Management's Discussion and Analysis

Dated November 14, 2011

Three and nine month periods ended September 30, 2011

(Financial information discussed herein is unaudited and expressed in U.S. dollars unless otherwise noted)

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The following discussion and analysis should be read in conjunction with the condensed unaudited consolidated interim financial statements of St. Augustine Gold and Copper Limited (the "Company") for the three and nine month periods ended September 30, 2011, as well as the Technical Report dated October 12, 2010, entitled "King-king Copper-Gold Project, Mindanao, Philippines" (the "Technical Report"), Annual Information Form dated September 2, 2011, the audited consolidated financial statements and Management's Discussion and Analysis of St. Augustine Mining Inc., for the period from inception (March 31, 2010) to December 31, 2010, and all of the notes, risk factors and information contained therein. These are all available on www.sedar.com.

I. Introduction

This management discussion and analysis is dated November 14, 2011, and is in respect of the three and nine month periods ended September 30, 2011. All dollar amounts referenced, unless otherwise indicated, are expressed in United States dollars. References to "CDN$" mean Canadian dollars.

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the consolidated financial statements and related notes for the three and nine month periods ended September 30, 2011. This section contains forward-looking statements that involve risks and uncertainties. The Company's actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including those described under "Forward-Looking Information".

II. Forward-Looking Information

Certain statements contained in this Management's Discussion and Analysis ("MD&A") constitute forward-looking statements within the meaning of applicable securities laws including, among others, statements made or implied relating to the Company's objectives, strategies to achieve those objectives, management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by words such as "objective", "may", "will", "expect", "likely", "intend", "estimate", "anticipate", "believe", "should", "plans" or similar expressions suggesting future outcomes or events. Such forward-looking statements are not guarantees of future performance and reflect management's current beliefs based on information currently available. Such statements involve estimates and assumptions that are subject to a number of known and unknown risks, uncertainties and other factors inherent in the business of the Company and the risk factors discussed in the Company's Annual Information Form dated September 1, 2011, and other materials filed with the securities regulatory authorities from time to time 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. Those risks and uncertainties include, but are not limited to: the mining industry (including operational risks; risks in exploration, and development; the uncertainties involved in the discovery and delineation of mineral deposits, resources or reserves; and the uncertainty of mineral resource and mineral reserve estimates); the risk of gold, copper and other commodity price and foreign exchange rate fluctuations; the ability of the Company to fund the capital and operating expenses necessary to achieve the business objective of the Company; the uncertainty associated with commercial negotiations and negotiating with foreign governments; the risks associated with international business activities; risks related to the Company's operations in the Philippines; environmental risk; the dependence on key personnel; and the ability to access capital markets.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made and readers are advised to consider such forward-looking statements in light of the risks set forth above. Except as required by law, the Company assumes no obligation to update or revise any forward-looking statements to reflect new information or the occurrence of future events or circumstances.

III. Overview

The Company is a mineral exploration company incorporated under the laws of the British Virgin Islands and, together with its subsidiaries, is engaged in the exploration and development of the King-king copper-gold property ("King-king" or "the King-king project") in the Philippines.

St. Augustine Gold & Copper Limited ("SAGC" or "the Company") was incorporated as Ratel Gold Limited ("Ratel") in the British Virgin Islands on January 27, 2010.

Upon completion of the acquisition of St. Augustine Mining, Inc. ("SAMI") by Ratel in January 2011, by means of a reverse takeover, the continuing company changed its name to St. Augustine Gold & Copper Limited. Ratel had disposed of all of its operating subsidiaries in anticipation of the completion of the merger with SAMI. SAMI was deemed the surviving operating company for accounting purposes as part of a reverse acquisition. Ratel provided substantial financial assets, but no continuing operating activities to the combined companies.

The Company's operating subsidiaries were formed for the sole purpose of developing the King-king project, one of the largest undeveloped copper-gold projects in the world. The Company's objective is to bring the King-king project into commercial production in a timely and cost effective fashion. Management believes that due to past and expected strength in the markets for gold and copper that the King-king project represents an opportunity to generate a superior return on investment for the Company's shareholders.

Qualified Persons

Disclosure of a scientific or technical nature in this MD&A with respect to the King-king project was prepared by, or under the supervision of James Moore, P.E., the Company's Vice President, Technical. Mr. Moore is a "qualified person" for the purposes of National Instrument 43-101 of the Canadian Administrators ("NI 43-101").

King-king Project

The King-king property is centered at approximate geographical coordinates 7°11'31"N Latitude and 125°58'40"E Longitude on the Philippine Island of Mindanao. The project site is located at Sitio Gumayan, Barangay King-king, Municipality of Pantukan, Province of Compostela Valley, in Mindanao.

LOCATION MAP OF KING-KING GOLD-COPPER PROJECT

The King-king property is one of the largest undeveloped copper-gold deposits in the world, with a measured and indicated equivalent copper-gold resource of 962.3 million tonnes at 0.254% copper and 0.334 gram per tonne gold (containing 5.4 billion pounds of copper and 10.3 million troy ounces of gold). On an equivalent gold basis this equates to 0.66 grams gold per tonne of ore containing 20.4 million troy ounces of equivalent gold. There is additionally an inferred resource of 188.8 million tonnes at 0.215% copper and .265 grams gold per tonne of ore. The equivalent troy ounces of gold in this resource are 3.6 million.

Equivalent g/t gold (Eq Au) levels are used to illustrate the combined effect of the two metals in the Project, gold and copper. The following calculations were applied to calculate the Eq Au in the oxide ore and the sulfide ore:

Eq Au (Oxide) = Gold + 0.714 x Total Copper

Eq Au (Sulfide) = Gold + 1.458 x Total Copper

These equations were derived from the parameters listed in the table below that was developed by Independent Mining Consultants ("IMC") during the update of the King-king mineral resource in August 2011.

