

# **SOUTHERN HEMISPHERE MINING LIMITED**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE NINE MONTHS ENDED MARCH 31, 2010**

*(All amounts stated in Canadian dollars, unless otherwise indicated)*

*This MD&A contains certain "Forward-Looking Statements", which are prospective and reflect management's expectations regarding Southern Hemisphere Mining Limited's ("SHM", "Southern Hemisphere" or the "Company") future growth, results of operations, performance and business prospects and opportunities. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. All statements, other than statements of historical fact, included herein, including without limitation statements regarding potential mineralization and reserves, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, exploration results and future plans and objectives of SHM are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from SHM's expectations are disclosed in its documents filed from time to time with the TSX Venture Exchange and other regulatory authorities and include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore to be mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors.*

*Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. SHM undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.*

# **SOUTHERN HEMISPHERE MINING LIMITED**

## **Background**

This discussion and analysis of the interim consolidated operating results and financial condition is prepared as at 11 May 2010, and should be read in conjunction with the unaudited interim consolidated financial statements and the accompanying notes for the nine months ended March 31, 2010 of the Company. Those interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). This management discussion and analysis ("MD&A") has been prepared in Canadian dollars, except where otherwise indicated by reference to United States of America dollars ("US"), Australian dollars ("AUD") or Chilean Pesos ("CLP"). Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Company Overview**

The Company's common shares trade on the Toronto Stock Exchange – Venture ("TSX-V") under the symbol "SH" and on the Australian Securities Exchange ("ASX") under the symbol "SUH".

The Company is an exploration company focused on properties in Chile with the stated strategy of creating shareholder value through the discovery and exploitation of base metal deposits. The Company has previously identified the Los Pumas Manganese Project ("Los Pumas") in northern Chile as having potential for development. The Company also has a suite of other exploration targets, principally porphyry copper style targets, which are being or will be evaluated.

The registered office of the Company is Suite 1750, 1185 West Georgia Street, Vancouver, British Columbia, Canada V6E 4E6. Operations are managed from the Company's office located at Suite 7, 1200 Hay Street, West Perth, 6005, Western Australia, Australia. The company also maintains an office in Santiago, Chile.

## **Corporate Update**

- On January 5, 2010 the Company began trading on the ASX. This completed the ASX listing and capital raising whereby 32,000,000 common shares were offered for sale at AUD\$0.25 cents per share to raise AUD\$8,000,000 before transaction costs. The offer closed on December 17, 2009, fully subscribed. On December 30, 2009 the Company was admitted to the official list of the ASX with trading of the Company's securities on the ASX commencing on January 5, 2010.
- The Company had previously identified the Los Pumas Project in northern Chile as having potential for development. The Company subsequently entered into a purchase option agreement to acquire the tenement areas of the project it did not already own. In January 2010 the Company completed the acquisition of the remaining tenement areas at Los Pumas.
- As at March 31, 2010, the Company had no source of operating cash flow, and an accumulated deficit of \$3,975,116. Operations for the reporting period have been funded by existing cash reserves and the issuance of common shares. The Company's ability to meet its obligations and continue as a going concern is dependent upon its ability to obtain additional financing, the discovery, development or sale of mining projects and achievement of profitable operations. The Company is planning to meet its future expenditures and obligations by raising funds through public offerings, private placements or by the optioning of mineral properties. Although the Company has been successful in obtaining financing in the past, it is not possible to predict whether future efforts will be successful or whether the Company will attain profitable levels of operation.

## **Project Update**

### **Minera Hemisferio Sur SCM**

The Company's wholly owned Chilean subsidiary, Minera Hemisferio Sur SCM ("MHS"), holds the rights to four tenement holdings totaling approximately 500 square kilometers of ground. These four tenement holdings are all located within the Chile copper belt. Two of the tenement holdings are in close proximity to existing large copper or copper/gold mining operations.

