



## **MKANGO RESOURCES LTD**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the years ended December 31, 2011 and 2010**

Management's Discussion and Analysis ("MD&A") of Mkango Resources Ltd., formerly named Alloy Capital Corp. ("Mkango" or the "Company") should be read in conjunction with the consolidated financial statements and accompanying notes for the years ended December 31, 2011 and 2010. The results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are prepared in United States dollars unless otherwise stated. This document is dated April 26, 2012.

Additional information relating to the Company, including the Company's Filing Statement, can be found on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com). The Company is listed on the TSX Venture Exchange under the symbol MKA.

## **FORWARD LOOKING STATEMENTS**

Certain disclosures set forth in this MD&A constitute forward-looking statements. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "believes", "budget", "continue", "could", "estimate", "forecast", "intends", "may", "plan", "predicts", "projects", "should", "will" and other similar expressions. All estimates and statements that describe the Company's future, goals, or objectives, including management's assessment of future plans and operations, may constitute forward-looking information under securities laws. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Mkango's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, accuracy of current drill and other exploration results, environmental risks, changes in environmental, tax and royalty legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Mkango's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements or if any of them do so, what benefits that Mkango will derive there from. Mkango disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## **COMPANY OVERVIEW**

Mkango was originally incorporated under the name Alloy Capital Corp. under the laws of the Province of Alberta, Canada. Mkango completed its initial public offering on August 27, 2008 as a Capital Pool Corporation as defined by Policy 2.4 of the TSX Venture Exchange ("Policy 2.4"). On December 20, 2010 Mkango completed its Qualifying Transaction, as defined in Policy 2.4, by acquiring all of the issued and outstanding shares of Lancaster Exploration Limited ("Lancaster") through a reverse-takeover which closed on December 20, 2010.

Lancaster was incorporated August 3, 2007 by Memorandum and Articles of Association issued pursuant to the provisions of the BVI Companies Act. Lancaster's registered office is located at 56 Administration Drive, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands.

Lancaster was also incorporated under the laws of Blantyre, Malawi on May 19, 2011.

Mkango is a mineral exploration company with a portfolio of properties in Malawi, Africa. The Company's headquarters are in Calgary, Alberta, Canada.

## **GOING CONCERN**

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. These consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations.

The Company is in the process of exploring and developing its mineral interests and has not yet determined whether the interests contain a commercially viable mineral resource. The recoverability of the amounts shown for mineral interests are dependent upon the existence of an economically recoverable mineral resource, the ability of the Company to obtain necessary financing to complete the development of such mineral resources, and upon future profitable production. The operations of the Company for the next 12 months will be funded by the equity raised during the Financings which closed December 20, 2010.

## HIGHLIGHTS

As of December 31,	2011	2010
Cash from (used) by financing activities	(364,047)	7,893,596
Cash from (used by) operating activities	(3,758,280)	71,879
Total comprehensive loss attributable to common shareholders	(3,603,999)	(763,464)
Loss per share - basic and diluted	\$ (0.10)	\$ (0.68)
Common shares outstanding	37,398,471	1,126,406
Evaluation and exploration spending:		
Malawi	2,281,641	338,863
Current assets	3,757,725	7,861,328
Current liabilities	991,244	2,787,796
Working capital	2,766,481	5,073,532

## SUMMARY OF QUARTERLY RESULTS

Total Operations	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$ 5,289	\$ 1,273	\$ 249	\$ 7,340	\$ 1,737	\$ -	\$ -	\$ -
Expenses	517,177	1,507,771	1,394,269	936,784	320,478	112,917	67,007	60,384
Reverse takeover and public company listing costs	-	-	-	-	407,575	-	-	-
Warrant fair value loss (gain)	(737,851)	-	-	-	37,138	-	-	-
Loan forgiven	-	-	-	-	-	(195,401)	-	-
Net revenue (loss) for period	225,963	(1,506,498)	(1,394,020)	(929,444)	(763,454)	82,484	(67,007)	(60,384)
Loss per share - basic and diluted	\$ 0.01	\$ (0.05)	\$ (0.04)	\$ (0.02)	\$ (0.68)	\$ 82.48	\$ (67.01)	\$ (60.38)
Total assets	3,766,500	4,319,642	5,544,392	6,891,196	7,861,616	-	-	-
Long term debt	-	-	-	-	-	(270,142)	(352,625)	(285,618)

