



**Management's Discussion and Analysis**

**Second Quarter Report for the  
Period Ending March 31, 2014**

May 30, 2014

*This report provides an analysis of the financial and operating results of Regulus Resources Inc. ("Regulus" or the "Company") for the six month periods ended March 31, 2014 and March 31, 2013 and should be read in conjunction with the Consolidated Financial Statements and the related Notes for the six months then ended (the "Financial Statements").*

This MD&A has been approved by the Board of Directors. The Financial Statements have been prepared in accordance with International Financial Reporting Standards and the reporting currency is Canadian dollars.

Information herein is current as of May 30, 2014 unless otherwise noted.

The reader is encouraged to review Company statutory filings on [www.sedar.com](http://www.sedar.com) and to review general information including reports and maps on the Company's website at [www.regulusresources.com](http://www.regulusresources.com).

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. The Company's Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The board's audit committee meets with management quarterly to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

## **DESCRIPTION OF BUSINESS AND OVERVIEW**

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The Company is an exploration stage company engaged principally in the acquisition and exploration of exploration and evaluation assets. The recovery of the Company's investment in its exploration and evaluation assets is dependent upon the discovery of economically recoverable mineral reserves and the ability to raise sufficient capital to finance this operation. The ultimate outcome of these operations cannot presently be determined because they are contingent on future matters.

Regulus is a well-funded mineral exploration company formed in December 2010 in connection with the sale of Antares Minerals Inc. to First Quantum Minerals Ltd. The Antares team responsible for the discovery of the Haquira porphyry copper deposit, that led to the sale of Antares, is seeking to build on that experience and make another major discovery. Regulus was initially established to continue exploration at the 100% held Rio Grande Au-Cu-Mo porphyry project in northern Argentina and has been aggressively pursuing additional opportunities with good potential for significant discoveries.

Since the beginning of the year to date, the Company has made the following progress:

- On May 19, 2014, the Company executed a binding agreement (the "Agreement") that provides for a merger of the Company with Southern Legacy Minerals Inc., a TSX Venture listed company (the "Merger"). **The completion of the Agreement and the Merger are subject to several conditions including execution of formal documentation, regulatory approvals including approval of the TSX Venture Exchange, shareholder approvals and confirmatory diligence. No assurance can be given at this time that the proposed Merger will be completed or that the terms of the Merger will not change materially from those described below.**

The Agreement provides that the Merger will be based on an exchange ratio of 0.565 shares of Regulus for each share of Southern Legacy. This ratio was agreed to on arms-length basis by the respective management teams and boards of the two companies based primarily on the relative market capitalization of each company. The specific structure of the Merger has not yet been finalized but the parties will agree on the best way to effect the Merger having regard to all applicable corporate, tax and securities issues, including applicable laws and regulations in Peru.

In connection with the transaction, Regulus has agreed to provide Southern Legacy with an unsecured line of credit in an amount to be agreed upon between Regulus and Southern Legacy which amount may not exceed \$1,000,000 (the "Loan") bearing interest at a rate of 6% per annum. The loan will allow Southern Legacy to continue with key activities and obligations until the Transaction is completed. The Loan will be repayable on or before December 31, 2014. At the election of Southern Legacy, the Loan may be repaid in: (i) cash representing the full outstanding balance, plus accrued interest thereon; or (ii) subject to the acceptance of the TSXV, by the issuance of such number of Southern Legacy Shares as is equal to dividing the outstanding Loan amount (plus accrued interest) by the 20 day volume weighted average trading price of the Southern Legacy Shares on the TSXV immediately prior to the date of execution of the Agreement.