Economic Parameters for King-king

Parameter	**Units**	**Oxide Mill**	**Sulfide Mill**
Copper Price Per Pound	(US$)	2.500	2.500
Gold Price Per Troy Ounce	(US$)	1100	1100
Base Mining Cost Per Tonne Material	(US$)	1.250	1.250
Mine Replacement Capital Per Tonne	(US$)	0.100	0.100
Process Cost per Ore Tonne	(US$)	5.000	5.000
General and Administrative Cost Per Ore Tonne	(US$)	0.270	0.270
Process Recovery of Copper (Average)	(%)	37.8%	77.2%
Process Recovery of Gold (Average)	(%)	75.0%	75.0%
Smelting/Refining Payable for Copper	(%)	96.4%	96.4%
Smelting/Refining Payable for Gold	(%)	95.0%	95.0%
SRF (or SXEW) Cost per Pound Copper	(US$)	0.260	0.260
Gross Royalty	(%)	3.0%	3.0%
NSR Factor for Total Copper	(US$)	17.455	35.649
NSR Factor for Gold	(US$)	24.443	24.443
Gold Factor for Copper Equivalent	(none)	1.4	0.686
Total Copper Equivalent Cutoff Grades			
Breakeven (without lift)	(%Cu)	0.38	0.19
Internal	(%Cu)	0.30	0.15
Copper Factor for Gold Equivalent	(none)	0.714	1.458
Gold Equivalent Cutoff Grands			
Breakeven (without lift)	(g/t)	0.27	0.27
Internal	(g/t)	0.22	0.22

Source: Parameters described in the Company's press release filed August 16, 2011 at www.sedar.com (contents were reviewed by qualified persons; Mr. Michael G. Hester, FAusIMM of Independent Mining Consultants, Donald F. Earnest, P.G., of Resource Evaluation, Inc. and Mr. James J. Moore, P.E., St. Augustine Gold and Copper Limited).

History and Current Developments of the King-king property

The King-king tenement comprises 184 mining claims that are owned by Nationwide Development Corporation ("NADECOR") under Mineral Production Sharing Agreement #009-92-XI (the "MPSA"), approved by the Government of the Philippines on May 27, 1992, and amended December 11, 2002. The MPSA grants NADECOR the exclusive right to explore, develop and exploit minerals within the area comprising the King-king deposit. The King-king mineral anomaly was originally discovered in 1966.

NADECOR entered into an operating agreement (the "Operating Agreement") with Benguet Corporation ("Benguet") in 1981 relating to the development of the King-king project. Pursuant to that agreement, Benguet would have received a 50% portion of cash flow from the project's operations through placing it into operation and funding 100% of the development costs once it was placed into commercial production. Benguet did not succeed in bringing the project into a commercial state.

Pursuant to a heads of terms agreement dated July 22, 2010, Benguet agreed to perform certain actions to transfer or assign its interest in the project to either NADECOR or a joint venture consisting of NADECOR and the Company. Benguet has now signed, and lodged into escrow, all necessary releases to previous actions and any interests in the MPSA and Operating Agreement to be released on the earlier of payment on the future deferred settlement consideration or the lodgment of a letter of credit supporting such payments. Pursuant to an amendment to this agreement, the debt was settled in full in September of 2011, as discussed under the section entitled Contractual Obligations.

In April 2010, NADECOR, Russell Mining and Minerals, Inc. ("RMMI"), the Company, Conrado T. Calalang, and Jose G. Ricafort entered into a Memorandum of Understanding ("MOU"), which was subsequently amended, to develop the King-king property. The MOU addresses the formation of a joint venture to develop the King-king property.

The MOU gives the Company the exclusive option to earn-in up to an aggregate 60% equity interest in the project through either direct or indirect equity interests in the joint venture corporation and/or the companies in the joint venture structure. The earn-in by the Company is based on funding and preparing a feasibility study with respect to the development of the King-king property, a disproportional contribution to funding any development capital expenditure and direct payments to NADECOR.

The Company has committed to fund the completion of a feasibility study for the King-king property (such funding is envisaged to be in the amount of $43.5 million), which provides the Company with an entitlement to earn a 45% interest in the joint venture corporation. In the event the feasibility study expenditures are less than $43.5 million, up to $4 million will be attributable to the interim payments to NADECOR, and the balance shall be attributable to the respective Company and NADECOR capital accounts on a 60% / 40% basis. The Company will earn an additional 6% through interim payments of $7.5 million to NADECOR (of which an exclusivity payment of $400,000 was made in November 2009) and 9% by funding a minimum of $32 million in disproportionate capital development expenditures in addition to completion of a feasibility study. This $32 million commitment is subject to adjustments depending on mine throughput; such adjustments are contemplated in the MOU. To earn the full 60% interest in the project, the Company will spend, including interim payments to NADECOR, a total of approximately $83 million (subject to the adjustments abovementioned). The Company intends to finance this amount through a combination of common equity issuances and borrowings in a combination that will be determined by management to result in the best return on investment for the common shareholders given an acceptable level of risk.

Until such time as NADECOR and the Company form a joint venture to operate the King-king Property and up to a maximum of $30 million investment, the Company earns preferred shares in NADECOR by funding expenses of the project and including costs of the feasibility study. The NADECOR preferred shares are non-voting, have a preference in the event of a dividend or liquidation and are convertible to common shares equivalent to 30% of the total outstanding shares of NADECOR, on a total equal exchange basis at the election of the Company. Investments past the $30 million level are then covered by the Interim Funding Agreement ("IFA") which states that such further investment constitutes earn in and provide assurance in respect thereof (in the form of an option over certain output of the Project over a specified period of time at a material discount to market prices). As of November 14, 2011, the Company had exceeded the $30 million expenditure level.

Market Trends

Copper prices increased significantly between late 2003 and mid-2008, and after a steep decline in late 2008 and early 2009, have been steadily increasing since that time.

Although the gold price has dropped from time to time, over the past five years the average annual price has steadily increased. This upward trend accelerated in 2009 during the period of global economic uncertainty that began in mid-2008.