Total expenses for the three months ended December 31, 2011 were \$517,177 (2010 \$320,478). During the three months ended December 31, 2011, exploration and evaluation expenses of \$218,954 (2010 \$147,727) were recognized which included costs associated with initiation of the Company's second diamond drilling program. During the three months ended December 31, 2011, general and administrative costs of \$344,267 (2010 \$214,475) were recognized. For the year three months ended December 31, 2011, these expenditures were the result of increased exploration activities in Malawi. For the same period ended December 31, 2010, the costs were incurred as a result of closing the reverse takeover transaction. The Company recognized a reduction of its stock based compensation of \$76,123 (2010 nil), \$737,851 (2010 nil) gain on the revaluation of Warrants, depreciation expense of \$302 (2010 nil) and a foreign exchange loss on translation of \$22,430 (2010 nil).

Total expenses for the three months ended September 30, 2011 were \$1,507,771 (2010 \$112,917). During the three months ended September 30, 2011, exploration and evaluation expenses of \$918,725 (2010 \$84,062) were recognized which included costs associated with completion of the Company's first diamond drilling program, assaying costs and other exploration related expenses. During the three months ended September 30, 2011, general and administrative costs of \$166,706 (2010 \$28,855) were recognized and were the result of increased exploration activities in Malawi. In addition, the Company recognized \$280,521 of stock based compensation, \$184,131 gain on the revaluation of Warrants, depreciation expense of \$943 and a foreign exchange gain on translation of \$325,007.

The expenses for the three months ended June 30, 2011 was \$1,394,269 (2010 \$67,007). During the three months ended June 30, 2011, the Company completed its stage one diamond drilling program on the Songwe Hill property in Malawi. Exploration and evaluation expenses of \$728,636 (2010 \$nil) were recognized. General and administrative costs increased by \$223,244 (2010 \$67,007) for the period as a result of the increased activities in Malawi. In addition, the Company recognized \$481,384 of stock based compensation and a foreign exchange gain of \$38,995.

The expenses for the three months ended March 31, 2011 were \$936,784 (2010 \$60,384). Exploration and evaluation costs for the period were \$415,326 (2010 \$nil). During this period, the Company completed preparation work for the stage one drilling program, which commenced in April 2011. General and administrative costs were \$90,860 (2010 \$60,384) which included \$43,920 of audit fees. In addition, the Company recognized \$593,594 of share based compensation expense and a foreign exchange gain of \$162,996 (2010 \$nil).

The 2010 comparatives have been adjusted to comply with International Financial Reporting Standards ("IFRS"). No adjustments were required to the opening balance sheet at January 1, 2010.

## **DISCUSSION OF OPERATIONS**

The Company's corporate strategy is to further delineate the rare earth mineralization at Songwe Hill and secure additional rare earth element and other mineral opportunities in Malawi and elsewhere.

As at December 31, 2011, the Company holds 100% interest in two exploration licenses in Malawi through its ownership of Lancaster. On January 21, 2010 Lancaster was granted the rights to the Phalombe license and on September 10, 2010 the Thambani license was also granted. Each of the Company's mineral properties are at the early stage of exploration.

The Company incurred a net operating loss of \$4,684,464 and \$318,741 for the year ended December 31, 2011 and 2010 respectively. The increase in expenses is the result of increased exploration expenditures at the Songwe Hill rare earth project.