The parties have agreed that the resulting issuer will retain the name of "Regulus Resources Inc.". Regulus will apply to list the common shares issuable in connection with the Merger on the TSXV and the Bolsa de Valores de Lima (Lima Stock Exchange) upon completion of the Merger. Based on the current share capital of Regulus and Southern Legacy, Regulus will have approximately 135.6 million shares outstanding at closing of the Merger. In connection with the Merger (and subject to TSXV and shareholder approval), the parties have agreed to consolidate the shares of the combined issuer on a 1 for 3 basis, which will result in there being

approximately 45.2 million shares outstanding after giving effect to the Merger and share consolidation. In addition, it is expected that all of the outstanding common share purchase options of Regulus and Southern Legacy will be cancelled as part of the Merger. Each company has agreed to pay the other company a break fee of \$750,000 if the proposed Merger is not completed because the parties fail to recommend to their respective shareholders to vote in favour of the Merger at a duly called meeting of shareholders, or a party accepts a proposal to complete an alternative transaction.

The combined entity resulting from the merger of Regulus and Southern Legacy will have an excellent pipeline of copper-gold and gold projects in Peru, Argentina, Chile and the USA. Three of the four principal projects, as described in more detail below, have early stage, 43-101 compliant resources defined as outlined in Table 1. The primary focus of Regulus after the merger will be Southern Legacy's AntaKori Cu-Au-Ag project in northern Peru. This project has a preliminary 43-101 inferred resource of 294 million tonnes grading 0.48% Cu and 0.36 g/t Au (please refer to Southern Legacy news release of July 3, 2012). The resource is based on only 17,000 m of drilling, is only reported for the portion of the mineralized system that is owned or controlled by Southern Legacy, and is open for expansion in several directions.

Table 1. Summary of NI 43-101 compliant resources

Resource Category	Tonnes millions	Au (g/t)	Cu (%)	Ag (g/t)	Au (M ozs)	Cu (B lbs)	Ag (M ozs)	Au Eq (M ozs)	Cu Eq (B lbs)
Antakori Cu-Au-Ag Inferred	294.7	0.36	0.48	10.16	3.40	3.1	93.3	12.81	5.1
Rio Grande Cu- Au Indicated	55.3	0.36	0.34	4.38	0.64	0.4	7.8	1.81	0.7
Inferred	101.1	0.31	0.30	4.40	1.00	0.7	14.4	2.93	1.2
Puchuldiza Au Inferred	30.1	0.71			0.69			0.69	

Au Equivalent and Cu Equivalent values were calculated using the following metal prices: Au = US\$1200/oz, Cu = US\$3.00/lb, and Ag = US\$20/oz.

The principal projects of the new combined entity will include the AntaKori Cu-Au-Ag project in northern Peru, the Rio Grande Cu-Au project in northwestern Argentina, the Puchuldiza Au project in N. Chile and the early stage Golden Brew Carlin-type Au project in central Nevada. The new combined entity will also hold several other early stage prospects in northwestern Argentina and Canada.

Southern Legacy's AntaKori Cu-Au-Ag project is located 60 km north of the city of Cajamarca in the Hualgayoc District, northern Peru. The project is located in a world-class Au-Cu province which hosts a number of nearby deposits.

- Immediately adjacent to the producing Tantahuatay Gold Mine (Buenaventura-Southern Copper)
- 7 km to the NW of the Cerro Corona Gold-Copper Mine (Goldfields)
- 35 km to the NW of the Yanacocha Gold Mine (Newmont-Buenaventura)
- 40 km to the SE of the La Granja Porphyry Copper deposit (Rio Tinto)
- 50 km to the NW of the Michiquillay Porphyry Copper deposit (Anglo American)

Highlights of the AntaKori Project include the following:

- Southern Legacy owns or controls 20 mineral concessions, totalling 289 hectares, which cover most, but not all of the currently known AntaKori mineralized system. Further consolidation of mineral tenure is in process.
- A total of 17,952 m of drilling has been completed in 70 drill holes (22 RCDH and 48 DDH).
- Several of the more significant drill intercepts reported to date include:
  - SRC-07 106 m with 0.85 g/t Au and 1.42% Cu from surface
  - DDH-37 202.1 m with 1.00 g/t Au and 1.89% Cu
  - DDH-44 103.2 m with 1.03 g/t Au and 1.38% Cu from surface
  - DDH-50 84 m with 1.11 g/t Au and 1.47% Cu
- An Independent 43-101 report has documented a large telescoped Au-Cu porphyry system with associated, mineralized breccias, skarns, and porphyry-style mineralization hosted in sedimentary and intrusive rocks, and associated epithermal, high-sulphidation mineralization in the overlying volcanic rocks.
- Zones of mineralization have been intercepted by the previous drilling within large geophysical anomalies, thus confirming the utility of the geophysics used in identifying future exploration targets.