Average annual prices as well as the average price through November 14, 2011, for copper and gold are summarized in the table below:

	Average annual market price (US$)	
Year	Copper (lb)	Gold (oz)
2008	3.11	880
2009	2.41	981
2010	3.45	1,233
2011 (through the date of this MD&A)	4.18	1,535

Source: Monthly spot prices per London PM Fix – Kitco (Gold) and London Metal Exchange (Copper)

IV. Historical Highlights

On October 18, 2010, the Company announced it had entered into a strategic alliance with CGA Mining Limited ("CGA") and an agreement to acquire the interests held by RMMI and its subsidiaries, in King-king (the "King-king acquisition"), which was part of a series of transactions which were approved at the shareholders meeting held on December 23, 2010. In consideration for the acquisition of King-king, the Company issued 80,000,000 new shares to RMMI upon closing of the acquisition (which occurred on January 7, 2011), and will issue a further 75,000,000 new shares to RMMI when a feasibility study is completed on the King-king project or immediately upon a future change of control.

In conjunction with the shareholder approval of the King-king transaction the Company's shareholders also approved a reorganization pursuant to which all of the Company's African assets were spun out to Ratel Group Limited ("Ratel Group"). On December 30, 2010, the Company announced that it had completed the spin-off of Ratel Group and its subsidiaries by way of an entitlement issue back to Ratel shareholders of Ratel Group.

The Company raised gross proceeds of CDN$25 million through a private placement transaction in conjunction with the King-king acquisition. This private placement consisted of 83,333,334 subscription receipts in the capital of the Company at a price of CDN$0.30 per subscription receipt. On January 7, 2011, the Company announced that the release conditions relating to the subscription receipt private placement had been satisfied and therefore the Company issued an additional 83,333,334 common shares to satisfy all of the subscription receipts. CGA, an insider of Ratel, participated in this financing for CDN$14.9 million, being the equivalent amount of the funding facility it provided to RMMI pursuant to the King-king transaction, which was then repaid in full by Ratel on closing of the acquisition of King-king. The Company also issued a further three million shares at CDN$0.30 to parties including an insider, funded by loans from the Company.

On December 22, 2010, the Company closed an offering of 32,800,000 subscription receipts at a price of CDN$1.22 per subscription receipt for gross proceeds of CDN$40,016,000. This offering was sold by a syndicate of agents led by BMO Capital Markets, and including CIBC World Markets Inc. and Dundee Securities Corporation. The net proceeds of this financing are being used for the preparation of a feasibility study on the King-king project and general working capital and administrative purposes. On January 18, 2011, the Company announced that the escrow release conditions had been satisfied with respect to this offering, and 32,800,000 common shares of the Company were issued to satisfy all of the subscription receipts.

In connection with the King-king acquisition, Andrew Russell, Robert Russell, Max Anhoury and Tom McKeirnan joined the Company's Board of Directors. Mark Savage, Ian Fisher and Ron Clarke have resigned. Andrew Russell was appointed President and Chief Executive Officer, and Llee Chapman was appointed as interim Chief Financial Officer.

V. Current Highlights

The Company completed its name change to "St. Augustine Gold and Copper Limited" on January 18, 2011, and commenced trading under the Toronto Stock Exchange ("TSX") symbol "SAU" on January 21, 2011.

On January 27, 2011, the Company announced the start of a 12,000 metre drilling program on the King-king project to support its efforts to generate a bankable feasibility study ("BFS").

On February 8, 2011, the Company announced the appointment of Mr. Tom Henderson to the position of Chief Operating Officer.

On February 11, 2011, the Company announced the appointment of Mr. Don Mills to the position of Chief Financial Officer.

On April 19, 2011, the Company announced project milestones for the King-king project. These milestones included the completion of a preliminary economic assessment ("PEA") for the third quarter of 2011, the application for declaration of mine project feasibility in the first quarter of 2012, the application for an environmental compliance certificate in the first quarter of 2012 and the completion of a feasibility study in the second quarter of 2012. In August 2011, the Company announced that the PEA was now projected to be completed in the fourth quarter of 2011, with the slippage attributed to the decision to increase mine and mill throughputs.

The Company further identified the key members of the feasibility study team as:

- M3 Engineering and Technology (Tucson, Arizona)
- AMEC Engineering (Brisbane, Australia)
- Independent Mining Consultants (Tucson, Arizona)
- AATA International Inc. (Denver, Colorado)

On April 25, 2011, the Company announced that a village of unauthorized and unregulated miners located near the King-king project site was impacted by a large-scale landslide. The landslide was caused by heavy rains. Several fatalities were reported. Employees of the Company assisted in the rescue and recovery efforts at the landslide site.

On July 5, 2011, the Company announced that NADECOR confirmed the Company's investment of the $30 million in project expenditures required under the Preferred Share Investment Phase of the earn-in agreement. Accordingly, the Company has accrued rights to preferred shares of NADECOR which is intended to be put into escrow pending fulfillment of certain administrative steps and released upon the Company's discretion. These preferred shares will translate into an interest in the King-king Project upon the creation of the King-king Joint Venture ("JV"), which will hold the Mineral Production Sharing Agreement for the King-king project.

Additionally, on July 5, 2011, the Company announced that they had executed several key agreements for the King-king Project with NADECOR. The Company will continue to provide technical services to the King-king Project. The agreements also cover finalization of the JV incorporation documentation, and agreement on the parameters of an interim funding arrangement through the completion of the earn-in.

On August 8, 2011, the Company announced that Mr. Don Mills had resigned from the Company, and Mr. Llee Chapman was appointed interim Chief Financial Officer.

On August 10, 2011, the Company announced that it had agreed and executed the Interim Funding Agreement ("IFA") with NADECOR for the Company's additional investment in the King-king project. The IFA confirms that the investment in the project in excess of the $30 million covered by the Preferred Share Investment Agreement will be treated as earn in and eventually translate into equity in the JV. The IFA contemplates triggering conditions, which are potential performance failures. Should a triggering condition occur, a three-year option to purchase 60% of the saleable products from production of the Project at a 20% discount from market prices is given to the Company.

On August 12, 2011, the Company announced drilling results with resulting assays that compare favorably with the gold and copper grades predicted by the block model from the Mineral Resource estimate disclosed in the NI 43-101 October 2010 Technical Report. These results are supported by a positive third party site visit audit report on the overall King-king Project drilling and geology programs.

On August 15, 2011, the Company announced an updated block model for the King-king project based on updated information from on-going engineering and mineral resource studies executed during 2011, which increased tonnage by 21.6%, equating to 11.3 billion equivalent pounds of contained copper.