Total assets decreased from \$7,861,616 to \$3,710,003, for the year ended December 31, 2011, due to the consumption of cash on the Company's two exploration drilling programs. The Company raised total gross proceeds of C\$7,625,026 through the Financings which closed on December 20, 2010 in conjunction with the completion of the Qualifying Transaction. The proceeds of the Financings were partially used to fund its exploration programs on the Songwe Hill property and to repay a significant portion of the related party promissory note, during the year ended December 31, 2011.

The Company's expenditures are primarily denominated in the United States dollar ("USD"). In order to mitigate the negative impact of foreign exchange rates on converting its equity raised in Canadian dollars to the USD, the Company has converted a significant portion of the funds to USD at a favorable foreign exchange rate and holds the funds in short term, interest bearing investment vehicles until such time as the funds are required to extinguish liabilities.

## **EXPLORATION LICENSES**

The Company is a mineral exploration company whose primary business is to conduct exploration activities for rare earth elements and associated minerals. Initially, Lancaster has established the Republic of Malawi as its platform country, focusing primarily on the Phalombe district, where past exploration has indicated strong geological potential for rare earths ("REE's") and other minerals.

## **1. SONGWE HILL**

Through its ownership of Lancaster, the Company holds a 100% interest in an exclusive prospecting license over an area of 1,283 km<sup>2</sup> in southeast Malawi (the "Phalombe License"). Its main exploration target is the Songwe Hill deposit, which features carbonatite hosted rare earth mineralization and was subject to previous exploration programs in the late 1980s and in 2010, the latter managed by Lancaster. Lancaster was awarded the licence on January 21, 2010.

The Phalombe License runs for a period of three years and is renewable for further periods of two years and two years thereafter if the terms and conditions of the Phalombe License have been met. The expenditure commitment for the Phalombe License is 43,500,000 Malawian Kwacha (US\$263,636 based on MK165 exchange rate).

Management believes that all necessary permits for Lancaster's current phase of the exploration program have been obtained.

Songwe is accessible by road from Zomba, the former capital, and Blantyre, the principal commercial town of Malawi. Total travel time from Zomba is approximately 1.5 to 2 hours, which will reduce as infrastructure continues to be upgraded in the area. Songwe is a volcanic vent that is expressed as a steep-sided hill rising some 230m above the surrounding plain.

The Company's corporate strategy with respect to Songwe Hill is to further delineate the rare earth mineralization through additional drilling, surface sampling and geological mapping whilst in parallel evaluating the mineralogy and assessing potential processing options for the project. During the period ending December 31, 2011, the Stage 1 drilling program, comprising 13 holes, was completed and the samples dispatched for assay. Five approximately E-W bearing lines of systematic surface channel sampling using rock saws were also completed. A detailed mineralogical programme was completed, comprising scanning electron microscope, electron microprobe and LA-ICP-MS analyses at the Natural History Museum and Aberystwyth University in the UK. Representative sections of core from 5 drill holes from Stage 1 were sent to Mintek in South Africa for scoping metallurgical test work.

On September 14, 2011, the Company announced that it had received assay results from ten of 13 diamond drill holes completed during its stage one drilling program at Songwe Hill and that it had intersected significant near surface zones of rare earth mineralization with zones of higher grade mineralization and elevated heavy rare earth enrichment also identified. Subsequently, on November 14, 2011, the Company announced it had received assay results from the remaining three holes from its stage one drilling program.

The Company's long term continuing operations are dependent on its ability to secure equity and/or debt financing with which it intends to maintain its proposed mineral exploration programs on the Songwe Hill property. The circumstances that could affect the company's ability to secure equity and/or debt financing that are reasonably likely to occur are, without limitation, the state of the capital markets and the prevailing market prices for commodities, in particular the prevailing market prices for REE. The current trends relating to these factors are relatively favorable for the Company but could change at any time and negatively affect the Company's operations and business. Other than as disclosed herein, the Company is not aware of any trends, uncertainties, demands, commitments or events which are reasonably likely to have a material effect on the Company's business, financial condition or results of operations.