- Indication that the mineralized system is open in all directions, and has potential for expansion through future exploration programs.

The Puchuldiza Au project is 100% owned by Southern Legacy and is located 230 km NW of Iquique in Comuna de Colchane, Tamarugal Province, Region I, Chile. The Puchuldiza project belongs to a class of gold deposits called “hot spring gold deposits”, the most famous deposit of this type is at McLaughlin, CA, USA, where approximately 27 million tonnes of 4.49 g/t gold (3.5 million troy ounces) were mined. A total of 35 diamond drill holes (6,097 m) have been completed at the Puchuldiza project and form the basis for an initial NI 43-101 compliant, inferred resource estimate of 30 Mt @ 0.71 g/t Au (using a cut-off grade of 0.5 g/t Au) for a total of 686,000 contained ounces of Au.

- In December 2013, the Company announced it had entered into an option agreement with Highway 50 Gold Corp. (“Highway 50”) to earn a 50% interest in the Golden Brew Project in central Nevada by expending US\$5.0 million on exploration over a five year period with a minimum UR\$500,000 firm commitment in the first year. The Company expects to conduct an initial drill program at Golden Brew this fall.
- In conjunction with the Highway 50 agreement, the Company subscribed to a private placement for 2,000,000 units (“Units”) in Highway 50 for a total of \$740,000. Each Unit consists of one common share and one non-transferable common share purchase warrant, each warrant entitling the holder to purchase one additional common share at an exercise price of \$0.60 for one year. The transaction was considered to be non-arms length under the rules of the TSX Venture Exchange by virtue of the fact that two of the directors of Regulus, John Leask and Gordon Leask, are also directors of Highway 50. This transaction was unanimously approved by the three other Regulus Board members, all of whom are independent of Highway 50, with John Leask and Gordon Leask both abstaining.

## **MINERAL PROPERTY REVIEW**

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*This review has been prepared by John Black, CEO and Director of the Company, and a Qualified Person (“QP”) as defined by National Instrument 43-101 (Standards of Disclosure for Mineral Projects).*

The Company currently owns, or has the right to acquire an interest in, a project located in Argentina (the Rio Grande Property) and a project located in Nevada (the Golden Brew Property).

### ***Rio Grande Overview***

Rio Grande is a large porphyry copper-gold prospect located in Salta Province, northwestern Argentina. Copper-gold mineralization at Rio Grande occurs within the eroded central core of a mid-Miocene intrusive center and is best expressed by a large area (2 km by 2 km) of well-defined, coincident copper-in-soil, gold-in-soil, and induced polarization (IP) chargeability anomalies. Rio Grande has a number of named mineralized zones arranged around a central core as follows: (clockwise): North Zone, Sofia Zone, Discovery Zone, Southwest Zone, and No. 7 Zone. These zones form lenses in an annulus around a suspected deep magmatic source. To the northeast sits the separate and less-explored Cerro Cori Zone (formerly called the Northeast Zone).

The Rio Grande Project is located approximately 55 km southwest of the Taca Taca porphyry copper deposit of Lumina Copper and 11 km northwest of the Lindero gold deposit of Goldrock Mines (formerly Mansfield Minerals) in Salta Province, northwestern Argentina.

On December 6, 2011, Regulus announced the results of an initial 43-101 resource estimate for the Rio Grande project as prepared by Wardrop Engineering Inc. (a Tetra Tech Company). The estimate was calculated using a 0.4% Cu equivalent cut-off and is based on drilling on the project through to the end of 2008 including a total of 78 drill holes (33,015 m) and 11,294 metres of surface trenches. ***None of the drill results from 2011, 2012 or 2013 are included in this resource estimate.*** A copy of the resource estimate report was filed on the Company’s SEDAR profile on January 19, 2012.

