysis, and conclusions regarding IFRS 1 ("First Time Adoption of IFRS") exemptions and exceptions available to the Company.

### Implementation

In Phase 3, the implementation phase, the Company will apply management's accounting choices under IFRS, prepare reconciliations, calculate the opening balance sheet at the transition date of May 1, 2010, develop disclosure requirements and develop sample financial statements.

## Timeline

During the quarter ended October 31, 2010, the Company engaged a third-party advisor to assist with the planning and implementation of its transition to IFRS. The following summarizes the Company's expectations with respect to its IFRS plan to the fiscal year ended April 30, 2011, which represents the requirements of the three IFRS transition phases noted above.

Key Activity	Objectives	Due Date
Final determination of changes to accounting policies and selection of first-time adoption alternatives	<ul style="list-style-type: none"> <li>Identify applicable differences between Canadian GAAP and IFRS accounting policies</li> <li>Select IFRS policies to be adopted</li> <li>Select IFRS 1 choices</li> </ul>	In progress, completion expected by January 31, 2011
Determination of the accounting policy change implications on information technology; entity-level and business-level processes	<ul style="list-style-type: none"> <li>Review data collection to determine its use under both Canadian GAAP and IFRS</li> <li>Determine any impact on control environment, including Internal Control over Financial Reporting ("ICFR") and Disclosure Controls and Procedures ("DC&amp;P")</li> <li>Determine any impact on business processes</li> </ul>	To be completed by January 31, 2011
Quantification of the financial statement impact of changes in accounting policies	<ul style="list-style-type: none"> <li>Develop financial statement format under IFRS</li> <li>Quantify effects of changes in initial IFRS 1 disclosures and 2010 financial statements</li> </ul>	To be completed by April 30, 2011
Implement any changes to information technology, entity-level and business-level processes	<ul style="list-style-type: none"> <li>Finalize and implement any change requirements</li> </ul>	To be completed by April 30, 2011
Training: The Company considers that the following personnel possess sufficient understanding of IFRS: CFO, CEO, and members of the Audit Committee	<ul style="list-style-type: none"> <li>Appropriate levels of expertise are required throughout the IFRS conversion project with on-going training provided as needed</li> </ul>	On-going throughout the transition process

## Summary

It should be noted that at this time, the above list and related comments should not be regarded as a complete list of changes that will (or could) result from the Company's transition to IFRS. It is intended to highlight areas that management believes may be most significant; however, the Company's assessment of the impacts of certain differences is still in progress. The standard-setting bodies of Canadian GAAP and IFRS have significant ongoing projects that could affect the ultimate differences between Canadian GAAP and these changes may have a material impact on the Company's financial statements. As a result, the final impact on the Company's financial statements will only be measurable once all of the applicable IFRS standards at the final changeover are known, which is an ongoing process.

## 11 OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

## 12 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 December 10, 2010, the following securities were outstanding:

	<b>Number</b>
Common shares	42,543,137
Warrants	5,091,617
Options	2,975,000

## 13 RISKS AND UNCERTAINTIES

In October 2009, the Company entered into an option agreement to acquire an initial 50% interest in the Las Palmas property located in Mexico. There is no certainty that the Company will acquire the property interest which is conditional upon several items including the attainment of land access and the expenditure of US\$1,000,000 once land access is achieved.

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 US\$2,500,000 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, 2010, which is filed on SEDAR.

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

### **Disclosure Controls and Procedures**

The Company's disclosure controls and procedures are designed to provide reasonable assurance that: (i) material information relating to the Company is made known to management by others, particularly during the period in which interim filings are being prepared; and (ii) information required to be disclosed by the Company under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified under those laws.

As of the six months ended October 31, 2010, the Company has evaluated the design and effectiveness of the Company's disclosure controls and procedures, as managed through a Disclosure Committee established by Board of Directors on July 8, 2010. The Company has not identified any material weakness in such disclosure controls and procedures as at October 31, 2010. The processes of the Disclosure Committee were formally documented in a Disclosure and Trading Policy which was approved by the Board of Directors on November 4, 2010.

It should be noted that, while the Company believes that its disclosure controls and procedures as of October 31, 2010 provide a reasonable level of assurance and are effective, the disclosure controls and procedures cannot prevent all errors or mistakes. A control system no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

## **Internal Controls over Financial Reporting**

Management is responsible for designing, establishing, and maintaining a system of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements by the Company for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner in accordance with GAAP.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities. The Audit Committee fulfills its role of ensuring the integrity of the reported information through its review of the interim and annual financial statements.

Any internal controls over financial reporting, including those systems determined to be effective, well conceived and operated, have inherent limitations and can provide only reasonable, not absolute assurance that the objectives of the control system are met with respect to financial statement preparation and presentation. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

During the quarter ended October 31, 2010, the following changes to the Company's internal controls over financial reporting were implemented:

- formal working papers, schedules and documented analysis were completed to support the compilation of the quarter-end financial statements and MD&A disclosures;
- segregation of duties has been introduced as a part of the Company's accounting and financial reporting procedures, including a review process to be performed by the CEO, CFO, and Audit Committee Chairperson; and
- external consultants have been engaged to assist management in areas of the financial reporting process where internal resources do not exist.

With reference to the framework *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), the CEO and CFO have reviewed the Company's internal controls over financial reporting, with consideration given to the internal controls introduced in the quarter ended October 31, 2010. Based on this review, with additional consideration given to the simple nature of operations at this time and the limited number of transactions per quarter, as at October 31, 2010, the CEO and CFO believe that the Company's internal controls over financial reporting are designed and operating effectively to provide reasonable, but not absolute, assurance that the objectives of the control system are met. The Company has not identified any material weaknesses in such internal controls as of October 31, 2010.

As of October 31, 2010, management has commenced the documentation of its internal control policies and procedures for testing purposes. A third-party consultant has been engaged to assist

in this process and to independently test, on behalf of management, the on-going effectiveness of the internal controls established.

## **15 SUBSEQUENT EVENTS**

On November 4, 2010, Mr. Matthew Watson was appointed to the Board of Directors. On November 4, 2010, the Company granted 200,000 stock options to a newly appointed director. The options vest fully on issuance, and are exercisable at a price of \$0.59 per common share for a period of five years from the date of grant.

## **16 FORWARD LOOKING STATEMENTS**

Certain statements contained in this document constitute forward-looking statements. Such 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. Readers are cautioned not to place undue reliance on these forward-looking statements.