## **2. THAMBANI MWANZA DISTRICT**

Lancaster was granted an additional exploration license by the Malawi Minister of Natural Resources, Energy and Environment on September 10, 2010 in respect of an area of 468 km<sup>2</sup> in Thambani, Mwanza District, Malawi. During the period ended December 31, 2011, the Company completed initial reconnaissance exploration in the license area. Reconnaissance work completed to date has identified a number of areas containing several existing and partially worked alluvial (and possibly elluvial) occurrences of zircon, which have become the initial exploration focus.

## **EXPENDITURES**

The Company's principal activities require expenditures which include both exploration and general and administrative expenses. The following discussion describes the general and administrative expenditures in greater detail.

## Expenses

	For the year ended December 31,	
	2011	2010
Administrative expenses	\$ 313,351	\$ 263,691
Investor communication expenses	53,203	-
Malawi field office expenses	317,915	-
Legal fees	48,472	-
Audit fees	92,136	-
Stock option expense	1,279,376	-
Depreciation	1,245	-
Mineral exploration expenditures		
Drilling	1,389,167	-
Camp equipment and travel	286,782	-
Technical review and analysis	173,349	338,863
Consulting fees	432,343	-
<b>Total</b>	<b>\$ 4,387,339</b>	<b>\$ 602,554</b>

Expenses of \$4,387,339 and \$602,554 were incurred for the years ended December 31, 2011 and 2010, respectively. The exploration expenses totaling \$2,281,641 (2010 \$338,863) for the year ended December 31, 2011, is the result of two exploration programs undertaken during 2011 on the Songwe Hill property and within the broader Phalombe License. During 2010 the company undertook preliminary exploratory work in preparation for the drilling and other work programs initiated in 2011. As a result, the exploration costs in 2011 are significantly higher than for the comparative period in 2010.

Stock based compensation of \$1,279,376 (2010 nil) for the year ended December 31, 2011, was recognized as a result of stocks options granted to officers, directors and an investment relation firm during 2011. There was no expense recognized in 2010 because there were no stock options issued in 2010.

General and administrative expenses of \$825,077 (2010 263,691) was incurred for the year ended December 31, 2011. The general and administrative costs incurred during 2010 were due to costs associated with the reverse takeover transaction whereas, the costs incurred during 2011 were associated with managing a publically traded company and operating an exploration camp in Malawi. General and administrative costs include legal, consulting fees, office supplies, investor relations, public disclosure expenses and directors' and officers' insurance.

## Property and equipment

	Amount
Balance at January 1, 2010	\$ -
Additions	288
Balance at December 31, 2010	288
Additions	9,732
Less Depreciation	(1,245)
Balance at December 31, 2011	\$ 8,775

Property and equipment include computer and office equipment and a vehicle which was purchased in Malawi for use in the camp during the third quarter of 2011.

## **LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2011, the Company had a working capital surplus of \$2,766,481 (December 31, 2010 - \$5,073,532). The Company completed its Qualifying Transaction on December 20, 2010 and raised gross proceeds of C\$7,625,026. At December 31, 2011, the Company had a cash balance of \$3,739,420. The funds are being used to fund the exploration program in Malawi. Management believes that the Financings have generated a sufficient amount of cash in the short and medium long term to maintain the Company's ability to meet its planned exploration activities and to meet its short and medium term objectives and milestones.

Since the Company does not expect to generate any revenue in the near future, it must continue to rely upon the sale of its equity and/or debt securities to raise capital. There can be no assurance that financing, whether debt or equity, will be available to the Company in the amount required at any particular time or for any period or, if available, it can be obtained on terms satisfactory to the Company.

## **ISSUED AND OUTSTANDING SHARE INFORMATION**

As at the date of this report, the Company had 37,442,855 Common Shares of which 10,586,449 Common Shares are currently held in escrow, 8,066,110 warrants and 2,875,833 stock options issued and outstanding.

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company is not party to any off balance sheet arrangements or transactions.