Highlights of the resource estimate are as follows:

<b>Resource Highlights</b>									
<b>Resource Class</b>	<b>Cut-off (% Cu Eq)*</b>	<b>Tonnes</b>	<b>Cu Grade (%)</b>	<b>Au Grade (g/t)</b>	<b>Ag Grade (g/t)</b>	<b>lbs Cu (‘000s)</b>	<b>Oz Au</b>	<b>Oz Ag</b>	<b>Cu Eq Grade (%)</b>
Indicated	0.4	55,257,862	0.342	0.359	4.38	416,240	637,025	7,787,342	0.576
Inferred	0.4	101,088,174	0.303	0.308	4.45	674,405	1,002,458	14,449,042	0.511

\*Copper equivalent calculation uses \$1,100/Oz Au, \$3/lb Cu and \$20/Oz Ag and is not adjusted for metallurgical recoveries as these remain uncertain. The formula to calculate Cu equivalent is  $Cu Eq = (Cu \times 1) + (Au \times 0.5437) + (Ag \times 0.0097)$ .

To date, a total of 120 holes (68,218 m) have been drilled at Rio Grande. An ongoing re-evaluation of all previous drilling on the Rio Grande Project is continuing to provide a better understanding of this large copper-gold-molybdenum system and define additional targets. This low-cost work will be completed in Q2 2014 and will enable us to determine the best pathway forward for the Rio Grande project.

### **Golden Brew Overview**

Golden Brew is located at the intersection of the southern flank of the Eastgate volcanic trough and the Western Nevada rift in north-central Nevada. Gold mineralization at Golden Brew is hosted within jasperoid and silicified breccias over a strike length of 2,500 feet and widths up to 200 feet. The jasperoid is developed in thin-bedded limestones and limey siltstones and is anomalous in Carlin-type pathfinder elements of arsenic, antimony and mercury with gold values ranging from 0.1 grams/tonne to 4 grams/tonne. The priority target on the property is the edges of a structural horst block horst located one mile outboard of the jasperoid outcrop under shallow to moderate thicknesses of pediment cover. Drilling in 2011 intersected a 150 foot section of elevated arsenic and antimony at the south-east corner of the horst block within the favourable carbonate section. The horst block is coincident with the projected intersection of a set of crustal scale structures and a strong magnetic low. This magnetic low may reflect magnetic destruction of alteration related to the mineralizing system. Follow-up drilling will focus on the northeastern and southeastern structural corners of the horst block, areas of gravity lows within the gravity high. Gravity lows in this setting may be a function of alteration (decalcification) related to Carlin-type gold mineralization. Additional geological mapping and a detailed review of all available geophysical and geological data will be completed in Q2 2014 to refine drill target selection. A drill program is planned for Q3 2014 on BLM land with subsequent drilling on U.S. Forest Service land possible as soon as the requisite drilling permits are received.

## **OPERATIONS AND FINANCIAL CONDITION**

### **Summary of Quarterly Results**

The following is a summary of certain selected unaudited financial information for the most recent eight fiscal quarters.

#### **Unaudited Fiscal Quarter of the Fiscal Year ended September 30, 2014**

<b>All in \$1,000's except Loss per Share</b>	<b>First Quarter</b>		<b>Second Quarter</b>	
Working capital	\$	13,097	\$	12,362
Loss	\$	206	\$	28
Loss per share	\$	0.002	\$	0.000
Loss per share (fully diluted)	\$	0.002	\$	0.000
Total assets	\$	62,425	\$	59,647
Total liabilities	\$	565	\$	443
Deficit	\$	6,508	\$	6,536