On August 31, 2011, the Company reached a full and final settlement with Benguet for $10,250,000. The settlement amends the "Heads of Terms" Agreement signed in July 2010. Payment was made in September 2011, and all future payments originally agreed to were settled with this final payment. As part of the settlement, Benguet relinquishes all rights, title and interest in the King-king MPSA, as well as a 1981 operating agreement between NADECOR and Benguet. Additionally, the Company acquired for the Project 1,656 hectares of adjacent and surrounding claims, known as the Sagittarius Alpha Realty claims, and exclusive option to acquire the Benguet equity in Pantukan Mineral Corporation. The Heads of Terms agreement was signed on July 22, 2010, between Benguet and the Company in which Benguet agreed to perform certain actions to transfer or assign its interest in the Project.

Originally under the agreement, the Company and NADECOR were to share equally in payments totaling $25 million to Benguet. A $6 million payment was made in October 2010. As part of the second amendment to the MOU, the Company funded NADECOR's 50% portion of the $6 million cash payment.

Pursuant to the Heads of Terms, the Company acquired Benguet's outstanding debts. The debts acquired were re-purchased by Benguet at a discounted value of $3,950,000. In conjunction with interim funding and under the terms of the Heads of Terms, the Company issued credit notes to Benguet for

$2,000,000 and $1,950,000, which were applied against payments owing under the Heads of Terms, and were cancelled with the settlement in September 2011.

On October 11, 2011, the Company announced that Mr. Terry Krepiakevich had accepted the position of Director and Chairman of the Audit Committee (position formerly held by Mr. Carrick). On the same date, the Company announced its contract with Mr. Jack Miller to act as an executive Project Development Consultant for the King-king project.

On November 8th, the Company announced a non-brokered private placement offering for gross proceeds of CDN$10,000,000 to CDN$12,000,000 (the "Unit Offering") pursuant to the issue of up to 30,000,000 units of the Company ("Units") at a price of $0.40 per Unit. Each Unit will be comprised of one common share in the capital of the Company (each a "Common Share") and one-half of one Common Share purchase warrant (the "Warrants"). Each whole Warrant will entitle the holder thereof to acquire one Common Share for one year following closing of the Unit Offering (the "Closing") for an exercise price of $0.75 per Common Share. The Company expects to be successful in the private placement efforts, and the offering is subject to TSX approval.

VI. Summary of Quarterly Results

A summary of selected financial information is as follows:

	Three months ended		
	September 30, 2011	June 30, 2011	March 31, 2011
Interest income	252,892	193,708	187,779
Total operating expenses	630,327	2,134,413	3,449,886
Comprehensive loss	384,537	1,940,705	3,262,107
Net loss per share – basic and diluted	0.00	0.01	0.01
Total assets	98,324,509	108,350,670	105,923,978
Total long term liabilities	-	8,988,305	8,723,960
Cash dividends	-	-	-

The Company's recapitalization involving Ratel was considered a reverse acquisition within the meaning ascribed by International Financial Reporting Standards ("IFRS"); financial information for periods prior to January 1, 2011, reflect the consolidated operations and financial position of SAMI.

VII. Results of Operations

The following financial data has been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee and are expressed in U.S. dollars unless otherwise noted.

The Company's operations and business are not driven by seasonal trends, but rather are driven towards the achievement of project milestones such as the achievement of various technical, environmental, socio-economic and legal objectives, including obtaining the necessary permits, completion of feasibility studies, preparation of engineering designs, as well as receipt of financings to fund these objectives along with future mine construction.

Three month period ended September 30, 2011

Comprehensive Loss and Operating Expenses

For the three months ended September 30, 2011, the Company reported a net loss of $384,537 or $0.00 per share. The primary components of operating expenses for the period were stock compensation expense and general and administrative expense. For the three month period ended September 30, 2010, the Company reported a net loss of $1,622,000 or $0.16 per share. The primary component of operating expenses is consulting fees paid through the issuance of shares and options.

The decrease in loss from 2010 to 2011 is attributable to the hiring of key managers as employees rather than consultants compensated with share-based payments. Ongoing compensation expenses qualified against the Company's earn-in and were capitalized to the Company's investment in mining property.

Share based compensation in 2010 was attributable to finders warrants which vested immediately, as compared to 2011 options which vest over approximately two years.

Nine month period ended September 30, 2011

Comprehensive Loss and Operating Expenses

The Company reported a net loss of $5,587,349 or $0.02 per share. The primary components of operating expenses for the period were stock compensation expense, stock listing and transfer fees, and general and administrative expense. For the nine month period ended September 30, 2010, the Company reported a net loss of $1,941,553, or $0.19 per share; the primary component of operating expenses was consulting fees paid through the issuance of shares and options.

The increase in net loss from 2010 to 2011 is attributable to an increase in exploration and feasibility activity during 2011. In 2010, warrants issued for finder's fees was the primary component of expense; in 2011, the Company increased the previously mentioned activities in addition to executing a recapitalization which resulted in a publicly traded equity as well as the hire of several new employees.

Investment in mining property

The Company's investment in the King-king property increased by $14.2 million and $39.2 million during the three and nine month periods ended September 30, 2011, respectively. The primary components of capitalized costs during the three months ended September 30, 2011 (amounts are approximate) were acquisition costs, including the Benguet settlement, ($10,700,000), general and administrative expenses ($2,600,000), geology expenses ($1,500,000), and engineering expense ($1,200,000). The primary components of capitalized costs during the nine months ended September 30, 2011 were project acquisitions costs, including the Benguet settlement, ($15,400,000), general and administrative expenses ($7,500,000), partner reimbursements ($3,400,000) and geology expense ($3,300,000).

The consolidation of Strato International Holdings Limited ("Strato"), upon the recapitalization in January 2011, contributed another $6.0 million to the investment in mining properties. Strato was formed to acquire Benguet's debts to unrelated third parties during 2010 in order to facilitate Benguet's relinquishment of its rights to the King-king Project. Strato is a joint venture owned 50% by the Company and 50% by NADECOR. The aforementioned $6.0 million contribution to the Company's investment in mining property arose from cash expenditures in the acquisition and settlement of the debts acquired from Benguet's former creditors.