## **ACCOUNTING POLICIES AND ESTIMATES**

Management is required to make judgments, assumptions and estimates in the application of IFRS that have a significant impact on the financial results of the Company. Details outlining Mkango's accounting policies are contained in the notes to the audited consolidated financial statements for the year ended December 31, 2011.

## **BUSINESS RISKS**

Readers are cautioned that the following is a summary only of certain risk factors and is not exhaustive and is qualified in its entirety by reference to, and must be read in conjunction with the additional information on these and other factors that could affect Mkango's operations and financial results that are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)).

The Company is presently pursuing direct investments in international mining projects. There is no assurance that exploration prospects will be granted in foreign jurisdictions where the Company is making applications, nor is there assurance the exploration efforts will be successful. If the Company is successful in obtaining exploration prospects in foreign jurisdictions, additional capital will be required to execute the exploration programs.

Rare earth element and related mineralogy exploration, development, production and marketing operations inherently have a number of business risks and uncertainties, including the uncertainty of finding new reserves, the volatility of commodity prices, operational risks, the cost of capital available to fund exploration and development programs, regulatory issues and taxation, and the requirements of new environmental laws and regulations.

The Company manages these risks by contracting competent professional staff, following sound operating practices and the prudent issuance of equity to fund capital expenditures so that debt does not become a burden. Extensive geological, geophysical, engineering and environmental analyses are performed before committing to the drilling of new prospects. These analyses are used to ensure a suitable balance between risk and reward. The Company conducts its operations in a manner consistent with environmental regulations as stipulated applicable local legislation. Mkango is committed to meeting its responsibilities to protect the environment wherever it may operate and anticipates making increased capital and operating expenditures as a result of the increasingly stringent laws relating to the protection of the environment. Mkango's operations are subject to the risks normally associated with

the mining industry. The Company is committed to respecting the safety of its personnel, the environment and the communities where it has operations.

The mining industry has been subject to considerable price volatility, over which companies have little control, and a material decline in the price of rare earth elements could result in a significant decrease in the Company's future anticipated revenues. The mining industry has inherent business risks and there is no assurance that products can continue to be produced at economical rates or that produced reserves will be replaced. Fluctuations in currency and exchange rates and changes in production are daily risks in the mining industry.

## **IFRS CONVERSION**

In 2008, the Canadian Institute of Chartered Accountants (“CICA”) Accounting Standards Board confirmed that International Financial Reporting Standard (“IFRS”) will replace GAAP effective January 1, 2011 for publically accountable enterprises. The adoption date of January 1, 2011 will require the restatement of comparative amounts beginning in January 2010, including an opening balance sheet as at January 1, 2010.

The Company has assessed the differences between Canadian GAAP and IFRS and has taken the applicable exemptions available at the transition date, January 1, 2010.

The Company’s functional currency, the United States dollar, will not change as a result of its transition to IFRS. The Company has continued to raise equity in Canadian dollars and incurs most of its expenditures in the United States dollar. In the future, any revenues generated by the successful development of the Company’s mineral interests will be denominated in the United States dollar. Therefore, the Company’s primary economic environment is the United States dollar and as such, continues to be the Company’s functional currency.

No onerous contracts and no decommissioning were required as of the date of transition. Therefore, no exemptions were taken in regards to these classifications of liabilities.

## **FINANCIAL INVESTMENTS AND RISK MANAGEMENT**

All financial instruments are initially recognized at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss (“FVTPL”), held for- trading, loans and receivables, financial assets available-for-sale, financial assets held-to-maturity, and other financial liabilities.

Financial assets and financial liabilities classified as FVTPL are measured at fair value with changes in fair value recognized in net earnings or loss. Financial assets available-for-sale are measured at fair value, with changes in fair value recognized in other comprehensive income. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

Cash including short-term deposits are designated as FVTPL and are measured at carrying value which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities are designated as other financial liabilities. The fair value of cash and cash equivalents, accounts receivable, accounts payable and amounts due to related party approximates the carrying value. The Company does not hold any other financial instruments. The main financial risks affecting the Company are discussed below:

### Fair values

The Company’s cash and cash equivalents and accounts receivable and current liabilities are approximated by their carrying values due to the short-term nature of the items.