**Unaudited Fiscal Quarters of the Fiscal Year ended September 30, 2013**

<b>All in \$1,000's except loss per share</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Working capital	\$ 15,582	\$ 14,903	\$ 13,685	\$ 13,240
Loss (income)	\$ 605	\$ 675	\$ 726	\$ (27)
Loss (income) per share	\$ 0.006	\$ 0.007	\$ 0.007	\$ (0.000)
Loss (income) per share fully diluted	\$ 0.006	\$ 0.007	\$ 0.007	\$ (0.000)
Total assets	\$ 67,418	\$ 67,136	\$ 66,547	\$ 64,240
Total liabilities	\$ 1,437	\$ 1,226	\$ 1,121	\$ 719
Deficit	\$ 4,928	\$ 5,603	\$ 6,329	\$ 6,302

**Unaudited Fiscal Quarters of the Fiscal Year ended September 30, 2012**

<b>All in \$1,000's except loss per share</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Working capital	\$ 4,291	\$ 16,462
Loss	\$ 595	\$ 1,055
Loss per share	\$ 0.02	\$ 0.01
Loss per share (fully diluted)	\$ 0.02	\$ 0.01
Total assets	\$ 13,613	\$ 67,986
Total liabilities	\$ 344	\$ 2,039
Deficit	\$ 1,155	\$ 4,323

**Results of Operations for the Three Months Ended March 31, 2014 Compared to the Three Months Ended March 31, 2013**

The Company's loss for the quarter ended March 31, 2014 totaled \$27,969, a loss of \$0.000 per share, as compared to a loss of \$674,629, a loss of \$0.007 per share, for the quarter ended March 31, 2013. Interest income of \$36,972 and a gain on disposal of marketable securities of \$588,105 reduced the current quarter's loss (March 31, 2013 – interest income of \$42,667). Administrative expenses for the quarter totaled \$575,373 (March 31, 2013 quarter - \$788,692). The significant quarterly expenses were share-based compensation of \$309,075 (March 31, 2013 quarter - \$374,840), legal fees of \$10,579 (March 31, 2013 quarter - \$18,083), and wages and benefits of \$15,251 (March 31, 2013 quarter - \$94,559).

The Company's cash decreased by \$207,598 during the quarter ended March 31, 2014, as compared to \$895,896 during the quarter ended March 31, 2013. Cash resources used in operations during the quarter ended March 31, 2014 totaled \$324,410 (March 31, 2013 - \$99,925). Cash resources provided by investing activities totaled \$98,220 for the quarter ended March 31, 2014 as a result of the gain on the disposal of marketable securities (March 31, 2013 – cash resources used of \$795,971).

The Company's activities are now focused on acquiring new assets, and exploration activity at Rio Grande has been reduced. The breakdown of material field operations components of exploration and evaluation of assets as at March 31, 2014 and September 30, 2013 are as follows:

	Balance, March 31, 2014	Balance, September 30, 2013
Acquisition costs	\$ 39,371,273	\$ 39,371,273
Field operations	2,548,121	2,535,501
Assays	946,116	946,116
Administrative services	1,230,624	1,207,654
Labour	4,274,204	3,975,313
Geophysics	202,744	202,744
Roads and trenches	1,032,183	1,029,173
Taxes and licenses	327,014	317,844
Drilling	9,649,186	9,649,186
Third party services	2,663,390	2,661,657
Less: Recoveries and transfers	<u>(4,387,626)</u>	<u>(4,387,626)</u>
	\$ 57,857,229	\$ 57,508,835

## **Results of Operations for the Six Months Ended March 31, 2014 Compared to the Six Months Ended March 31, 2013**

The Company's loss for the six months ended March 31, 2014 totaled \$234,572, a loss of \$0.002 per share, as compared to a loss of \$1,280,284, a loss of \$0.01 per share, for the six months ended March 31, 2013. Interest income of \$76,105 and a gain on disposal of marketable securities of \$639,924 reduced the loss for the six months ended March 31, 2014 (six months ended March 31, 2013 – interest income of \$87,392). Administrative expenses for the six months ended March 31, 2014 totaled \$1,052,026 (six months ended March 31, 2013 - \$1,469,813). The significant expenses for the six months ended March 31, 2014 were share-based compensation of \$559,877 (six months ended March 31, 2013 - \$750,077), management fees of \$51,559 (six months ended March 31, 2013 - \$48,681), and consulting fees of \$71,839 (six months ended March 31, 2013 - \$65,000).