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The MHS tenements are made up of four project packages of tenements, namely:

- *Las Santas*
- *El Arrayan*
- *San Jose*
- *Los Pumas*

The first three projects all exhibit the geological features typical of large porphyry copper-gold-molybdenum mineralization in the Chile copper belt. These features include structures, rock types and age, as well as widespread alteration. The three projects show widespread copper and gold mineralization and in the past small scale mining has occurred on the project tenements. Both the Las Santas and El Arrayan properties are located close to major porphyry copper mines, namely Los Pelambres and Andacollo respectively. Molybdenum has not been systematically assayed for, or mined, despite the significance of molybdenum in nearby deposits. These three projects were held by individuals or small companies over an extended period of time and none of the four project areas has been previously consolidated. The tenements have had variable amounts of un-coordinated and unsystematic exploration work undertaken on them, with the exception of Las Santas, which has had small programs targeting selected areas.

Both Las Santas and El Arrayan projects also include higher grade lode style copper mineralization. It is considered that modest oxide copper resources could be defined at either or both projects, potentially supporting a small SX-EW processing operation to supplement the company's cash flow. The principal targets on the three properties are, however, large porphyry style deposits. San Jose, in particular, has had several generations of modest exploration, generally limited to stream sediment sampling, rock chip sampling and a small drilling program that intersected copper mineralization.

The fourth project, Los Pumas, is a manganese opportunity. It is based on a low grade, shallow, manganese deposit that is well located with respect to transport infrastructure.

### *Los Pumas*

Los Pumas in northern Chile is the main focus of the Company's exploration and development activities. It is the subject of a definitive feasibility study.

On November 4, 2008, the Company posted a press release where it announced that the Company had identified a manganese opportunity located 170 km inland from the Port of Arica, Northern Chile. This manganese occurrence has been designated as Los Pumas by the Company. It is a multiple layered tabular style occurrence with a surface expression of 3.6 km in length and a width of up to 700 meters. The upper layer sub outcrops over this surface expression.

The Company has undertaken several drilling campaigns on this project and at the end of March 2010 had completed 11,793 metres of Reverse Cycle ("RC") drilling in 418 holes. In addition to the RC drilling, 652 meters of diamond core drilling has been completed. A program of bulk sampling started in March 2010 with the commencement of the sinking of the first of a series of four winzes.

During the last quarter of this reporting period a revision of the resource model was undertaken. Subsequent to the end of the reporting period revised resource figures have been received by the Company.

A summary of the resource determination is provided in the table below. Much of the mineralisation has been re-categorised into Measured and Indicated Resources. The high grade resource has a lower cut-off of 4% Mn and the low grade resource has been calculated with a lower cut of 2% Mn.

Since the commissioning of the resource determination another 88 exploration holes have been drilled. Results from this drilling will be incorporated into future planned resource determinations.

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LOS PUMAS PROJECT RESOURCE ESTIMATION - APRIL 2010							
	Resource	Tonnes (Mt)	Mn (%)	SiO <sub>2</sub> (%)	Fe <sub>2</sub> O <sub>3</sub> (%)	Al (%)	P (%)
<b>High Grade</b>	Measured	4.3	9.4	58.5	2.6	5.7	0.04
	Indicated	6.0	9.0	57.8	2.9	5.8	0.04
	<b>Measured plus indicated</b>	<b>10.3</b>	<b>9.2</b>	<b>58.2</b>	<b>2.7</b>	<b>5.7</b>	<b>0.04</b>
	Inferred	3.1	10.3	56.2	2.9	5.5	0.05
<b>Low Grade</b>	Measured	10.0	2.8	65.7	3.2	6.5	0.04
	Indicated	20.3	2.9	63.1	4.0	6.8	0.05
	<b>Measured plus indicated</b>	<b>30.3</b>	<b>2.8</b>	<b>64.4</b>	<b>3.6</b>	<b>6.7</b>	<b>0.04</b>
	Inferred	234.3	2.3	62.3	4.1	7.0	0.06

A Project Manager has been appointed to manage the completion of the definitive feasibility study for the Los Pumas project. During the first quarter of 2010 project activities included further drilling, resource modelling, metallurgical testing, preliminary plant design, hydrological studies, environmental assessments, negotiation of agreements with the local community and refining of the financial model.