VIII. Capital Resources and Liquidity

At September 30, 2011, the Company had cash and cash equivalents of $19,263,165 compared to $583,602 on December 31, 2010. Working capital at September 30, 2011, was $17,327,307 as compared to a working capital deficit of $15,412,414 as at December 31, 2010.

During the nine months ended September 30, 2011, the Company completed two private placements of 116,113,334 common shares for net proceeds of approximately $64 million. The proceeds of these financings are currently being used to fund the BFS and exploration activities for the King-king project and for working capital and general corporate purposes. A Bankable Feasibility Study determines if it is economically viable to develop the project, operate the facility, and bring the product to market based on:

- Reasonable forecast market conditions – Current and forecast supply/demand and metal price. This must also consider smelting capacity.

- Defined capital cost estimate to the extent necessary to provide a capital cost estimate necessary to define it within +/- 15% of the final effort.

- Defined operating cost estimate based an accuracy of +/-15% forecast of short and long-term operating expenses.

The Company manages liquidity risk through maintaining sufficient cash or credit terms with its suppliers to meet the operating requirements of the business and investing excess funds in highly liquid short-term cash deposits. Maintaining surplus working capital in highly liquid short-term deposits allows the Company to meet its primary objectives by being able to fund new development and acquisition opportunities at short notice.

Cash used by operating activities increased from nil in 2010 to approximately $306,000. The increase is attributable to an increase in travel, exploration, and feasibility study activities. In 2010, management consulting services were compensated in equity.

Cash flows used by investing activities increased from nil in 2010 to approximately $40 million in 2011. The increase is attributable primarily to the increase in the investment in mining property, which accumulates the majority of expenses attributable to value-added expenses incurred for the benefit of the King-king project. This large increase in cash use by investing activities and the related cash provided by financing activities was facilitated by funds raised during the recapitalization discussed above.

The Company has no long-term debt, no lines of credit and had 295,783,334 common shares issued and outstanding at September 30, 2011. 75,000,000 shares are contingently issuable to RMMI, based on upon completion of a BFS of the King-king project or a change in control.

Financing is needed to complete a BFS, development of the mine site, and fund operations. While the Company has been successful in raising funds from related parties and other private parties in the past, there can be no objective reliance on continuing support from related parties, which has been essential for the Company's development. As part of the recapitalization and additional subsequent share issuances in January 2011, the Company raised over fifty million dollars. The Company has spending plans in place which will fully utilize these resources.

IX. Contractual Obligations

Long Term Debt – Benguet

As stated elsewhere, The Company and NADECOR negotiated with Benguet to relinquish Benguet's rights to the King-king project through the Heads of Terms agreement. In exchange for surrendering its rights to the King-king project, the Company and NADECOR were to share equally in the following payments to Benguet:

Summary of Benguet Debt		
Due date		Amount Due to Benguet
October 17, 2010	$	8,000,000
October 17, 2012		5,000,000
October 17, 2015		4,000,000
October 17, 2016		4,000,000
October 17, 2017		4,000,000
Total payments due	**$**	25,000,000

During 2010, Strato acquired certain outstanding debt due from Benguet in order to negotiate the Company's acquisition of Benguet's interest in the King-king project. The debts acquired by Strato were sold to Benguet at a discounted value of $3,950,000. Upon execution of the Heads of Terms Agreement, the Company was effectively a creditor of Benguet in the amount of $3,950,000 and debtor in the undiscounted amount of $25,000,000. Because the Company was effectively a net debtor to Strato, the Heads of Terms Agreement prearranged settlement of the amount Benguet owed the Company by way of two credit notes of $2,000,000 and $1,950,000 to be applied against the amount the Company owed Benguet.

In conjunction with funding made available during the recapitalization and under the terms of the Heads of Terms Agreement, the Company forgave the $2,000,000 credit note to Benguet and also made cash payment of $6,000,000 to settle the first $8 million payment due to Benguet on October 17, 2010. The second credit note of $1,950,000 was applied against the full settlement described below.

The Company fully settled the payments due to Benguet in September 2011, pursuant to the terms of the First Amendment to the Heads of Terms Agreement executed between the Company and Benguet. The agreement settled the full amount due to Benguet with a payment of $10,250,000 and issuance of the $1,950,000 credit note to Benguet. This settlement qualified as an earn-in expenditure for the Company pursuant to the Fourth Amendment to the MOU executed between the Company and NADECOR.

Summary of Benguet Debt Settlement		
Date	Cash Paid to Benguet	Credit Notes Issued to Benguet (i)
October 17, 2010	6,000,000	2,000,000
September 12, 2011	10,250,000	1,950,000
Total payments made	16,250,000	3,950,000

i) Due to the creditor and debtor relationship of the Company to Benguet, credit notes were issued against the Company's effective net debt due to Benguet.

NADECOR Memorandum of Understanding

Under the terms of the Memorandum of Understanding ("MOU") between the Company and NADECOR for the development of the Project, the Company can earn up to a 60% interest in the Project by making the following payments totaling a minimum of $83,000,000:

Summary of Expenditures Required by the Company for Full Earn-in to the Project under the MOU

	Amount	Description (estimated date of payment)	Earn-in %	Cumulative Earn-in %
$	400,000	Exclusivity payment (i)	0.57%	0.57%
	3,100,000	Initial NADECOR payment (ii)	4.43%	5.00%
	30,000,000	Initial BFS funding (iii)	30.00%	35.00%
	5,000,000	Incremental BFS funding (iv)	5.00%	40.00%
	8,500,000	Incremental BFS funding (iv)	10.00%	50.00%
	4,000,000	NADECOR payment (v)	1.00%	51.00%
	32,000,000	CAPEX funding* (vi)	9.00%	60.00%
$	83,000,000		60.00%	

i. Direct payment to NADECOR made in 2009.

ii. $3,000,000 was paid in 2010, pursuant to the first Amendment to the MOU. The remaining $100,000 is expected to be paid during 2012.

iii. Direct project expenditures made during 2011 by the Company pursuant to the Preferred Shares Investment Agreement ("PSIA").

iv. Direct project expenditures after the fulfillment of the $30 million required to be expended after the PSIA, expected to be completed by 2012.

v. Direct payments to NADECOR, the timing is contingent on events contemplated in the MOU. $981,000 was paid during the third quarter pursuant to the third amendment to the MOU, and the balance is expected to be made in 2012.

vi. Due within 90 days of the execution of the Joint Venture Agreement, which is expected to occur in 2012.