The Company's cash decreased by \$203,023 during the six months ended March 31, 2014, as compared to \$2,361,036 during the six months ended March 31, 2013. Cash resources used in operations during the six months ended March 31, 2014 totaled \$343,477 (six months ended March 31, 2013 - \$797,025). Cash resources provided by investing activities totaled \$294,277 for the six months ended March 31, 2014 primarily as a result of proceeds on disposal of marketable securities of \$2,235,909 (six months ended March 31, 2013 – cash resources used of \$3,226,514).

The breakdown of material components of general and administrative expenses for the quarters and years to date ended March 31, 2014 and March 31, 2013 are as follows:

	2014		2013	
	<u>Quarter to Date</u>	<u>Year to Date</u>	<u>Quarter to Date</u>	<u>Year to Date</u>
General and administrative expenses				
Accounting and audit	\$ 41,281	\$ 42,187	\$ 84,876	\$ 90,457
Bank charges and interest	6,044	19,610	7,801	34,699
Consulting fees	41,240	71,839	32,522	65,000
Fees and taxes	18,656	32,244	33,444	53,418
Insurance	2,187	26,112	38,603	48,869
Investor relations and shareholder information	11,288	19,159	27,369	53,423
Legal	10,579	20,198	18,083	52,021
Management fees	26,309	51,559	(9,495)	48,681
Office and administration	26,404	46,796	18,113	43,606
Rent	23,380	62,325	26,754	56,090
Telephone	3,899	7,874	3,104	5,443
Transfer agent and listing fees	6,860	7,701	8,593	10,679
Travel and entertainment	21,692	24,269	26,542	41,203
Wages and benefits	15,251	37,531	94,559	110,169
	\$ 255,070	\$ 469,404	\$ 410,868	\$ 713,758

## **Liquidity and Capital Resources**

Cash at March 31, 2014 totaled \$12,437,743 compared to \$14,875,729 at March 31, 2013. Working capital at March 31, 2014 was \$12,362,429 compared to \$14,902,736 as at March 31, 2013. Additions to exploration and evaluation of assets incurred during the period ended March 31, 2014, all in Argentina, totaled \$348,394 compared to \$3,226,514 incurred for the period ended March 31, 2013. The reduction in costs added to exploration assets reflects the reduced activity level at Rio Grande in the current quarter. The Company has sufficient working capital to continue operations for at least the next 12 months.

The ability of the Company to realize the costs it has incurred to date on its exploration and evaluation assets is dependent upon the Company being able to finance its exploration and development expenditures and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the exploration and evaluation assets. To date, the Company has not earned revenues and is considered to be in the exploration stage.

The Company's authorized capital consists of an unlimited number of common shares without par value.

As at March 31, 2014 and May 30, 2014, the Company had 99,881,603 common shares issued and outstanding (March 31, 2013 – 99,881,603).

During the six months ended March 31, 2014, there were no stock options granted, exercised or expired and 1,050,000 stock options were

cancelled. As at March 31, 2014, the Company had 6,542,000 stock options outstanding at exercise prices ranging from \$1.00 to \$1.24 with expiry dates ranging from January 31, 2016 to May 18, 2017. Subsequent to the end of the quarter, up to May 30, 2014, there were no options granted or exercised.

During the six months ended March 31, 2014, there were no warrants issued or exercised and 11,597,119 warrants and 864,612 compensation warrants with an exercise price of \$1.60 and a two year period expired on March 6, 2014. At March 31, 2014, there were no warrants or compensation warrants outstanding.