Planned activities include completion of the bulk sampling program, resource update, exploratory drilling for water, bench scale beneficiation testing, further plant design, and furthering of the approvals process. In April the Company's Chief Executive Officer, Mr Trevor Tennant, re-located to Santiago to strengthen the in-country management group.

### *El Arrayan*

Minimal activities were carried out on the El Arrayan project in the period ended March 31, 2010.

### *San Jose*

Minimal activities were carried out on the San Jose project in the period ended March 31, 2010.

### *Las Santas*

Minimal activities were carried out on the Las Santas project in the period ended March 31, 2010.

## **Sociedad Servicios E Inversiones Futuro Limitada**

The Company's wholly owned Chilean subsidiary Sociedad Servicios E Inversiones Futuro Limitada ("Futuro") holds the legal title to approximately 50 square kilometres of tenements known as the Mantos Grandes project.

During the first quarter of 2010 there was minimal activity on the Mantos Grandes project.

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### Minera Panamericana SCM

The Company's wholly owned Chilean subsidiary Minera Panamericana SCM ("MPA") holds legal title to approximately 200 square kilometres of tenements.

During the first quarter of 2010 there was minimal activity on the MPA projects, which include the Angel, Santa Gracia and Chitigua projects.

### Minera Americana del Sur SCM

The Company's wholly owned Chilean subsidiary Minera Americana del Sur SCM ("MAS") holds legal title to approximately 150 square kilometres of tenements.

During the first quarter of 2010 there was minimal activity on the MAS projects, which include the Carbonaras, Meteoritico, Tuina, Romeral, Tres Cruces and Cunlagua projects.

### Future Developments

The main focus of the Company in the coming months will be to progress the Los Pumas feasibility study. This will, among other things, involve further modelling of the resource, further beneficiation test work, preliminary plant design, advancement of regulatory and community agreements, sourcing of water and obtaining a more accurate understanding of the financial model supporting the project.

Apart from the work associated with the Los Pumas feasibility study the Company also has plans to continue exploration on its other projects.

### Selected Financial Data

The following selected financial information is derived from the unaudited interim consolidated financial statements of the Company.

#### *Results of Operations:*

	<b>March 31, 2010 (3 months) \$</b>	<b>March 31, 2009 (3 months) \$</b>
Income	64,449	15,556
Expenses	892,957	157,093
Net loss	828,508	141,537
Dividends per share	Nil	Nil
Basic and diluted loss per share	(0.008)	(0.003)

During the three months ended March 31, 2010 the Company reported a net loss of \$828,508 compared to a net loss of \$141,537 in the 2009 corresponding period. Specific expenses of note during the three months ended March 31, 2010 include Salaries & Wages (\$296,335) which have increased as a result of the strengthening of corporate staff levels in Australia, Stock Based Compensation (\$291,610) associated with the granting of stock options as part of the ASX listing and Transfer Agent and Filing Fees (\$71,219) and Legal Fees (\$41,398) increasing as a result of the ASX listing.

As the Company is in the exploration stage of evaluating mineral interests it has no revenue. Interest income is generated from cash on deposit with financial institutions. The increase in interest income reported in the three months ended March 31, 2010 compared to the corresponding 2009 period relates to the increased cash balance as a result of the ASX listing.

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### *Financial Condition / Capital Resources:*

	<b>March 31, 2010</b>	<b>June 30, 2009</b>
	<b>\$</b>	<b>\$</b>
Working capital	6,181,251	430,564
Total assets	18,200,623	7,302,137
Total liabilities	701,505	860,888
Accumulated deficit	(3,975,116)	(2,672,623)

During the three months ended March 31, 2010, the Company incurred a total of \$1,728,262 on exploration activities associated with mineral properties owned by the Company. Details of exploration activities conducted during the period are described in “Project Update” in this MD&A.