*Completion of the BFS will earn the Company 45% earn-in of the total project. The Company has made an additional commitment to spend a minimum of $32 Million or a calculated amount based on planned tonnage throughput, as determined in the planned feasibility study, in development capital. The calculated premium expenditure will be 0.457 X Planned Tonnage (estimated at 100,000 tonnes per day) X 1,000 or 5% of capital cost, whichever is less. These expenditures earn the Company the additional 9% needed for a 60% total earn-in. Any over allocated variance between the amount spent toward BFS and the amount committed pays NADECOR first and the balance will be credited toward the development capital commitment at 50%.

During the three months ended September 30, 2011, the Company expended $6 million on BFS related commitments and $12.6 million on CapEx commitments. During the nine months ended September 30, 2011, the Company expended $14.5 million on BFS commitments and $22.1 million on CapEx commitments.

Security & Community Relations and Joint Venture Committee Commitment

On June 28, 2011, the Company executed the Community Relations and Security Agreement with NADECOR. Under the agreement, NADECOR agreed to provide specific community relations services in the Philippines and to provide for security at the Project site for $200,000 per month. The term of the agreement is through the earlier of completion of the Company's Capital Expenditure ("CapEx") commitment pursuant to the MOU, the date of incorporation of the joint venture mining company, or termination through performance defaults.

On June 28, 2011, the Company executed the Joint Venture Coordinating Committee Agreement with NADECOR. The agreement acts to compensate NADECOR's Joint Venture Committee Members $50,000 per month for their services in the planning and establishment on the joint venture contemplated in the MOU. The term of the agreement is the earlier of the completion of the Committee Charter objectives or the date on which the company's CapEx expenditure commitment pursuant to the MOU is satisfied.

X. Transactions with Related Parties

Finders Agreement

On March 31, 2010, the Company signed an agreement with Russell Mining and Minerals, Inc. ("RMMI") to assist with the acquisition of the King-king project. RMMI is the parent of the Company's largest shareholder. This agreement was subsequently cancelled in conjunction with the King-king transaction.

At September 30, 2011, the Company had amounts payable to RMMI totaling $20,480 for expenses RMMI had paid on the Company's behalf. These amounts are due on demand, unsecured and non-interest bearing. At December 31, 2010, the Company had amounts payable to RMMI totaling $3,503,846 for expenses RMMI had paid on the Company's behalf. These amounts were due on demand, unsecured and non-interest bearing.

During the period ended December 31, 2010, Mine Development Corporation ("MDC") provided certain contract services to the Company amounting to $1,966,572. MDC is a subsidiary of RMMI which conducted King-king Project related activity on behalf of the Company from October 2010 through March 2011. Of the aforementioned amount, $98,316 was recorded in accounts receivable at December 31, 2010 for payment from the Company in excess of the services provided.

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

Rental Agreements

The Company currently operates under a month-to-month rental agreement for office space shared with RMMI.

Legal Services

The Company engages a law firm which is considered a related party. Services rendered during the nine months ended September 30, 2011 totaled $102,178 (2010 – nil). $997 was outstanding at September 30, 2011.

XI. Off Balance Sheet Arrangements

As of September 30, 2011, the Company had no material off balance sheet arrangements.

XII. Financial Instruments and Other Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate, commodity price and industry credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. At September 30, 2011, there is no difference in the carrying values and fair values of the Company's financial instruments.

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents are measured using Level 1 inputs.

The financial risk arising from the Company's operations are risk, credit risk, liquidity risk, foreign exchange risk, and commodity price risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Company generally does not engage in any other transactions in financials instruments, including derivative financial instruments for any other trade or speculative purposes.

XIII. Other MD&A Requirements

Outstanding Share Data

At November 14, 2011, the Company's outstanding equity securities are described as follows:

Outstanding share data at the date of this MD&A	
Securities	**Outstanding**
Voting equity securities issued and outstanding	295,783,334 common shares
Securities convertible or exercisable into voting equity securities – stock options	Stock options to acquire up to 15,933,334 common shares

Outstanding equity securities described above do not include the shares issuable pursuant to the private placement announced in November. If successful, the Company expects to issue 25 to 30 million shares, along with 12.5 to 15 million warrants, for gross proceeds of CDN $10,000,000 to CDN $12,000,000.

Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, requires an evaluation of the effectiveness of the Company's disclosure controls and procedures ("DC&P") and its internal control over financial reporting ("ICFR"). The Chief Executive Officer and the Chief Financial Officer have overseen the process of designing and implementing DC&P and ICFR.

Due to the timing of the recapitalization in January 2011, and the complexity of designing and implementing effective ICFR and DC&P, management could not conclude on the effectiveness of its design and implementation of controls as at the quarterly reporting periods ended March 31, 2011 and June 30, 2011. During the quarter ended September 30, 2011, management materially completed implementation of ICFR and DC&P not in place at the aforementioned periods and substantively tested existing and newly implemented controls. Its conclusions with respect to ICFR and DC&P are discussed below.

Internal Controls over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. Any system of internal controls over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

An effective ICFR design provides reasonable assurance that the Company's financial information is reliable and that its financial statements have been prepared, for the purpose of publishing financial information, in accordance with applicable reporting requirements.

During the three months ended September 30, 2011, management had substantially completed its implementation and testing of its internal control procedures. Management believes it has materially changed its system of internal controls over financial reporting since June 30, 2011, such that the system in place was effective as at September 30, 2011.

Disclosure Controls and Procedures

During the three months ended September 30, 2011, management had substantially completed its implementation and testing of its disclosure control procedures. Management believes it has materially changed its disclosure controls and procedures since June 30, 2010, such that it has disclosure procedures in place as at September 30, 2011, which are effective. An effective DC&P system provides reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information.

Risks and Uncertainties

Adverse fluctuations in currency exchange rates

The Company will be subject to fluctuations in the rates of currency exchange between the Canadian dollar, United States dollar and the Filipino peso, and these fluctuations could materially affect the Company's financial position and results of operations as costs may be higher than anticipated. The costs of goods and services could increase due to changes in the value of the Canadian dollar, the United

States dollar, or the Filipino peso. Consequently, operation and development of the Company's properties might be more costly than the Company anticipates.