### **Related Party Transactions**

During the six months ended March 31, 2014, the Company entered into the following transactions with related parties:

- a) Double Black Diamond Resources LLC. (“DBD Resources”) is a private company controlled by Mr. John Black, CEO and a director to the Company. For the six months ended March 31, 2014, DBD Resources was paid \$26,921 (six months ended March 31, 2013 - \$49,923). Amounts paid to DBD Resources are classified as management fees in the consolidated statements of operations and comprehensive loss in the current year. In the period ended March 31, 2013, the amount was included in the consolidated statements of financial position in exploration and evaluation assets.

At March 31, 2014, the Company owed \$Nil (March 31, 2013 - \$Nil) to DBD Resources.

- b) Unicus Funds Ltd. (“Unicus”) is a private company controlled by Mr. Mark Wayne, CFO and a director to the Company. For the six months ended March 31, 2014, Unicus was paid \$24,255 (six months ended March 31, 2013 – \$48,510). Amounts paid to Unicus are classified as management fees in the consolidated statements of operations and comprehensive loss.

At March 31, 2014, the Company owed \$Nil (March 31, 2013 - \$Nil) to Unicus.

- c) For the six months ended March 31, 2014, Mr. Wayne Hewgill, former COO and a former director to the Company, was paid \$Nil (six months ended March 31, 2013 – \$70,015). Amounts paid to Mr. Hewgill are classified as management fees in the consolidated statements of operations and comprehensive loss.

At March 31, 2014, the Company owed \$Nil (March 31, 2013 - \$5,832) to Mr. Hewgill.

- d) The Rock Doctor (“Rock”) is a private company controlled by Mr. Kevin Heather, CGO and a former director to the Company. For the six months ended March 31, 2014, Rock was paid \$59,209 (six months ended March 31, 2013 – \$102,077). Amounts paid to Rock are included in the consolidated statements of financial position in exploration and evaluation assets (March 31, 2014 - \$30,976; March 31, 2013 - \$102,077) or are classified as consulting fees (March 31, 2014 - \$28,233; March 31, 2013 - \$Nil) in the consolidated statements of operations and comprehensive loss.

At March 31, 2014, the Company owed \$49,125 (March 31, 2013 - \$Nil) to Rock.

### **Key Management Personnel:**

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company’s Board of Directors and corporate officers.

The remuneration of directors and other members of key management personnel during the six months ended March 31, 2014 and March 31, 2013 are as follows:

	March 31, 2014	March 31, 2013
Salaries and benefits	\$ -	\$ 70,016
Consultants	144,306	241,781
Share-based compensation	<u>263,389</u>	<u>679,370</u>
	<u>\$ 407,695</u>	<u>\$ 991,167</u>

Amounts due to related parties have no specific terms of repayment, are unsecured, and have no interest rate.



## **Investor Relations**

Investor relations activities are performed by directors and officers of the Company.

## **Financial and Capital Risk Management**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- 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 fair value of the Company's receivables, accounts payable and accrued liabilities and due to related parties approximate carrying value, which is the amount payable on the consolidated statements of financial position. The Company's other financial instruments, cash, marketable securities and long-term investments, under the fair value hierarchy are based on level one quoted prices in active markets for identical assets or liabilities.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

### *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash is held at a large Canadian financial institution in interest bearing accounts. The Company has no investment in asset backed commercial paper.

The Company's receivables consist mainly of tax credits receivable from the governments of Canada and Argentina. As such, the Company does not believe it is subject to significant credit risk.

### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined below. Accounts payable relating to exploration and evaluation assets and other accounts payable and accrued liabilities are due within one year.

### *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

The Company has cash balances. The interest earned on the cash balances approximates fair value rates, and the Company is not at a significant risk to fluctuating interest rates.

#### b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents and accounts payable and accrued liabilities that are denominated in United States dollars ("U.S.\$") and the Argentinean Peso ("Peso"). A 10% fluctuation in the U.S.\$ and the Peso against the Canadian dollar would affect net loss for the period by approximately \$40,000.