The Company believes that it currently has sufficient financial resources to conduct anticipated exploration programs and meet anticipated corporate administration costs for the upcoming twelve months. However, exploration activities may change due to ongoing results and recommendations, or the Company may acquire additional properties, which may entail significant funding or exploration commitments. In the event that the occasion arises, the Company may be required to obtain additional financing. The Company has relied solely on equity financing to raise the requisite financial resources. While it has been successful in the past, there can be no assurance that the Company will be successful in raising future financing should the need arise.

### **Dividends**

The Company has not paid any dividends in the past and does not anticipate paying dividends in the near future.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Proposed Transactions**

The Company has no proposed transactions.

### **Changes in Accounting Policies**

#### *Adoption of New Accounting Standards*

The Accounting Standards Board (“AcSB”) issued Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. This new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets subsequent to its initial recognition. This section applies to interim and annual financial statements relating to fiscal years beginning or after October 1, 2008. The Company does not anticipate the above new accounting standards to have a material impact on the Company’s financial position and results of operations under current operating conditions but could have an impact on the future accounting treatment of expenditures on mineral property development once mineral reserves have been proved.

#### *Future Accounting Policies*

- The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, to replace Section 1581 *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non Controlling interests*, too replace Section 1600, *Consolidated Financial Statements*. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards. The new standards effectively harmonize the business combinations standard and consolidated financial statements standard under Canadian GAAP with International Financial Reporting Standards (“IFRS”).

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- In 2006, AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian public companies. The AcSB strategic plan outlines the convergence of Canadian GAAP and IFRS over an expected five year transitional period. In February, 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The effective date for the Company will be July 1, 2011 however it will require the restatement for the June 30, 2011 financial information for comparative purposes.

The Company has begun assessing the impact of the convergence of Canadian GAAP with IFRS on the results of its operations, financial position and disclosures. The Company's management will continue to monitor the transitional developments and provide disclosures of the key elements of our plan, including accounting policies, financial reporting, information technology, and progress as information becomes available during the transition period.

To transition to IFRS, the Company must apply "IFRS 1 - First Time Adoption of IFRS" which sets out the rules for first time adoption. In general, IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for the entity's first IFRS financial statements. IFRS 1 contains certain mandatory and optional exemptions that the Company is currently assessing.

Management plans to undertake a comprehensive review of the impact of IFRS on the Company's financial statements. The objective of this review will be to highlight, initially, all potential differences that are significant to the Company. At the completion of this assessment, management will be in a position to disclose all major differences possibly impacting the Company's financial statements and to begin quantification of the effects.

### Critical Accounting Policies and Estimates

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of any contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues earned and expenses incurred during the period. These estimates are based on historical experience and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates. Significant areas where management judgement is applied include recoverability of resource properties, valuation of options and warrants and the ability to continue as a going concern. In the opinion of management, all adjustments necessary for fair presentation of the results for the periods presented are reflected in these financial statements.

The Company's significant accounting policies are those that affect the financial statements and are summarized in the notes to the unaudited consolidated interim financial statements for the period ended March 31, 2010.

### Transactions with Related Parties

- 1) During the nine months ended March 31, 2010 the Company had certain arrangements in place with related parties to provide administrative, accounting, and management services that the Company requires. These services are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the Company and the related parties.

Andes Consulting Pty Ltd - refer (a)	\$39,609
Featly Pty Ltd – refer (b)	\$50,720
Misape Management Inc - refer (c)	\$17,433

- (a) Andes Consulting Pty Ltd is an Australian incorporated company controlled by a director and shareholder of the Company. Non-executive Directors' fees are paid to the company on a monthly basis and consulting fees are paid as and when the Company uses the Director controlled entity for management services.
- (b) Featly Pty Ltd is an Australian incorporated company controlled by a director and shareholder of the Company in which directors fees are paid on a monthly basis.