Competition

The mining industry is intensely and increasingly competitive in all its phases, and the Company will compete with other companies that have greater financial and technical resources. Competition in the precious metals mining industry is primarily for mineral rich properties which can be developed and produced economically and businesses compete for the technical expertise to find, develop, and produce such properties, the skilled labor to operate the properties and the capital for the purpose of financing development of such properties. Such competition could adversely affect the Company's ability to acquire suitable producing properties or prospects for mineral exploration, recruit or retain qualified employees or acquire the capital necessary to fund its operations and develop its properties.

Conflicts of Interest

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

Current Global Economic Conditions

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, could impede the Company's access to capital or increase its cost of capital. Failure to raise capital when needed or on reasonable terms may have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Management

The Company is largely dependent on the performance of its directors and officers. There is no assurance the Company will be able to maintain the services of its directors and officers or other qualified personnel required to operate its business. The loss of the services of these persons could have a material adverse effect on the Company and its prospects.

Dividends

The Company has never paid a dividend on its common shares. It is not anticipated that the Company will pay any dividends on its common shares in the foreseeable future.

Environmental Risks, Regulations, Permits and Licenses and Other Regulatory Requirements

The Company's operations may be subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas that would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner that means standards are stricter, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

The Company's operations, including development activities and commencement of production on its properties, require permits from various federal, provincial or territorial and local governmental authorities, and such operations are and will be governed by laws, and regulations governing prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

Such operations and exploration activities are also subject to substantial regulation under applicable laws by governmental agencies that may require that the Company obtains permits from various governmental agencies. There can be no assurance, however, that all permits that the Company may require for its operations and exploration activities will be obtainable on reasonable terms or on a timely basis or that such laws and regulations will not have an adverse effect on any mining project which it might undertake.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of mining activities and may have civil or criminal fine or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Exploration and Development

Resource exploration and development is a highly speculative business activity, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. The marketability of minerals the Company may acquire or discover may be affected by numerous factors that are beyond its control and that cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, the import and export of minerals and environmental protection, the combination of such factors may result in the Company not receiving an adequate return of investment capital.

The King-king property is in the development stage and is without a known commercially-mineable ore body.

There is no assurance that the Company's mineral exploration and development activities will result in any discoveries of commercial bodies of ore. The long-term profitability of its operations will in part be directly related to the costs and success of its development programs, which may be affected by a number of factors.

Substantial expenditures are required to establish reserves through drilling and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis.

The Company is required to obtain required permits from various government departments to carry out its work programs. There is no guarantee all required permits will be granted on terms satisfactory to the Company, or at all. If such permits are not received, the Company may not be able to carry out or complete its business objectives.

Fluctuating Mineral Prices

The mining industry is heavily dependent upon the market price of metals or minerals being mined. There is no assurance that, even if commercial quantities of mineral resources are discovered, a profitable market will exist at the time of sale. Factors beyond the Company's control may affect the marketability of metals or minerals discovered, if any. Metal prices have fluctuated widely, particularly in recent years, and the Company will be affected by numerous factors beyond the control of the Company. The effect of these factors on the Company's operations cannot be predicted. If mineral prices decline significantly, it could affect the Company's decision to proceed with further exploration of its properties.

Foreign Operations

Because all of the Company's operations are in the Philippines, it is subject to operational and economic risks, such as the effects of local unrest due to small-scale mining, corruption, demands for improper payments and physical security. Consequently, the Company's exploration, development and production activities outside of the United States and Canada may be substantially affected by factors beyond the Company's control, any of which could materially adversely affect the Company's financial condition or results of operations.

Future Acquisitions

As part of the Company's business strategy, it may seek to grow by acquiring companies, assets or establishing joint ventures that it believes will complement its current or future business. The Company may not effectively select acquisition candidates or negotiate or finance acquisitions or integrate the acquired businesses and their personnel or acquire assets for its business. The Company cannot guarantee that it can complete any acquisition it pursues on favorable terms, or that any acquisitions competed will ultimately benefit its business.

Future Financing

The Company's continued operation will be dependent upon its ability to generate operating revenues and to procure additional financing. There can be no assurance that any such revenues can be generated or that other financing can be obtained on acceptable terms to the Company, if at all. Failure to obtain additional financing on a timely basis may result in delay or indefinite postponement of further exploration and development or forfeiture of some rights in some or all of the Company's properties. If additional financing is raised by the issuance of shares from treasury, control of the Company may change and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to further explore and develop its properties, take advantage of other opportunities, or otherwise remain in business. Events in the equity market may impact the Company's ability to raise additional capital in the future.

No History of Earnings

The Company has no history of earnings. Additional external financing will be required to develop the King-king property further. There can be no assurances that any of the Company's properties will ever contain an economic ore body.

Operating Hazards and Risks

Mineral exploration and development involves risks which even a combination of experience, knowledge and careful examination may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to hazards and risks normally incidental to exploration, developments and production of minerals, any of which could result in work stoppages, damage to or destruction of property, loss of life and environmental damage. The nature of these risks is such that liabilities might exceed insurance policy limits, the liabilities and hazards might not be insurable or the Company may elect not to insure itself against such liabilities due to high premium costs or other factors. Such liabilities may have a materially adverse effect upon the Company's financial condition.

Reliability of Historical Information

The Company has relied, and the King-king Technical Report is based, in part, upon historical data compiled by previous parties involved with the Property. To the extent that any of such historical data is inaccurate or incomplete, the Company's exploration plans may be adversely affected.

Title Risks

Although the Company has exercised due diligence with respect to determining title to the properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral property interest may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. Until competing interests, if any, in the mineral lands have been determined, the Company can give no assurance as to the validity of title to those lands or the size of such mineral lands.

Uninsured or Uninsurable Risks

Exploration, development and production of mineral properties is subject to certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes may occur. It is not always possible to insure fully against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or for other reasons. Should such liabilities arise, they could have a material adverse impact on the Company's operations and could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

Volatility of Share Price

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price that have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market for the shares will be subject to market trends and conditions generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earning.