#### 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 of gold, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

### *Capital management*

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and evaluation of its mineral properties, acquire additional exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its cash and cash equivalent balances and components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

### **New standards, amendments and interpretations not yet effective**

A number of new standards, amendments to standards and interpretations are not yet effective as of September 30, 2013 and have not been applied in preparing these financial statements. The Company is currently assessing the impact that these standards will have on the consolidated financial statements.

#### Effective for annual periods beginning on or after January 1, 2013:

##### *Amended standard IFRS 7 Financial Instruments: Disclosures*

The amendment to IFRS 7 enhances the disclosure required when offsetting financial assets and liabilities.

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

IFRS 10 outlines the principles for the presentation and preparation of consolidated financial statements.

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

IFRS 11 defines the two types of joint arrangements (joint operations and joint ventures) and outlines how to determine the type of joint arrangement entered into and the principles for accounting for each type of joint arrangement.

##### *New standard IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 outlines the disclosures required in order to provide users of financial statements with the information necessary to evaluate an entity's interest in other entities, the corresponding risks related to those interests and the effects of those interests on the entity's financial position, financial performance and cash flows.

##### *New standard IFRS 13 Fair Value Measurement*

IFRS 13 defines fair value, summarizes the methods of determining fair value and outlines the required fair value disclosures. IFRS 13 is utilized when another IFRS standard requires or allows fair value measurements or disclosures about fair value measurements.

##### *Amended standard IAS 27 Separate Financial Statements*

IAS 27 outlines the accounting principles to be applied with regards to investments in subsidiaries, joint ventures and associates when an entity elects or is required by local regulations to present separate, nonconsolidated, financial statements. The previous standard was titled *IAS 27 Consolidated and Separate Financial Statements*.

##### *Amended standard IAS 28 Investments in Associates and Joint Ventures*

IAS 28 outlines the accounting treatment and corresponding application of the equity method of accounting in investments in associates and joint ventures. The previous standard was titled *IAS 28 Investments in Associates*.

#### Effective for annual periods beginning on or after January 1, 2014:

##### *Amended standard IAS 32 Financial Instruments: Presentation*

The amendments to IAS 32 pertained to the application guidance on the offsetting of financial assets and financial liabilities.

Effective for annual periods beginning on or after January 1, 2015:

*Amended standard IFRS 7 Financial Instruments: Disclosures*

The amendments to IFRS 7 outlines the disclosures required when initially applying *IFRS 9 Financial instruments*.

*New standard IFRS 9 Financial Instruments*

Partial replacement.

*Forward Looking Statements*

Information set forth in this MD&A may involve forward-looking statements under applicable securities laws. Forward-looking statements are statements that relate to future, not past, events. In this context, forward-looking statements often address expected future business and financial performance, and often contain words such as “anticipate”, “believe”, “plan”, “estimate”, “expect”, and “intend”, statements that an action or event “may”, “might”, “could”, “should”, or “will” be taken or occur, or other similar expressions. All statements, other than statements of historical fact, included herein including, without limitation; statements about the size and timing of future exploration on and the development of the Company’s properties are forward-looking statements. By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company’s actual results, performance or achievements, or other future events, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following risks: the need for additional financing; operational risks associated with mineral exploration; fluctuations in commodity prices; title matters; environmental liability claims and insurance; reliance on key personnel; the potential for conflicts of interest among certain officers, directors or promoters with certain other projects; the volatility of the Company’s common share price and volume and other reports and filings with the TSX Venture Exchange and applicable Canadian securities regulations. Forward-looking statements are made based on management’s beliefs, estimates and opinions on the date that statements are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change, except as required by applicable securities laws. There can be no assurance that such statements will prove to be accurate, and future events and actual results could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed in the Company’s documents filed from time to time via SEDAR with the Canadian regulatory agencies to whose policies the Company is bound. Investors are cautioned against attributing undue certainty to forward-looking statements.

The users of this information, including but not limited to investors and prospective investors, should read it in conjunction with all other disclosure documents provided including but not limited to all documents filed on SEDAR ([www.SEDAR.com](http://www.SEDAR.com)).