### Concentration risk

A majority of the Company’s cash and cash equivalents are held by one major Canadian banking institution. Deposits held with this bank may exceed the amount of insurance provided on such deposits. Generally these deposits may be redeemed upon demand and bear minimal risk.



#### Credit risk

The Company has negligible accounts receivable.

#### Commodity price risk

The Company's operations and financial results may be affected by fluctuations in commodity prices and exchange rates.

#### Liquidity Risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements, including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. As these variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain project debt financing.

#### Capital Risk

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in mining activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure. The Company has no externally imposed capital requirements.

### **COMMITMENTS**

The Company was granted the Phalombe Licence for the Songwe property on January 21, 2010. The future spending commitments for exploration expenses up to 2013 with the Government of Malawi are as follows:

Exploration commitments	\$ 263,636
Ground rent	77,758
<b>Total commitment</b>	<b>\$ 341,394</b>

On September 10, 2010, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in respect of an area of 468 km<sup>2</sup> in Thambani, Mwanza District, Malawi. The Company has not undertaken any activity on such licence area to date. The future spending commitments for exploration expenses up to 2013 with the Government of Malawi are as follows:

Exploration commitments	\$ 288,209
Ground rent	28,364
<b>Total commitment</b>	<b>\$ 351,864</b>

In November 2011, the Company was notified by the Malawi government that the ground rent had increased from 100 Kwacha (\$0.60 USD) per square kilometer to 10,000 Kwacha (\$60.60 USD) per square kilometer of licensed area. As a result, the ground rent commitment for the Company has increased significantly for the period ended December 31, 2011.

### **RELATED PARTY TRANSACTIONS**

All expenses of Lancaster from incorporation to December 20, 2010, were paid by the former shareholder, Leo Mining Exploration Limited ("Leo Mining"), on behalf of the Lancaster. As of December 31, 2011 Lancaster owed Leo Mining \$15,343. During 2011, the Company repaid \$414,708 of the outstanding loan. The funding received by Lancaster from Leo Mining was spent as follows:

Opening balance, January 1, 2010	\$	225,234
Loan forgiven		(195,401)
Mineral exploration expenditures		213,738
General & administrative		161,878
Closing balance, December 31, 2010	\$	405,449
Loan repayment		(414,708)
General & administrative		24,602
Closing balance, December 31, 2011	\$	15,343

On June 30, 2010, Lancaster entered into an unsecured promissory note in favour of the Leo Mining to repay the outstanding loan. Pursuant to the terms of the promissory note \$139,708 plus interest at a rate of Libor + 2%. Interest at such rates shall accrue monthly and shall be payable monthly, in arrears, on the first business day of each month commencing on January 1, 2011. This promissory note was repaid on January 1, 2011.

The Company and Leo Mining have formalized their relationship with respect to the provision of services. A written agreement sets out the types of services to be provided and the costs associated with such services. Generally the Company shall reimburse Leo Mining for its proportionate cost of salaries, direct and overhead costs attributable to services provided to the Company, pay all disbursements made by Leo Mining on its behalf and pay a handling fee amounting to 15% of amounts paid and invoiced. These costs are noted above in general and administrative. The agreement also provides for further advances by Leo Mining should the Company so require and request, such advances to be interest bearing at a rate of LIBOR + 2%. Interest is payable monthly and commenced on January 1, 2011.

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

### **SUBSEQUENT EVENT**

There have been no transactions or events since December 31, 2011

### **DIRECTORS AND OFFICERS AS AT DECEMBER 31, 2011**

William Dawes, Director and Chief Executive Officer  
Alexander Lemon, Director and President  
David Berg, Director and Corporate Secretary  
Adrian Reynolds, Director  
Eugene Chen, Director  
Sandra Beaulieu, Chief Financial Officer