XIV. Critical Accounting Policies and Estimates

The Company's significant accounting policies, including critical accounting policies and estimates, are presented in Note 3 to the annual and interim consolidated financial statements. An analysis of the Company's critical accounting policies and estimates follows.

Statement of compliance

The Company's Financial Statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34") as issued by the IASB effective for the Company's reporting for the period ending December 31, 2011. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2010. Accordingly, accounting policies applied are the same as those applied in the Company's annual financial statements which are filed under the Company's profile on SEDAR at www.sedar.com. When policies have changed from the prior annual financial statements, the policies are discussed below.

The Financial Statements are prepared as at and for the three and nine months ended September 30, 2011, which is part of the period to be covered by the Company's annual financial statements for the year ending December 31, 2011.

Statement of compliance analysis

Management has implemented internal controls over financial reporting and disclosure controls and procedures which management believes operate effectively. In addition to performing a rigorous period end review of the close and financial reporting process, management analyzes its financial statements and related disclosures in relation to IFRS guidance effective for the reporting period. As of September 30, 2011, management determined that the financial statements, notes to the financial statements, and this MD&A are in compliance with IAS 34 and do not contain material misstatements of financial information or fact.

Investment in mining property

The Company's directed purpose is to develop the King-king Project and under an agreement with NADECOR will ultimately receive up to a 60% interest in a joint venture based upon certain required expenditures. Those expenditures which are directly allowed under the MOU are included in the investment in mining property account. Certain expenditures are subject to review by NADECOR and are subject to exclusion under the MOU. Those expenditures, upon review and exclusion, are reviewed by the Company and either expensed if no future benefit is derived, or included in the investment account but not subject to the MOU conversion provision. If included in the investment account, based upon the Company's analysis, the character of the associated payments have not changed and provide additional basis for the exploration and development of the Project. The Company also capitalizes investment in mining property amounts which represent additional future investment based upon the payment of certain liabilities attributed to the project which are not currently convertible under the MOU, but will be in the future as payments are made. The accrual of the related liabilities are required to be in conformity with accounting standards, but any benefits under the MOU are only derived upon the actual payments being made.

Analysis of Investment in mining property

Management has performed a rigorous review of its contractual commitments and rights and IFRS 6, 'Exploration for and Evaluation of Mineral Resources.' The Company's expenditures included in the Company's Investment in mining property included those which have directly benefited the King-king Project and which management has determined, based on an impairment analysis, to be recoverable; and expenses which qualify for shares in its joint venture partner's capital accounts under its contractual arrangements.

The impact of the Company's treatment of capitalized expenses in respect of the Company's financial statements has been to increase the Company's assets and decrease net loss, as compared to a policy which expensed a higher proportion of Project expenditures.

Goodwill

Goodwill that arises from the acquisition of subsidiaries is recorded separately from intangible assets. The measurement of goodwill is at cost less any accumulated impairment losses. Goodwill arising from a business combination is measured at the fair value of the consideration recognized in the transaction. All of the goodwill recognized in the reverse acquisition transaction with Ratel in the nine month period ended September 30, 2011, was not currently subject to an impairment test. At September 30, 2011, the Company had no other identified intangible assets.

Goodwill is reviewed for impairment annually or more frequently if there are indications that impairment may have occurred. Goodwill impairment is tested at the cash generating unit ("CGU") level and is determined based upon the amount of future discounted cash flows generated by each CGU compared to the CGU's respective carrying amount. The Company currently only has one CGU. The recoverable amount is the greater of the fair value less cost to sell ("FVLCS") or value in use ("VIU"). VIU is generally determined using the discounted cash flow method. If the impairment loss exceeds the carrying amount of goodwill, the goodwill is written off completely. Any impairment loss is allocated to the remaining assets of the CGU.

Analysis of goodwill

All of the Company's goodwill reported since December 31, 2010, is attributable to goodwill arising from the Company's recapitalization in January of 2011. The initial recognition of goodwill was performed in accordance with IFRS 3, and was currently not subject to an impairment test due to a lack of indications of impairment.

Purchase price allocation adjustments are permitted, but are limited to the measurement period, which is the earlier of the date on which all facts and circumstances that existed at the date of acquisition are known or are determined to not be obtainable, and one year from the date of acquisition.

The impact of the Company's goodwill policy has been an initial increase in assets and equity upon recognition in January 2011, and has had no effect on the statements of comprehensive loss since December 31, 2010.

In accordance with IAS 36, the Company will perform its impairment analysis of goodwill for the first annual period following recognition of goodwill, December 31, 2011.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Analysis of impairment of non-financial assets

The Company's non-financial assets include investment in mining property (discussed above) and property and equipment. Management's policy is to analyze its investment in mining property and property & equipment for impairment quarterly and as circumstances and events warrant. Management has recognized no impairment losses against these assets since significant activity began in 2011, which it believes is appropriate.

This policy has not resulted in an impact on the Company's financial statements.

Significant accounting estimates and judgments

The preparation of condensed consolidated interim financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The most significant estimates relate to the calculation of share-based payments; property, plant and equipment, including depreciation; and impairment testing.

The most significant judgments relate to recoverability of capitalized amounts, accounting for long-term investments, and the determination of the economic viability of a project.

Analysis of accounting estimates and judgments

Management has performed a rigorous review of its inputs in share-based payment valuations. The most significant inputs affecting recognition of stock option expense include estimated volatility and forfeiture rate. Volatility was estimated using a comparison of peer companies' volatility and forfeiture rate was estimated at 5%, given a lack of historical experience.

The useful lives of assets are generally determined by a categorical assignment of fixed asset purchases. In general, management uses a 3, 5, or 10 year depreciation life for vehicles and equipment purchased. Its judgments in analyzing fixed assets for impairment include whether events and circumstances are significant enough to warrant an impairment analysis and its selection of financial data used in calculating the effects of external variables.

Management's judgment as to the recoverability of capitalized amounts is closely tied to management's impairment analysis. A significant difference arises in determining the economic viability of a project, in which case management relies on internal and contracted experts. As of the date of this MD&A, the economic viability of the Company's only mineral asset has not been determined.