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- (c) Misape Management Inc. is a Canadian incorporated company controlled by a director and shareholder of the Company. Non-executive director's fees are paid to the company on a monthly basis.
- 2) Loans due from related parties as at March 31, 2010 are non-interest bearing and have no specified terms of repayment. The following amounts are expected to be paid within the next year and have been classified as current liabilities in the interim consolidated financial statements.

Ferrifera (director related entity)

\$18,927

### Risks & Uncertainties

The Company is engaged in a business that involves a variety of operational, financial and regulatory risks that are typical in the natural resource industry. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future, and the shares of the Company should be considered speculative in nature.

The business of exploring for manganese, gold and copper involves a high degree of risk. Few properties that are explored are ultimately developed into mines. Southern Hemisphere Mining Limited properties are in the exploration stage, and at present none of the Company's properties have a known commercial manganese, gold or copper deposit. Proposed exploration programs are an exploratory search for such deposits. The long term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors that are beyond the control of the Company.

The Company's operations are subject to all the hazards and risks normally associated with the exploration for manganese, gold and copper, any of which could result in damage to life, or property, or the environment.

The Company's operations may be subject to disruptions caused by unusual or unexpected formations, formation pressures, fires, power failures, flooding, explosions, cave-ins, landslides, the inability to obtain suitable or adequate equipment or machinery, labor disputes, or adverse weather conditions. Although the Company maintains insurance to cover normal business risks, the availability of insurance for many of the hazards and risks is extremely limited or uneconomical at this time. Through high standards and continuous improvement, the Company strives to minimize these risks.

In the event that the Company is fortunate enough to discover a manganese, gold or copper deposit, the economics of commercial production depend on many factors, including the cost of operations, the size and quality of the deposit, the proximity to infrastructure, financing costs and Government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use and environmental protection. The effects of these factors cannot be accurately predicted, but any combination of these factors could adversely affect the economics of commencement or continuation of commercial production.

The profitability of the Company's operations will be dependent, inter alia, on the market price of its products. Prices are affected by numerous factors beyond the control of the Company, including international economic and political conditions, levels of supply and demand, and international currency exchange rates.

Success in establishing reserves is a result of a number of factors, including the quality of management, the Company's level of geological and technical expertise, the quality of land available for exploration, the availability of suitable contractors, and other factors. If mineralization is discovered, it may take several years in the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish reserves through drilling to determine the optimal metallurgical process and to construct mining and processing facilities. Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of resources or reserves.

### Outstanding Share Data

The Company's authorized share capital is unlimited common shares without a par value. As at March 31, 2010 there were 100,135,687 issued and outstanding common shares. In addition, there were 9,689,913 stock options outstanding, at exercise prices ranging from \$0.20 to \$0.40 per share and 10,885,000 warrants and agents options outstanding at exercise prices ranging from \$0.20 to \$0.40 per share.



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### Escrowed Shares

At March 31, 2010, the Company has the following common shares in escrow:

<b>Note (1)</b>	<b>Number</b>
Original shares	1,000,000
Release effective April 22, 2008	(100,000)
Release effective July 4, 2008	(150,000)
Release effective January 4, 2009	(150,000)
Release effective July 4, 2009	(150,000)
Release effective January 4, 2010	(150,000)
Balance of shares in escrow	300,000
 <b>Note (2)</b>	
Original shares	22,000,000
Release effective April 22, 2008	(2,200,000)
Release effective July 4, 2008	(3,300,000)
Release effective January 4, 2009	(3,300,000)
Release effective July 4, 2009	(3,300,000)
Release effective January 4, 2010	(3,300,000)
Balance of shares in escrow	6,600,000
 <b>Note (3)</b>	
Original shares	5,640,776
Balance of shares in escrow	5,640,776
 <b>Total escrowed shares</b>	 <b>12,540,776</b>

- (1) 1,000,000 common shares issued during the period ended July 31, 2006, when the Company was a Capital Pool Corporation ("CPC") as defined under the policies of the TSX. These shares were subject to a Tier two value escrow arrangement as defined by the policies of the Exchange whereby 10% of the escrowed shares would be released upon issuance of the final notice of acceptance of a Qualifying Transaction by the Exchange, and the remainder in six equal tranches of 15% on every six month anniversary thereof, for a period of 36 months.
- (2) As the conversion of the 22,000,000 convertible share securities, issued on completion of the RTO which constituted the Company's Qualifying Transaction, took place on April 18, 2008, the release of the initial 10% of the escrowed former CPC shares was effective April 22, 2008.

22,000,000 convertible share securities convertible into common shares of the Company were issued on December 17, 2007, pursuant to a Share Exchange Agreement dated July 2, 2007 and amended September 13, 2007 and November 29, 2007.

These 22,000,000 convertible share securities were subject to a four month hold period, and are subject to a Tier two value escrow arrangement, the terms of which are as described in section (1) above. The 22,000,000 convertible share securities were converted into 22,000,000 common shares of the Company, effective April 18, 2008, and the initial release of 10% of the escrowed shares was effective April 22, 2008.

- (3) As part of the listing on the ASX completed on December 30, 2009, 5,640,776 common shares issued as part of this listing are to be held in escrow for a period of 12 months from the date of issue pursuant to a Restriction Agreement with the relevant holders of the common shares.

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### **Licences and Permits, Laws and regulations**

The activities of the Company require permits from various government authorities, and are subject to Chilean national and provincial laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety standards, mine safety standards and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly. Southern Hemisphere Mining Limited draws on the expertise and commitment of its management team, their advisors, its employees and contractors to ensure compliance with current laws and fosters a climate of open communication and co-operation with all regulatory bodies.

The Company believes that it holds all necessary licences to complete the exploration activities, and will receive all necessary permits under applicable laws and regulations, and believes it is presently complying in all material respects with the terms of such licences and permits. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations. To the extent such approvals are sought and not obtained, the Company's planned exploration and development activities may be delayed, curtailed, or cancelled entirely.

### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer has concluded that the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"), are effective to ensure that the information required to be disclosed in reports that are filed or submitted under Canadian Securities legislation are recorded, processed, summarized and reported within the time period specified in those rules. In conducting the evaluation it has become apparent that management relies upon certain informal procedures and communication, and upon "hands on" knowledge of senior management. Management intends to formalize certain of its procedures. Due to the small staff, however, the Company will continue to rely on an active Board and management with open lines of communication to maintain the effectiveness of the Company's disclosure controls and procedures. Lapses in the disclosure controls and procedures could occur and/or mistakes could happen. Should such occur, the Company will take whatever steps necessary to minimize the consequences thereof.

### **Internal Controls and Procedures over Financial Reporting**

Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

In the course of evaluating internal controls over financial reporting as at March 31, 2010, management has identified the following reportable deficiencies:

- a) There is limited segregation of duties which could result in a material misstatement in the Company's financial statements. Given the Company's limited staff level, certain duties within the accounting and finance department cannot be properly segregated. However, none of the segregation of duty deficiencies resulted in material misstatement to the financial statements as the Company relies on certain compensating controls, including periodic substantive review of the financial statements by the Chief Executive Officer, Audit Committee and Board of Directors.

It should be noted that a control system, no matter how well conceived or operated, can only provide reasonable assurance, not absolute assurance, that the objectives of the control system are met. The control framework the officers used to design the Company's internal control over financial reporting is the *Internal Control – Integrated Framework* ("COSO Framework") published by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission.

The Company is required to disclose herein any change in the Company's internal control over financial reporting that occurred during the period beginning January 1, 2010 and ending on March 31, 2010 that has materially affected, or is likely to materially affect, the Company's internal control over financial reporting. No material changes in the Company's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting.